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QCAM Insight ++ The macro perspective ++ FX market talk
Economic activity ++ Inflation ++ FX markets ++ Financial markets
Number of the month

Page 1 QCAM Insight

Dual Currency Notes – monetize your indifference to currencies

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Wellershoff & Partners Ltd. is a strategic research partner of QCAM Currency Asset Management AG. This includes the regular exchange on fundamental developments in the global economy and on financial markets as well as their influence on currency markets. What is more, Wellershoff & Partners Ltd. is available to QCAM Currency Asset Management AG for selected events as well as client meetings.

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Contents

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QCAM Insight

Dual Currency Notes – monetize your indifference to currencies

Holding cash these days is not an interesting option for a lot of investors due to low or even negative interest rates. A short-term cash yield-enhancement approach might be an interesting alternative in this situation if a client's portfolio is diversified across multiple currencies and therefore there is a natural demand for a variety of currencies.

We all know the difficult situation investors currently face when they have short-term cash of up to three months to invest. In many developed market currencies interest rates are still very low or even in negative territory. An environment which still seems set to continue for a few months for most currencies at least even though we have seen some rates moving higher notably in the USD space, albeit from a low base.

A potential solution in this surroundings can be to use part of the cash-holdings and place them in short-term Dual Currency Note investments with tenors ranging from typically two weeks to two months. They deliver a superior return if the underlying exchange rate has a sideways trend. This approach makes sense if the portfolio is managed in a multi-currency approach and hence the investor has a demand for several underlying currencies. That indifference to currencies can be monetized and harvested through higher yields on Dual Currency Notes.

As the structuring and execution of these investments is done in an efficient manner and taking into account each investor's risk/reward profile they retain a tactical flexibility and allow to seize opportunities when they arise in the currency market.

The mechanism of a Dual Currency Note

Simply speaking, a Dual Currency Note is a combination of a money-market investment and a sold currency option packaged together in a securitized investment product bearing an ISIN number for easier settlement and valuation purposes. Due to the sold option the investor gets paid a higher yield whilst taking the risk of a conversion into the alternative currency.

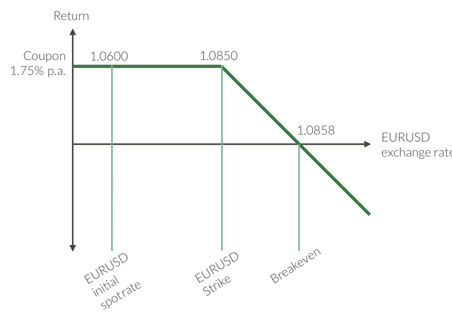
A practical example: Assume the investor holds excess Euro cash which is not needed the next few weeks and has a natural need for USD in the future. Therefore the investor decides to invest some of the Euro cash in a short-term Dual Currency Note on the EURUSD exchange rate with a tenor of two weeks and an above money market yield. These are the specifics: Maturity: 2 weeks. Strike: 1.0850 USD per 1 EUR. Coupon: 1.75% p.a. Investment currency: EUR. Alternative currency: USD. Spot reference at issuance date: 1.0600 USD per 1 EUR

At maturity the Dual Currency Note gets repaid to the investor in either Euro or USD, depending on where the EURUSD exchange rate closes at the maturity relative to the strike. If the exchange rate closes below the strike the initial investment and accrued interest get repaid in Euro. If the exchange rate closes at or above strike the initial investment and accrued interest get repaid in USD, converted at strike.

In case of repayment in the alternative currency the investor faces an opportunity loss in the sense that he could have sold the investment currency at a better exchange rate at the then prevailing spot exchange rate. However, the conversion rate achieved through the strike is more favorable compared to the spot rate on the issuance date.

It certainly makes sense to not allocate all the cash-holdings into Dual Currency Notes but a certain portion of it if the risk-reward profiles of the tailored investments match the investor's needs. It is also sensible to diversify the Dual Currency Notes into several single investments with either different alternative currencies and/or maturities to vary the exposure.

Payoff diagram at maturity

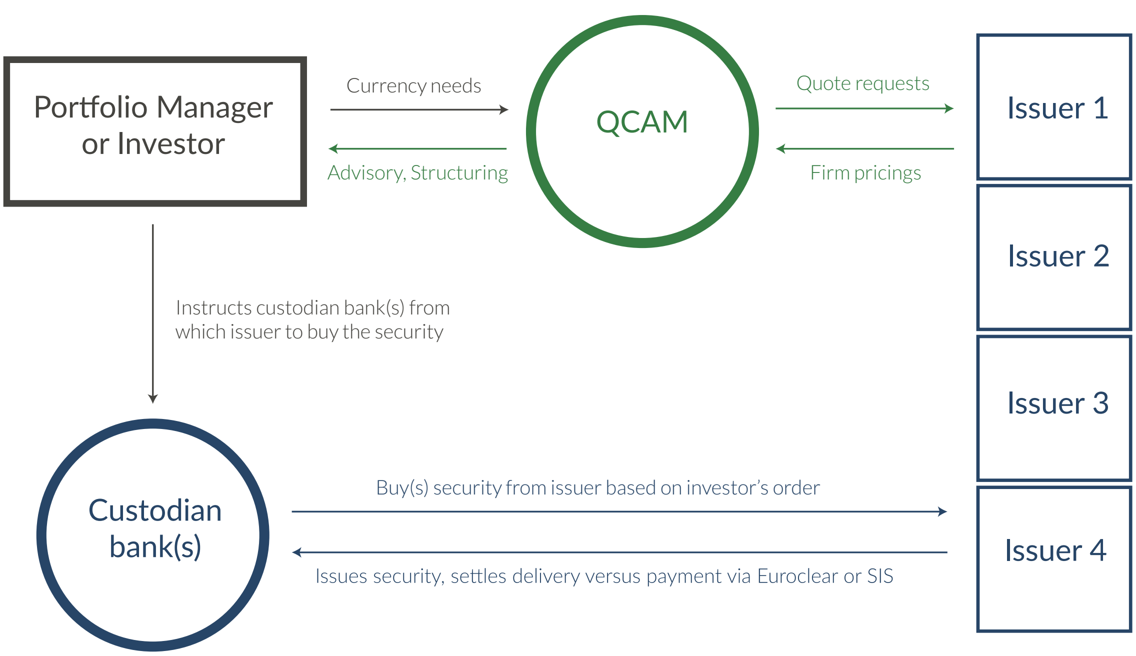


Source: QCAM Currency Asset Management

What the framework looks like

To be able to execute these investments the investor first has to do some groundwork. A first step is to set up a panel of issuer banks that can be accessed for these tailored products. That can be done by the investor dealing directly or by using a specialized structuring firm. The advantages of the latter option for portfolio managers are that it needs less time to get operational, and that the structuring firm serves as the single point of contact for the asset manager. The graph below illustrates such a framework. By using a specialized firm such as QCAM Currency Asset Management for example he can draw on the proven, high-level expertise in FX advisory and derivatives and the robust issuer network that is already in place. Bottom line: In a low or negative interest rate environment short-term Dual Currency Notes are an attractive tactical move to pick up yield. It is advisable to first put professional foundations in place – if necessary with external support.

What the framework looks like



Source: QCAM Currency Asset Management

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The macro perspective

The 2 percent solution – a calculated or arbitrary inflation target?

All the major western central banks strive for an annual rate of consumer price inflation of 2 percent over the medium to long term. We look at the reasoning behind this target, which in recent years has been regularly invoked by central bankers to justify their ultra-expansive monetary policies.

The creativity of the major central bankers has by now long escaped all previously charted territory. One unconventional monetary policy measure has been followed by another. And the inflation rate always figures prominently among the arguments about why the latest measure is now necessary. The target rate for consumer price inflation in all the major western central banks is 2 percent. Why?

Buffer against dreaded deflation

First of all, as a target, the 2 percent mark serves to quantify the notion of price stability, a goal every western central bank is committed to maintain. The stable development of prices is broadly regarded as essential for a smoothly functioning market economy, ultimately contributing to a nation's basic social cohesion.

The question might well be asked, why don't the central banks pursue an inflation rate of zero percent in the first place, a level that intuitively implies price stability? The reason for favoring a slightly positive development in the inflation rate lies in the desire of central bankers to have a buffer zone against the onset of negative rates of inflation. Central banks fear a prolonged self-reinforcing downward price spiral, the dreaded deflation. When consumers and businesses expect lower prices in the future, they hold back on spending and investing, which in turn, by way of lower levels of employment and wages, drives price yet lower, a potentially devastating vicious cycle.

The opposite pole also needs to be avoided. A prolonged period of rising prices plants the notion in the minds of multiple economic actors that tomorrow's price will surely be higher than today's, which leads to frantic over-spending and over-investment on an upward spiral that can fuel exorbitant inflation rates.

Facilitating price adjustments

For consumers and businesses, a slightly positive inflation rate works instead to lightly stimulate consumer and company spending, strengthening the economy. In addition, a positive inflation rate eases adjustment processes throughout the economy. Downward price adjustments are often difficult to communicate and implement. This applies particularly to the labor market. While workers often will grudgingly accept a wage freeze, an actual pay cut is another matter. However, with a slightly positive rate of inflation, it is possible to reduce real wages. This mechanism has great significance on the macroeconomic level. It enables the unit labor cost of a sector or an entire national economy to be reduced significantly faster and with less conflict, and this can improve a country's international competitiveness or help rebuild after a crisis.

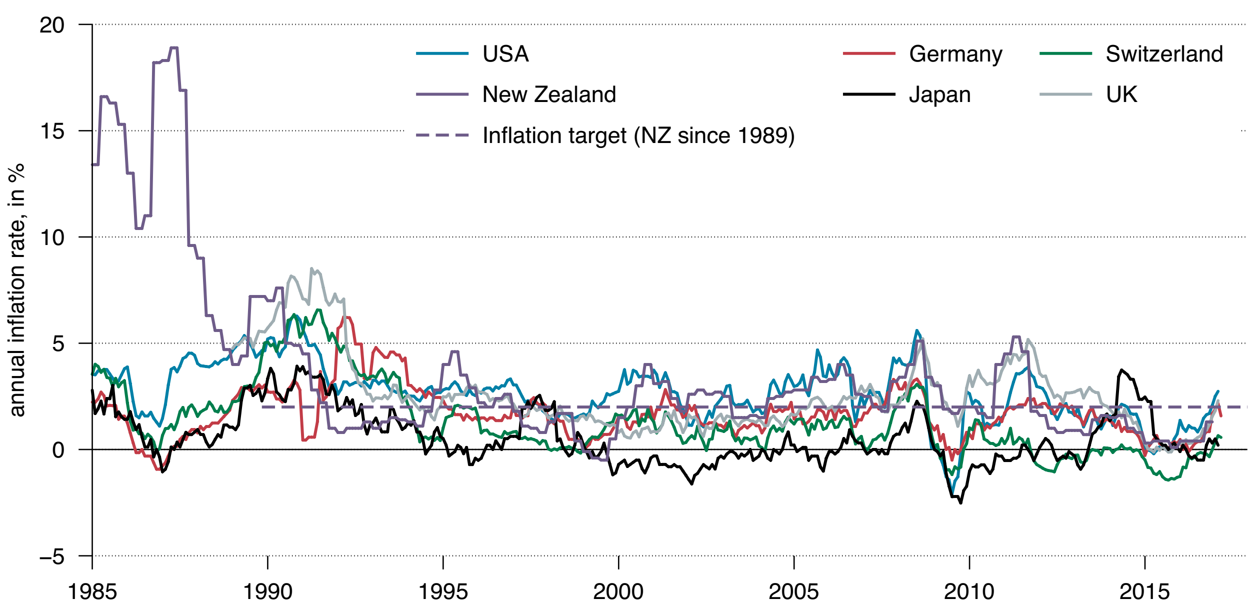
Aiming higher?

However often central bankers have cited the 2 percent inflation target in recent years, this target is not in fact chiseled in stone. The former chief economist of the World Bank, Olivier Blanchard, set off some tremors a few years ago when he suggested that central banks should in fact set an inflation target of 4 percent. The assumption was that a higher inflation rate would also lift interest rates, granting central banks more means with which to cushion any future crisis with conventional interest rate cuts, at least until they arrive at the zero level.

Flawed by randomness

After all, there are some good reasons why central banks strive for a slightly positive rate of inflation. That said, the symbol of the 2 percent target is tainted by its arbitrary nature, especially if we consider how it came into being. The first central bank to formally declare its annual inflation target was the Reserve Bank of New Zealand, in late 1989. Following an offhand remark by the former finance minister, the bank chose to set the target at 2 percent. Because inflation fell sharply in the next years, New Zealand's 2 percent "solution" quickly won worldwide acceptance. In fact, the Kiwi parliament took little interest in the matter of inflation targets at the time. After all, it was shortly before Christmas.

The successful introduction of the 2 percent inflation target in New Zealand in 1989



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

USD as the wildcard in several market narratives

At the moment, the US dollar is the wildcard in various currency market narratives. While it is pointless to speculate as to which of these storylines will ultimately prevail, two things are clear: First, the USD is significantly overvalued, as indicated by purchasing power parity. Second, every USD investment is now exposed to even more uncertainty than usual.

According to the prevailing market narrative, the divergent monetary policies of the central banks should have favored the USD to appreciate vigorously over the recent months. Instead, the dollar gave ground against almost all major currencies. Against the G10 currencies as a group, the dollar has shed 1.2 percent in value since the beginning of the year. At present, there appear to be three narratives shaping developments in the USD, offering interpretations of the US political situation, deviations in purchasing power parity and interest rate differences.

Narrative 1: Economic policy power

The first narrative looks at the prospects of the USD with some optimism due to the economic programs promised by President Donald Trump. For those advocates, the coming economic revitalization will also be accompanied by rising interest rates. The Trump administration's massive spending plans on infrastructure and defense, plus lower corporate taxes and a deregulated financial market will ignite this new economic dynamism.

At the same time, what other outcome could be expected than a surge in consumer sentiment if the preferred presidential candidate is elected? If the economy is doing well, then nothing will stand in the way of an interest rate hike, perhaps coming even faster than already indicated. The US dollar would then, according to this market narrative, once more be the winner.

Narrative 2: Uncertainty rules

The economic programs of the US president are open to quite different interpretations at this point. We should remember the simple storyline during the elections. Then, the election of Donald Trump was widely regarded as an unwelcome outcome accompanied by substantial risks. These risks included the indeterminate policy guidelines of Trump's campaign generally, but also its protectionist and sometimes market-critical statements. Nervous consumers and businesses would weigh on the economy with a Trump win, financial market would lose steam and the chances of an interest rate hike would grow more remote. And anyway, isn't it obvious to expect a weaker greenback with a president who wants to save jobs in some not very competitive US industries?

Narrative 3: PPP trumps them all

One way to avoid having to speculate on such imponderables as interest rates and policy effects is to look at purchasing power parity. And according to purchasing power parity indicators, the US dollar continues to be massively overvalued, as the graph shows. Using the concept of purchasing power enables us to ignore short-term enigmas.

Empirically, this approach beats all other theories on the determinants of exchange rates. But it also has a crucial catch for many investors. A long-term perspective is required to invest successfully according to the principles of purchasing power parity.

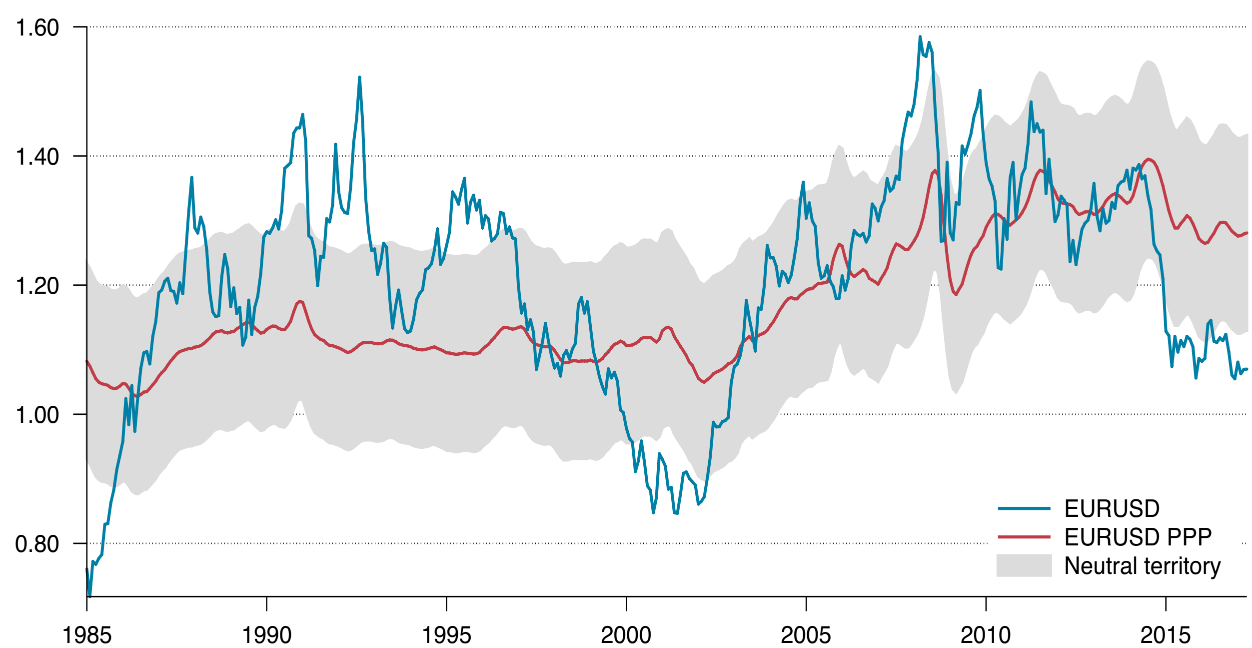
Battle of the narratives

The US dollar's ups and downs in recent months illustrate how each of these market narratives has been preferred at certain points and then discarded. This has again been visible most recently. After a meeting with Chinese President Xi Jinping in Washington on April 12, President Trump told the Wall Street Journal that he now thought the US dollar was overvalued.

The power struggle between the three narratives should continue for some time. We do not expect to see much clarification regarding the political drivers, as we find the policies of the Trump administration disjointed. What we are facing is, so to say, "live" on-the-fly policy-making. After the minutes of the Fed's Open Market Committee's March meeting were published, the dollar again caught a little tailwind. But following President Trump's comment that the dollar was too strong, that tailwind stopped.

The US dollar has thus become the wildcard of several currency market narratives. In this environment, only one thing is clear: While purchasing power parity estimates provide a strong indication of the direction in which the US dollar should move in the long term, any short-term USD investments are currently exposed to even more uncertainty than usual.

The US dollar is substantially overvalued



Source: Thomson Reuters Datastream, Wellershoff & Partners

Economic activity

The US labor market cooled off sharply in March, adding only 98 000 new jobs. But given the strong job growth in the two previous months, the first quarter still managed to average 178 000 new jobs a month, reflecting a robust development of the US labor market.

While sentiment in the industrial sector managed to maintain its high spirits at 57.2 index points in March, sentiment in the service sector tumbled from 57.6 to 55.2. This is the first sentiment downturn since August 2016. Nonetheless Wellershoff & Partners' US business climate indicator still points to a clear acceleration in economic growth. The second quarter of 2017 could possibly see real GDP growth of around 3 percent.

W&P's business climate indicators also point to higher growth ahead for Europe. Germany, in particular, appears set for a marked acceleration in growth, after the German economy grew by 1.8 percent in the fourth quarter of 2016, year-over-year. In France and Spain, meanwhile, the sentiment of the main economic actors has recently deteriorated somewhat. For the Eurozone as a whole, W&P's indicators suggest GDP growth of around 2 percent in the first half of 2017.

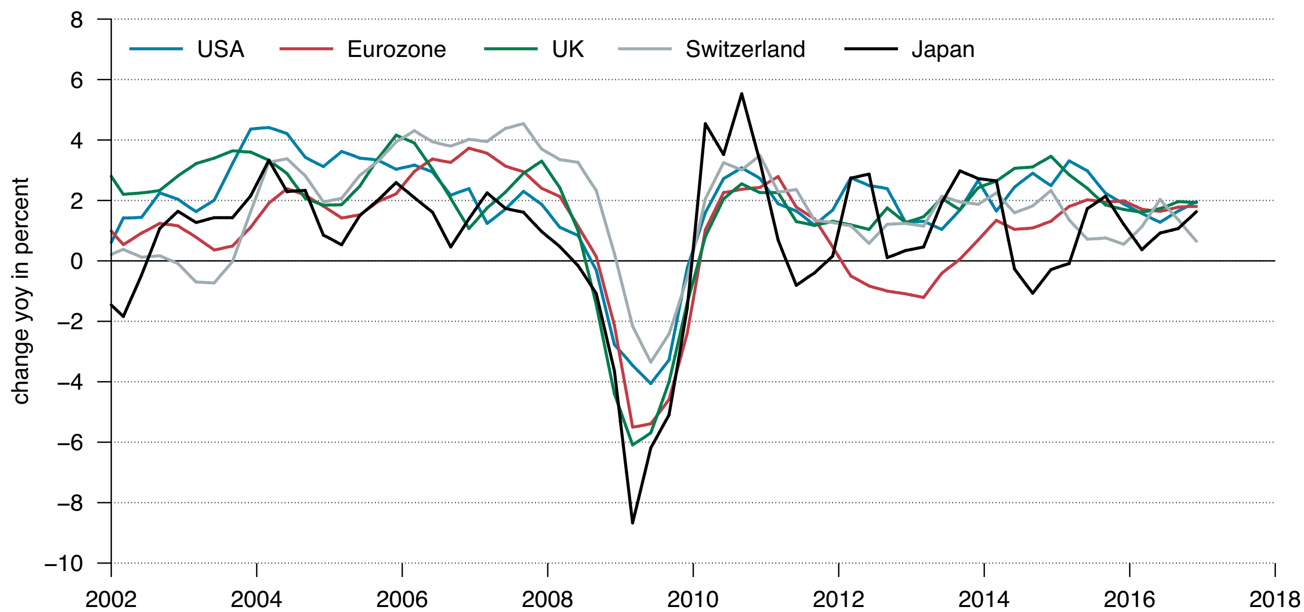
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q2/2016	Q3/2016	Q4/2016	Q1/2017	12/2016	1/2017	2/2017	3/2017
United States	1.7	1.3	1.6	2.0	–	2.7	2.8	3.1	2.9
Eurozone	1.0	1.6	1.8	1.7	–	2.1	2.1	2.1	2.1
Germany	1.4	1.8	1.7	1.8	–	2.9	2.9	2.7	2.9
France	0.7	1.1	0.9	1.1	–	1.3	1.2	1.3	1.2
Italy	0.2	0.9	1.0	1.0	–	0.5	0.7	0.7	0.7
Spain	1.6	3.4	3.2	3.0	–	1.9	2.1	2.4	2.0
United Kingdom	1.8	1.7	2.0	1.9	–	2.4	2.2	2.5	2.6
Switzerland	1.5	2.0	1.4	0.6	–	1.2	1.3	1.5	1.3
Japan	0.4	0.9	1.1	1.6	–	1.9	2.0	2.1	2.1
Canada	1.6	1.1	1.4	2.0	–	1.1	1.3	1.3	1.6
Australia	2.4	3.1	1.9	2.4	–	2.5	2.6	2.6	2.6
Brazil	1.4	-3.6	-2.8	-2.5	–	-1.5	-2.2	-0.4	1.2
Russia	0.1	-0.5	-0.4	0.3	–	3.5	4.3	2.5	2.4
India	7.7	7.2	7.4	7.0	–	7.2	7.1	7.0	6.7
China	7.4	6.7	6.7	6.8	6.9	7.4	7.0	7.3	7.1
Advanced economies[4]	1.4	1.7	1.6	1.7	–	2.6	2.7	2.9	2.8
Emerging economies[4]	6.0	4.9	4.7	5.0	–	4.8	4.8	4.8	4.9
World economy[4]	3.5	3.3	3.2	3.4	–	3.5	3.5	3.7	3.7

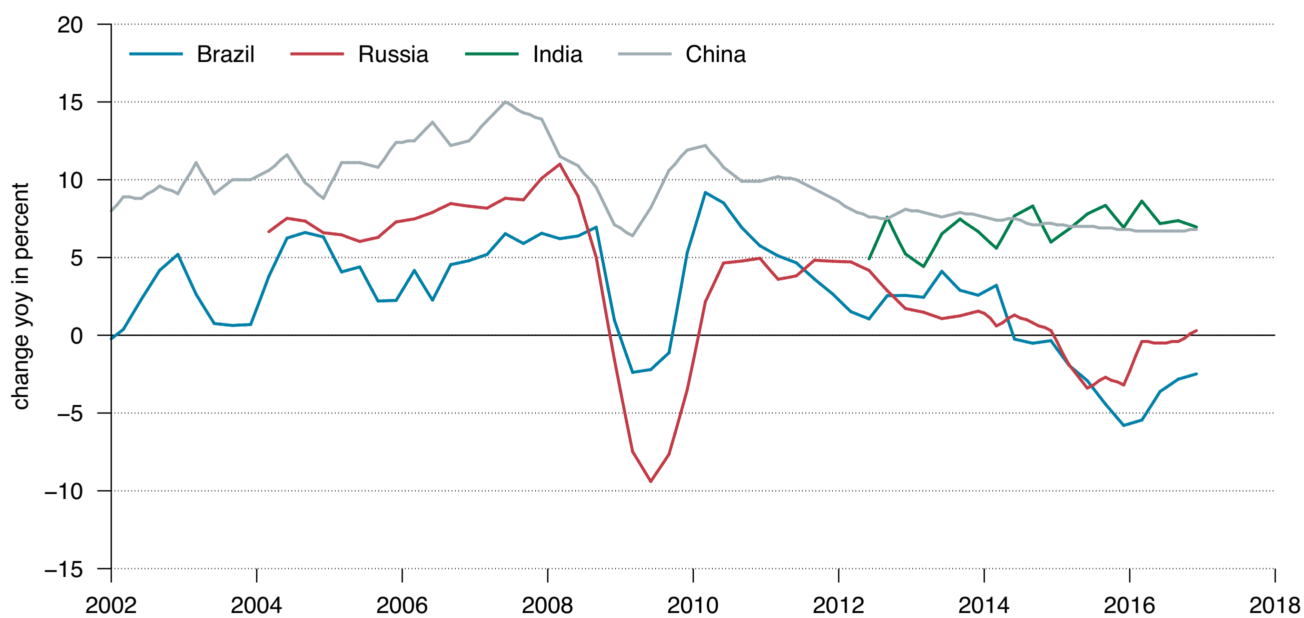
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent.
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6 months lead on the year-on-year growth rate of real GDP.
[4] Calculations are based on nominal GDP weights derived from purchasing power parity exchange rates.

Source: European Commission, Penn World Table, Thomson Reuters Datastream, Wellershoff & Partners

Economic growth in advanced economies



Economic growth in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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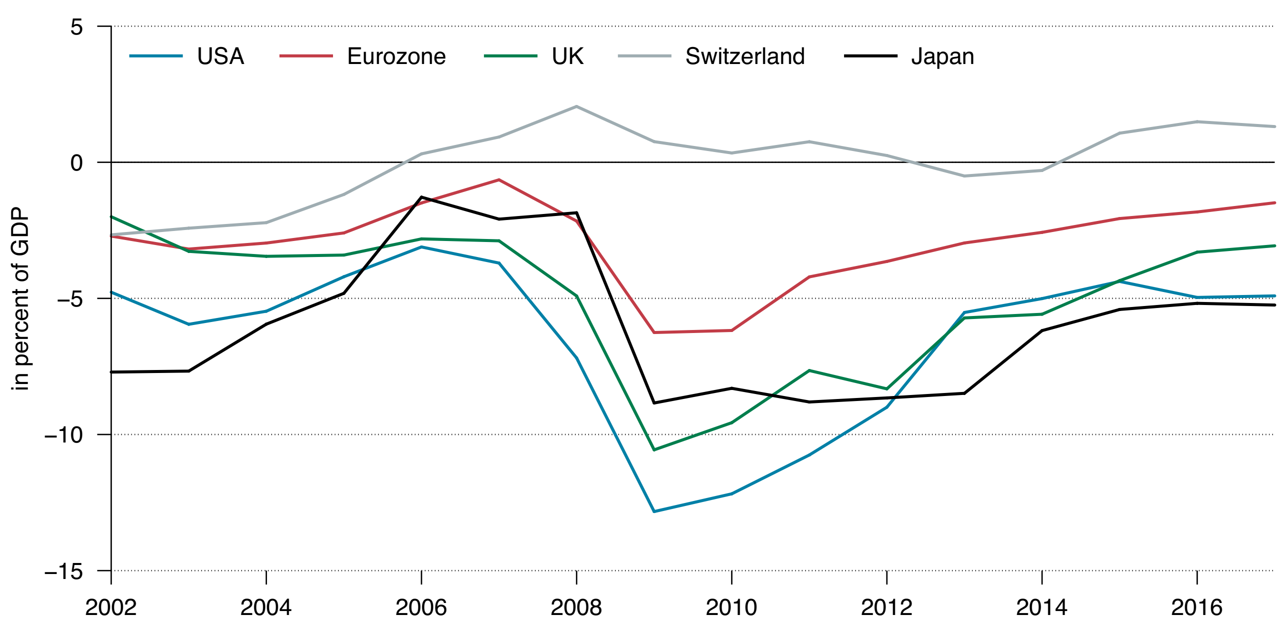
Economic indicators

Overview

	Global GDP share[1]		Current account[2]		Public debt[2]		Budget deficit[2]		Unemployment rate[3]	
	Ø 5 years	Current	Ø 5 years	Current	Ø 5 years	Current	Ø 5 years	Current	Ø 5 years	Current
United States	23.0	24.4	-2.5	-2.6	113.3	116.9	-5.8	-4.9	6.4	4.5
Eurozone	16.7	15.6	3.2	4.0	108.1	108.3	-2.6	-1.5	11.2	9.5
Germany	4.8	4.5	7.8	8.8	80.5	71.7	0.2	0.5	6.6	5.8
France	3.5	3.2	-0.9	-0.8	117.1	124.1	-3.9	-3.0	9.8	9.7
Italy	2.7	2.4	1.5	3.0	152.2	159.5	-2.7	-2.4	11.8	11.8
Spain	1.7	1.6	1.2	1.7	110.4	119.1	-6.6	-3.6	23.4	18.0
United Kingdom	3.7	3.3	-4.7	-4.8	109.6	113.1	-5.5	-3.1	6.1	4.7
Switzerland	0.9	0.9	10.3	9.2	45.0	41.7	0.4	1.3	3.1	3.4
Japan	6.5	6.4	2.0	3.8	225.6	237.5	-6.8	-5.2	3.7	2.8
Canada	2.3	2.0	-3.2	-3.1	88.1	90.5	-1.8	-2.3	7.0	6.7
Australia	1.9	1.7	-3.8	-3.9	34.3	43.2	-3.0	-2.5	5.7	5.9
China	13.6	15.5	2.4	1.6	40.0	49.9	-1.6	-3.3	4.1	–
Brazil	2.9	2.5	-2.9	-1.3	67.6	82.4	-6.4	-9.1	8.4	13.2
India	2.7	3.1	-2.1	-2.0	68.6	67.2	-7.2	-6.6	–	–
Russia	2.4	1.8	3.2	3.5	14.9	17.9	-1.9	-1.5	5.4	5.6

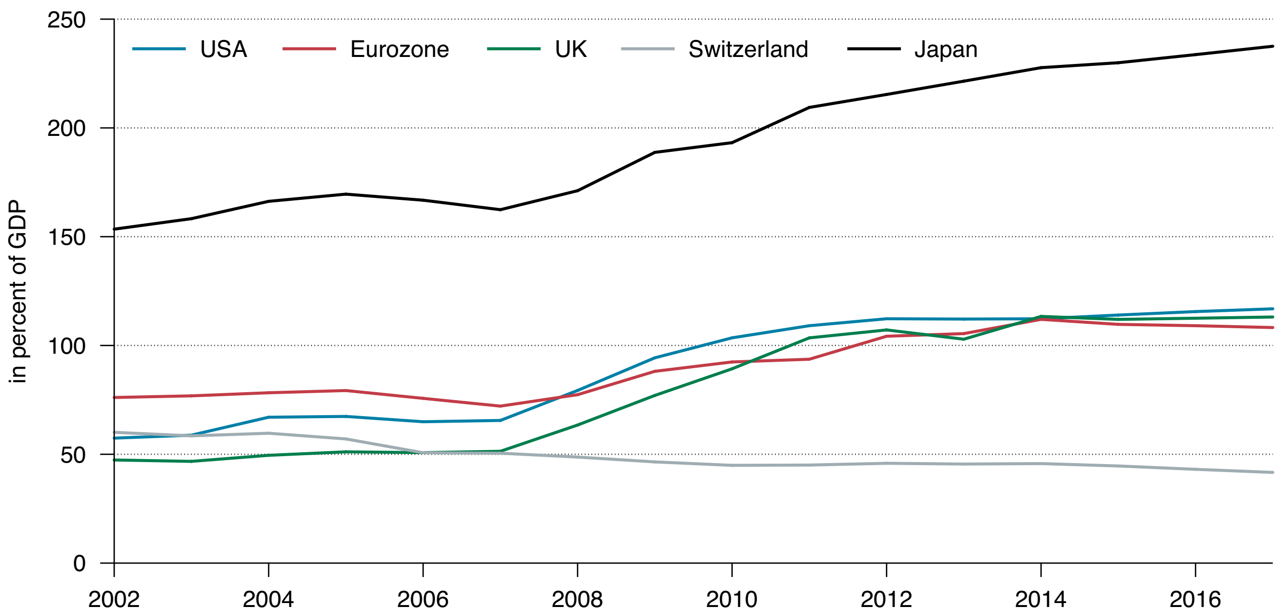
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

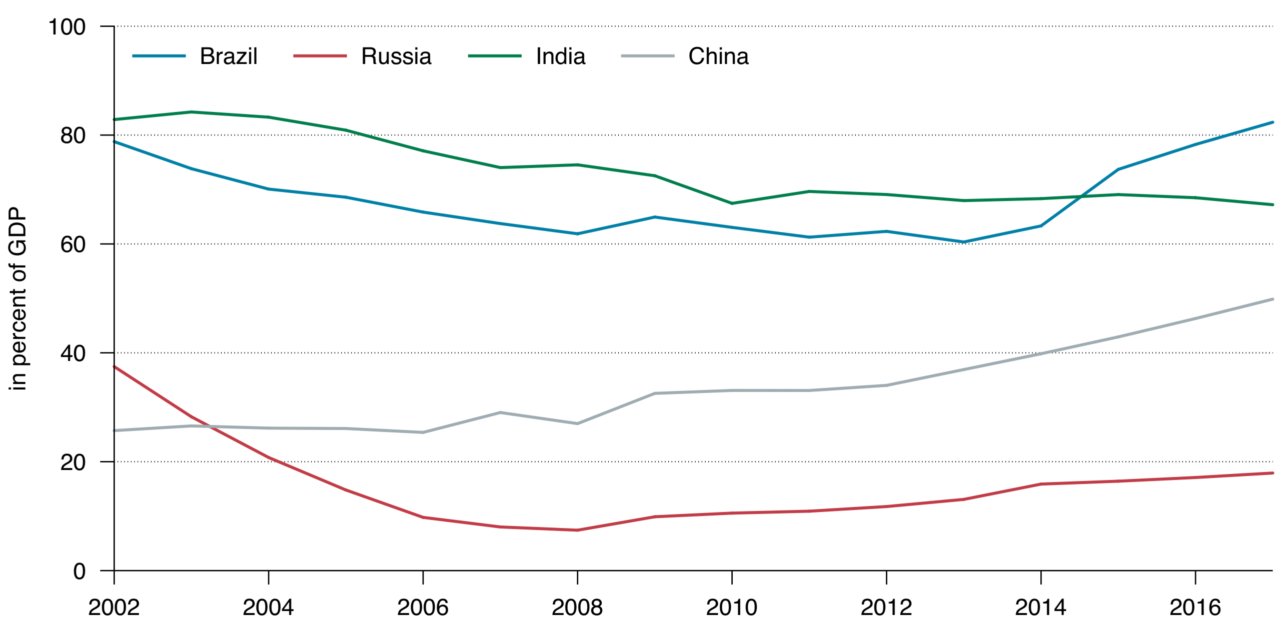


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

We do not expect crude oil prices to influence inflation significantly in the months ahead. In the US, we think the overall inflation rate probably peaked in February. Thus, we think a reduction in the overall rate of inflation, moving it nearer to the core rate of about 2.2 percent, seems likely. Continued growth is likely to drive the inflation rate back to 2.5 percent by year-end, in our view. We find it increasingly doubtful under these circumstances that the US Federal Reserve will manage to make do with only two interest rate hikes this year.

In the UK, the overall inflation rate advanced briskly in February, rising from 1.8 to 2.3 percent, clearly exceeding the Bank of England's 2-percent target. The reason for this surge: the pound's depreciation, which drove up the prices of imports. If the BoE's highly inflated balance sheet is also taken into account, we see an enormous potential for inflation in the UK.

In the emerging markets, the numbers for March offer hope that inflation rates are stabilizing. In Russia, overall inflation declined from 4.6 to 4.2 percent, while the country's core inflation rate fell from 5.0 to 4.5 percent for the month.

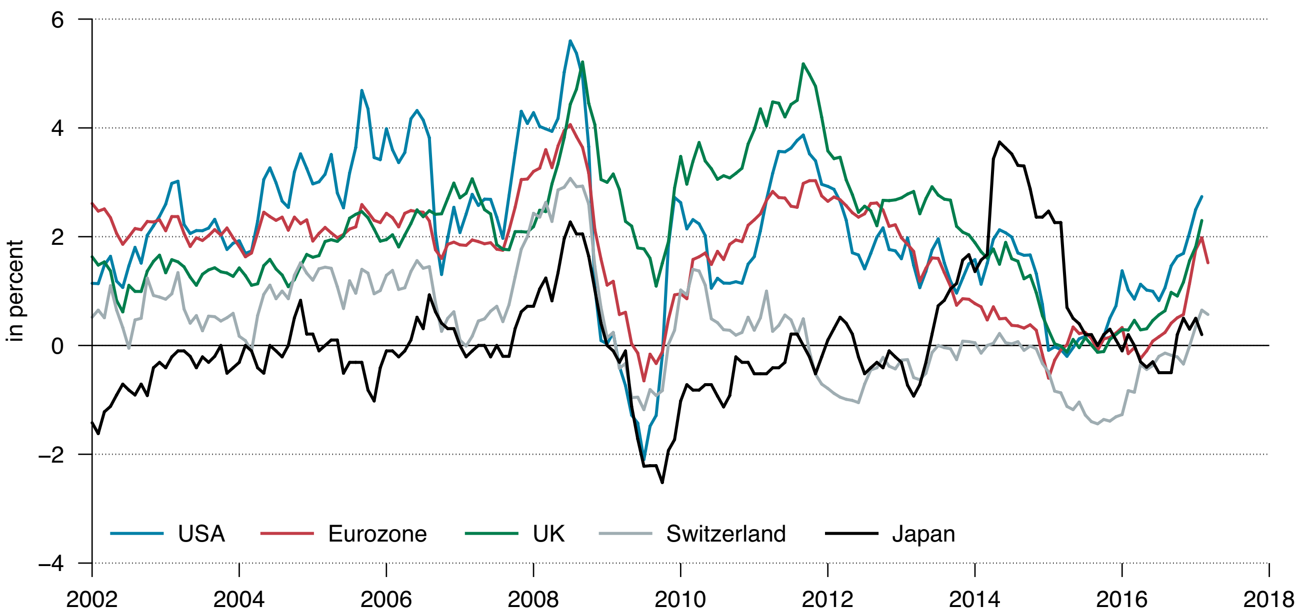
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		12/2016	1/2017	2/2017	3/2017	12/2016	1/2017	2/2017	3/2017
United States	1.8	2.1	2.5	2.7	–	2.2	2.3	2.2	–
Eurozone	1.5	1.1	1.8	2.0	1.5	0.9	0.9	0.9	0.7
Germany	1.4	1.7	1.9	2.2	1.6	1.6	1.6	1.7	1.4
France	1.2	0.6	1.3	1.2	1.1	–	–	–	–
Italy	1.5	0.5	1.0	1.6	1.4	0.6	0.5	0.6	0.7
Spain	1.5	1.6	3.0	3.0	2.3	1.0	1.1	1.0	–
United Kingdom	2.3	1.6	1.8	2.3	–	1.6	1.6	2.0	–
Switzerland	0.1	0.0	0.3	0.6	–	-0.3	-0.2	-0.1	–
Japan	0.3	0.3	0.5	0.2	–	0.0	0.1	-0.1	–
Canada	1.6	1.5	2.1	2.0	–	1.6	1.7	1.6	–
Australia	2.4	1.5	–	–	–	1.3	–	–	–
Brazil	6.2	6.3	5.3	4.8	–	6.2	5.6	5.3	–
Russia	9.2	5.4	5.1	4.6	4.2	6.0	5.5	5.0	4.5
India	7.9	3.4	3.2	3.7	–	–	–	–	–
China	0.1	0.5	0.7	-1.5	–	1.9	2.2	1.8	–
Advanced economies[4]	1.5	1.5	1.9	2.1	2.0	1.4	1.5	1.5	1.4
Emerging economies[4]	3.7	2.2	2.1	0.9	0.8	2.9	3.0	2.6	2.5
World economy[4]	2.5	1.8	2.0	1.5	1.4	1.8	1.9	1.7	1.7

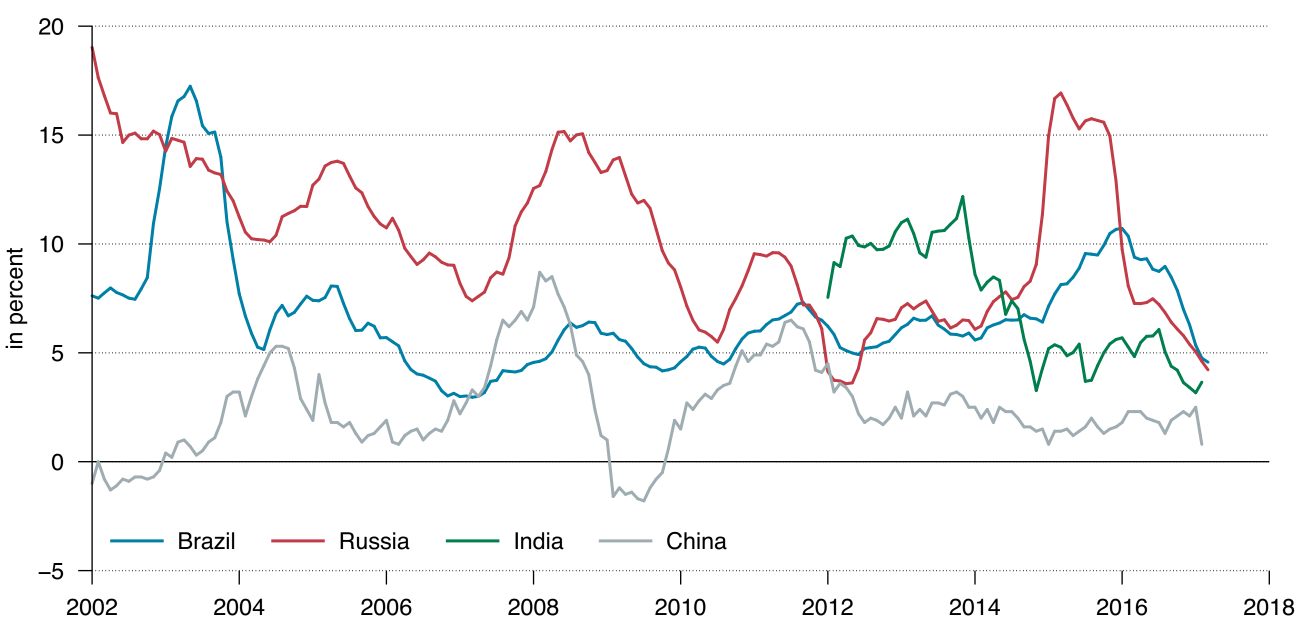
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change of the core consumer price index, in percent.
[4] Calculations are based on nominal GDP weights derived from purchasing power parity exchange rates.

Source: Thomson Reuters Datastream, Wellershoff & Partners

Consumer price inflation in advanced economies



Consumer price inflation in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

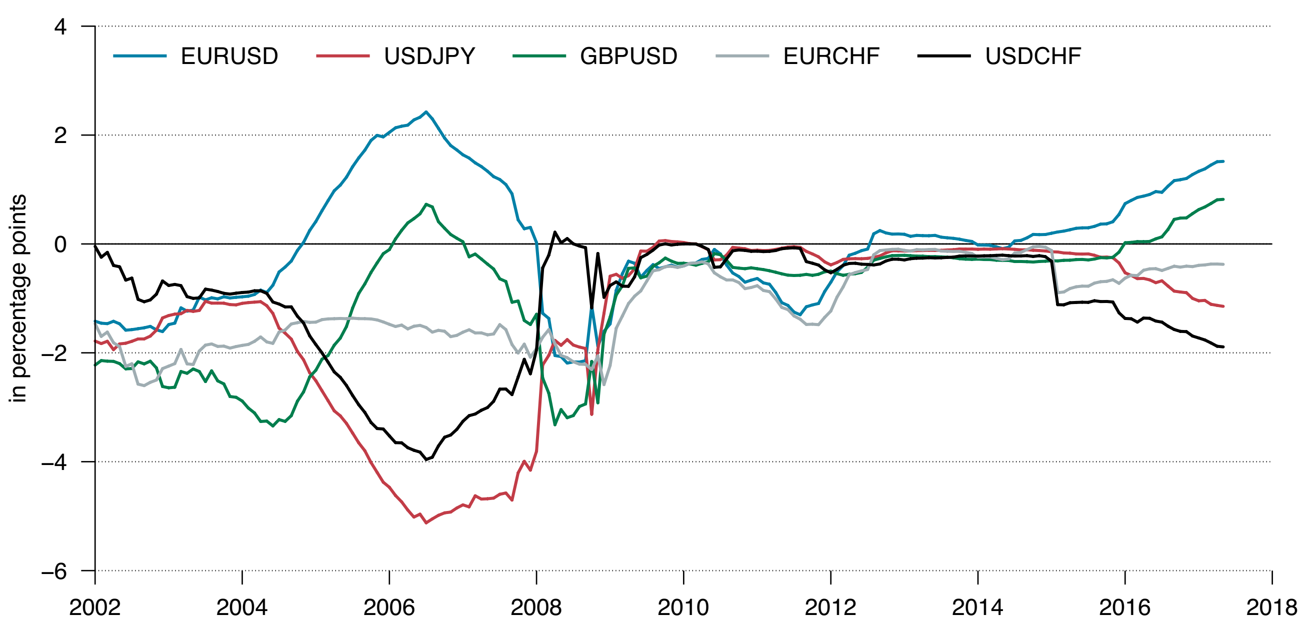
Interest rates

Interest rate differentials overview

	Current exchange rate	Interest rate differentials 3 months[1]				Interest rate differentials 12 months[1]			
		Current	1 year ago	Ø 5 years	Ø 10 years	Current	1 year ago	Ø 5 years	Ø 10 years
EURUSD	1.066	1.48	0.88	0.41	-0.11	1.86	1.26	0.62	0.00
USDJPY	108.4	-1.15	-0.66	-0.33	-0.73	-1.63	-1.12	-0.62	-0.93
GBPUSD	1.259	0.82	0.05	-0.12	-0.54	1.08	0.21	-0.08	-0.54
EURCHF	1.068	-0.41	-0.47	-0.35	-0.78	-0.42	-0.49	-0.42	-0.86
USDCHF	1.002	-1.89	-1.36	-0.76	-0.68	-2.28	-1.75	-1.04	-0.86
GBPCHF	1.262	-1.07	-1.31	-0.88	-1.22	-1.21	-1.54	-1.12	-1.40
CHFJPY	108.2	0.74	0.70	0.43	-0.06	0.65	0.63	0.42	-0.07
AUDUSD	0.761	-0.33	-1.32	-1.88	-2.57	0.28	-0.65	-1.27	-2.10
USDCAD	1.327	-0.22	0.28	0.68	0.50	-0.55	-0.11	0.41	0.28
USDSEK	8.986	-1.61	-1.15	-0.03	0.37	-1.95	-1.33	-0.20	0.26
USDRUB	55.9	8.84	9.92	9.26	7.94	7.78	9.03	8.75	8.06
USDBRL	3.104	9.46	13.43	10.72	10.04	7.69	12.02	10.35	9.86
USDCNY	6.887	3.10	2.21	3.56	2.70	2.43	1.82	3.23	2.41
USDTRY	3.662	11.09	10.13	8.89	9.45	10.88	9.70	8.75	9.63
USDINR	64.43	7.47	7.47	8.68	7.35	5.42	5.83	6.57	4.66

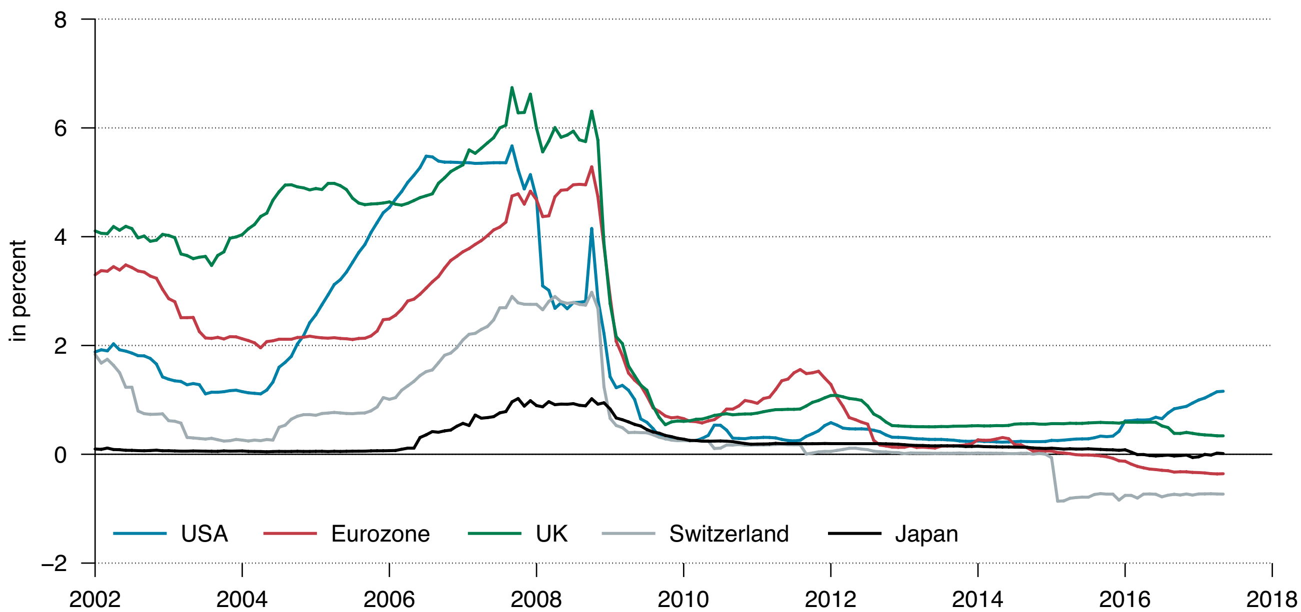
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

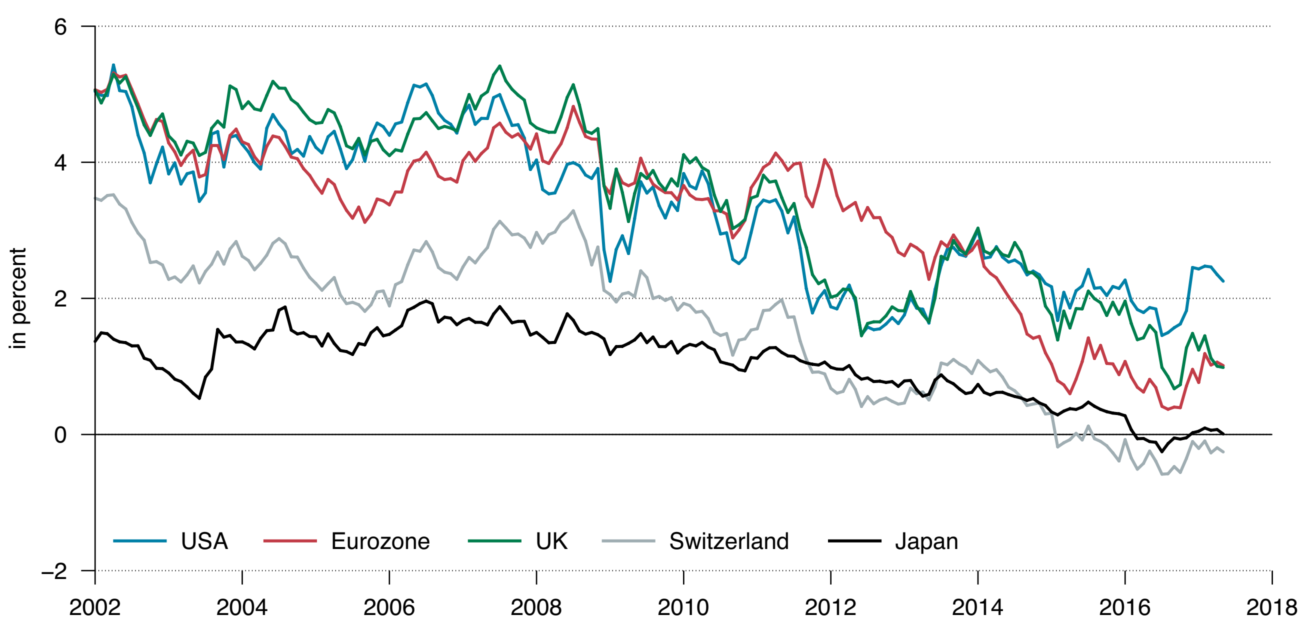


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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FX markets

On March 29, at 12:30 p.m., the government of Great Britain formally submitted notification of its intention to leave to the European Union. Looking at the GBPUSD exchange rate before and after this event, markets reacted modestly, with just an uptick in volatility. The pound's gyrations after the notification only amounted to 1.5 percent, while for the month as a whole the peaks and valleys in the pounds's value reached over 3 percent. Since October 2016, the GBPUSD exchange rate has moved sideways, but we find the pound is still more than 20 percent off its purchasing power parity rate.

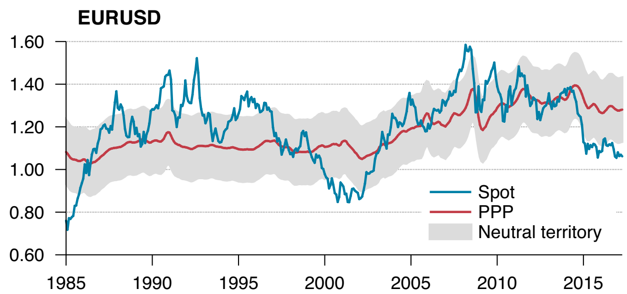
Although the prevailing market narrative casts the divergent monetary policies of the Fed and the European Central Bank as inherently favorable to the US dollar, in fact, since the beginning of the year, the dollar has retreated across a broad front, down 0.5 percent against the euro, 0.8 percent against the Swiss franc and 3.6 percent against the Australian dollar. Even with this broad devaluation, we think the US dollar remains overvalued against the major currencies, with deviations from PPP-indicated levels of between 10 and 35 percent. Given the probable interest rate steps that are coming, blindly hoping for a new high-altitude flight for the dollar strikes us as uncalled for.

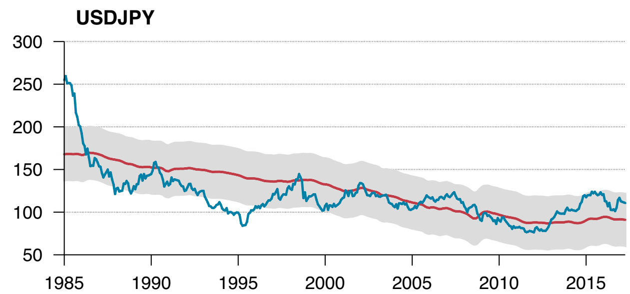
FX overview

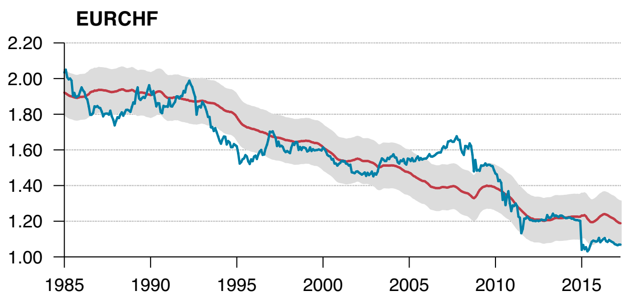
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.066	1.1	-0.3	-5.6	-18.8	1.28	1.13 - 1.43	-16.7
USDJPY	108.4	-7.1	-4.1	-0.3	34.2	91.0	60.6 - 121.4	19.1
GBPUSD	1.259	1.9	1.7	-11.2	-20.9	1.62	1.42 - 1.82	-22.2
EURCHF	1.068	-0.4	-0.4	-2.2	-11.1	1.19	1.07 - 1.31	-10.1
USDCHF	1.002	-1.4	-0.1	3.6	9.5	0.95	0.72 - 1.18	5.4
GBPCHF	1.262	0.4	1.6	-7.9	-13.4	1.52	1.24 - 1.79	-16.9
CHFJPY	108.2	-5.7	-4.0	-3.8	22.5	89.5	74.3 - 104.7	20.9
AUDUSD	0.761	5.0	0.9	-1.3	-26.9	0.72	0.60 - 0.83	6.3
USDCAD	1.327	-1.0	1.6	3.1	34.4	1.20	1.13 - 1.27	10.4
USDSEK	8.986	-1.1	0.8	10.5	32.9	7.49	6.56 - 8.43	19.9
USDRUB	55.9	-8.3	-5.8	-16.0	89.7	42.2	34.1 - 50.4	32.5
USDBRL	3.104	-4.6	-3.4	-12.0	68.4	2.88	2.37 - 3.39	7.8
USDCNY	6.887	-0.9	0.2	6.3	9.3	6.93	6.70 - 7.16	-0.6
USDTRY	3.662	4.1	-3.0	28.4	104.9	2.81	2.58 - 3.04	30.2
USDINR	64.43	-5.1	-5.2	-3.3	25.0	72.1	68.5 - 75.7	-10.7

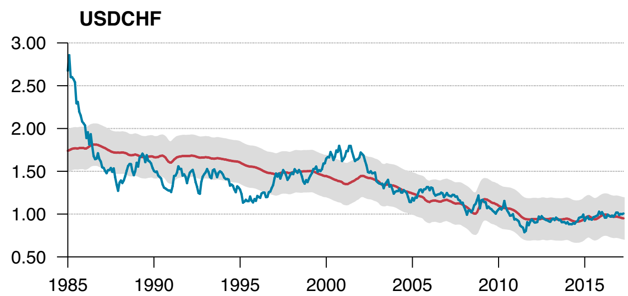
[1] Performance over the respective period of time, in percent.
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.
[3] Deviation of the current spot rate from PPP, in percent.

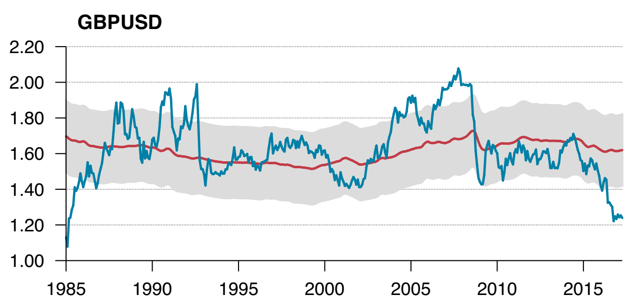
Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

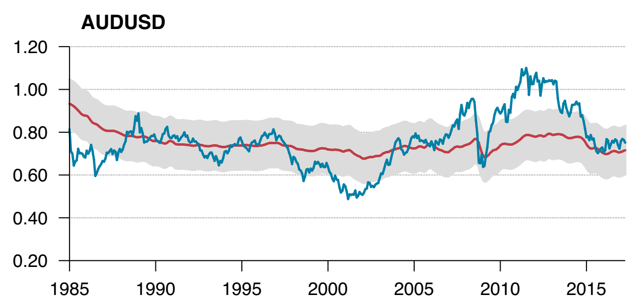


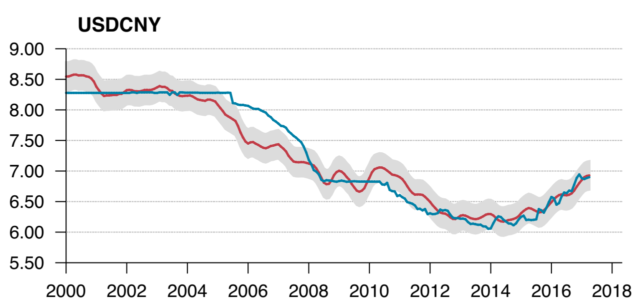


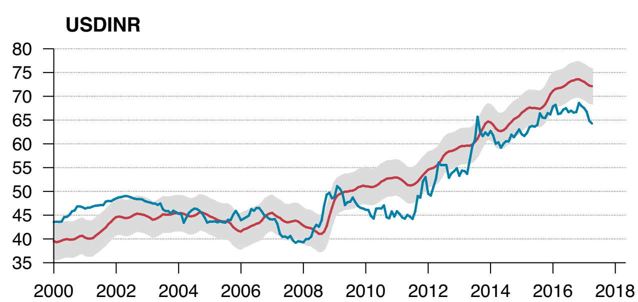


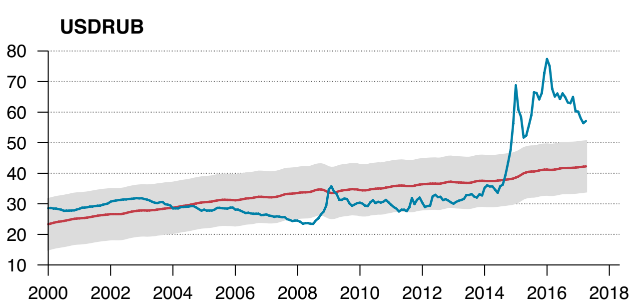


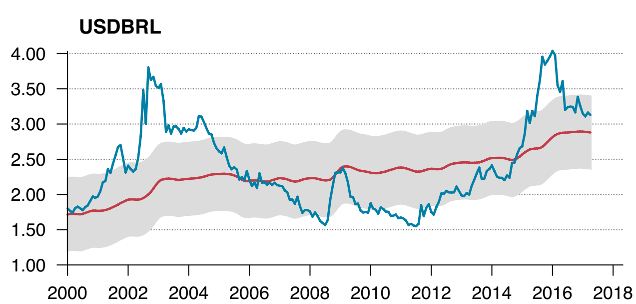












Source: Thomson Reuters Datastream, Wellershoff & Partners

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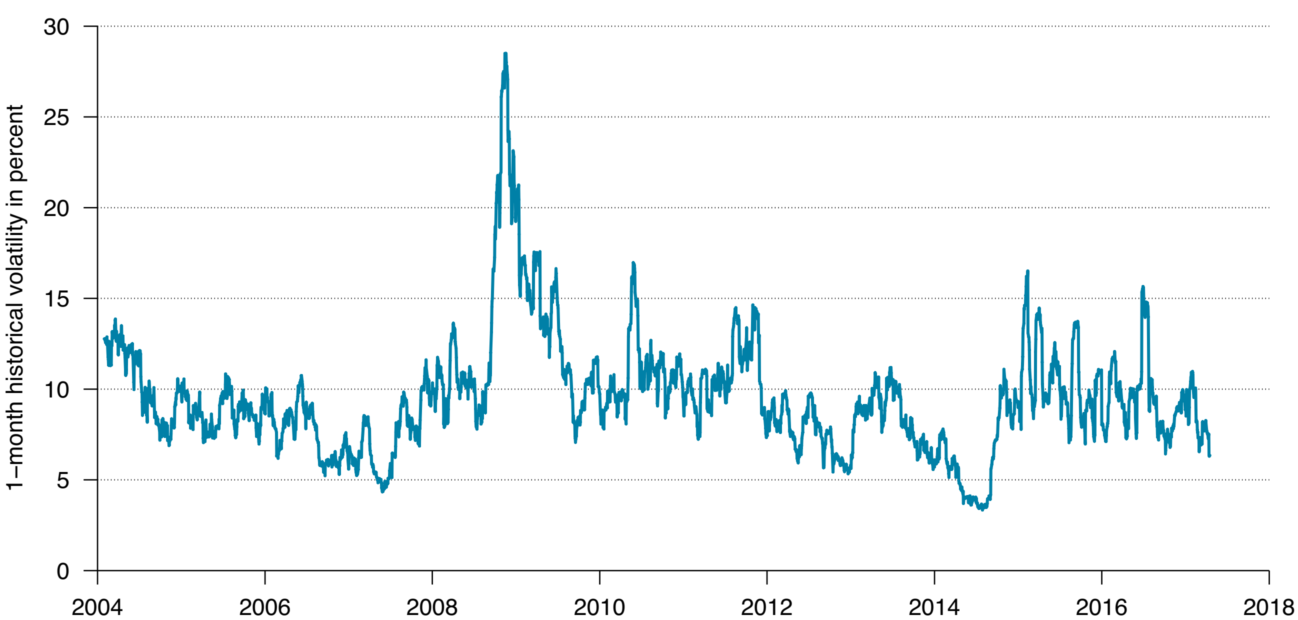
FX volatility

FX volatility overview

	Current exchange rate	Volatility 3 months[1]				Volatility 12 months[1]			
		Historical	Implied	Ø 5 years[2]	Ø 10 years[2]	Historical	Implied	Ø 5 years[2]	Ø 10 years[2]
EURUSD	1.066	6.9	9.8	8.9	10.6	8.1	9.0	9.3	10.9
USDJPY	108.4	9.6	10.1	9.9	11.0	11.6	9.8	10.3	11.3
GBPUSD	1.259	8.8	8.4	8.4	9.9	12.6	9.3	8.9	10.4
EURCHF	1.068	3.7	6.2	5.5	6.4	5.1	5.8	6.4	6.8
USDCHF	1.002	6.7	7.8	9.2	10.6	7.6	8.1	9.8	10.9
GBPCHF	1.262	7.9	8.3	8.8	10.3	12.1	8.4	9.3	10.7
CHFJPY	108.2	7.8	10.1	10.5	11.7	10.6	9.6	11.2	12.1
AUDUSD	0.761	8.2	9.0	10.3	12.6	10.3	9.6	10.9	12.9
USDCAD	1.327	6.9	6.8	7.9	9.9	8.4	7.2	8.3	10.2
USDSEK	8.986	7.8	10.0	10.3	12.6	9.8	9.8	10.9	12.8
USDRUB	55.9	12.2	13.4	16.1	14.0	15.6	13.5	16.4	15.1
USDBRL	3.104	10.7	13.7	14.7	15.6	14.5	14.0	15.2	16.0
USDCNY	6.887	2.6	3.8	3.2	3.1	2.7	5.0	4.1	4.7
USDTRY	3.662	13.0	14.3	11.7	13.4	13.1	15.0	13.0	14.6
USDINR	64.43	3.8	6.2	8.8	9.6	4.0	6.9	9.8	10.5

[1] Annualized volatility, in percent. [2] Average of implied volatility.

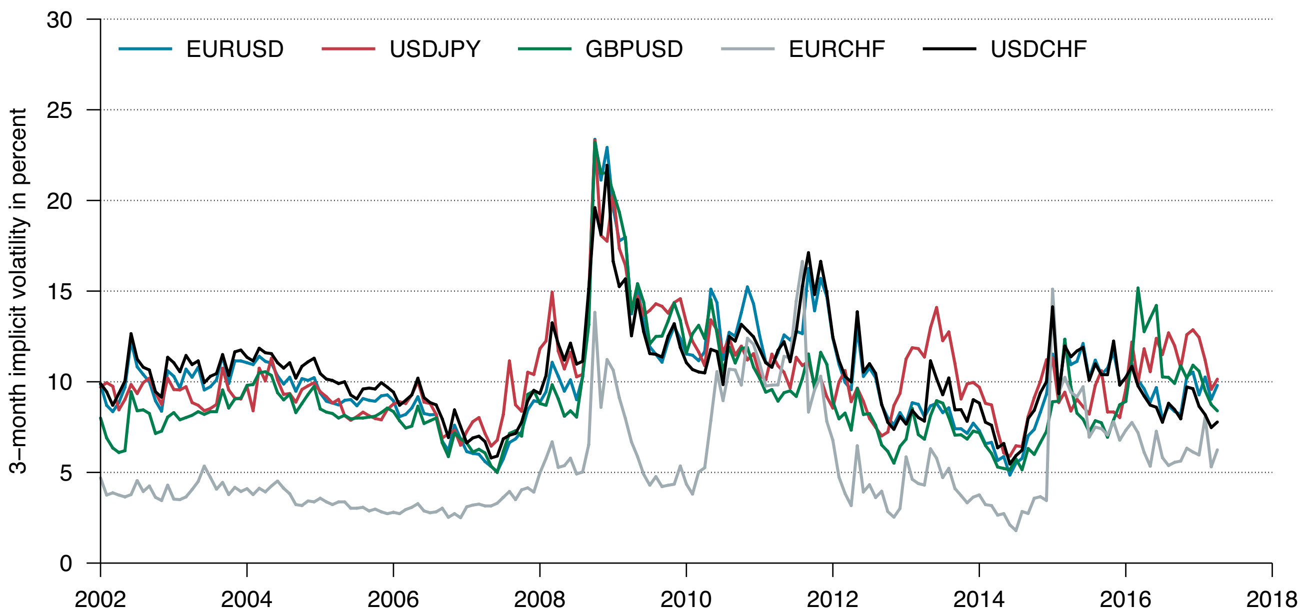
QCAM volatility indicator[3]



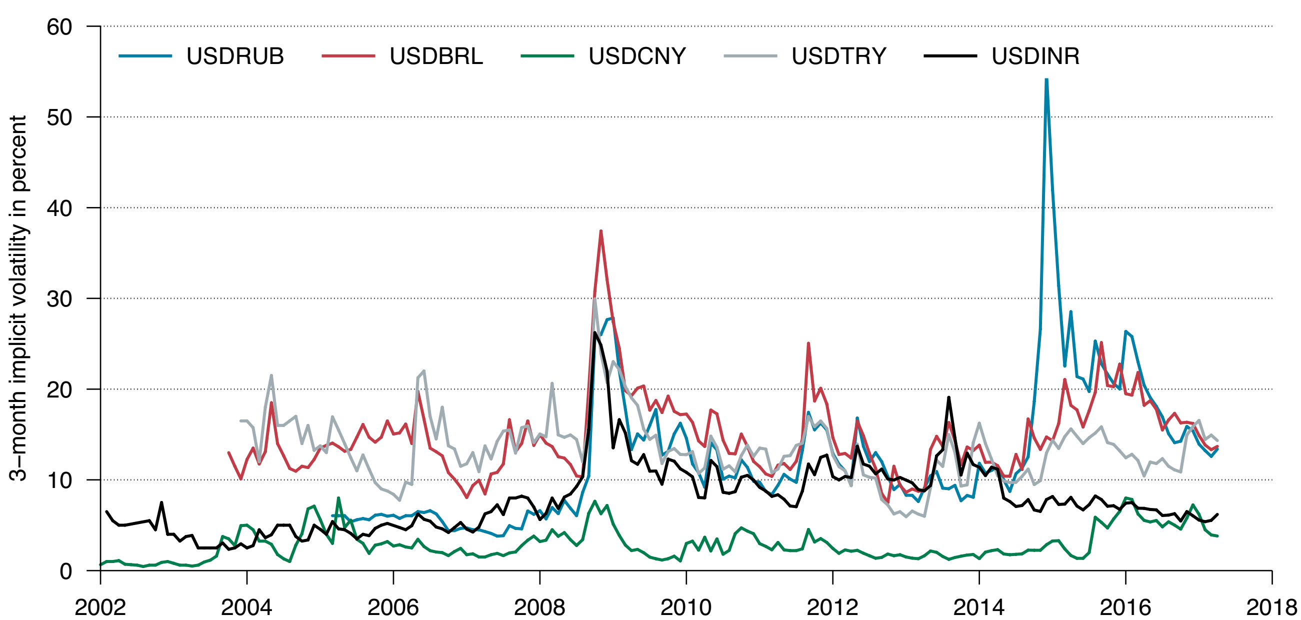
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

Source: Bloomberg, Thomson Reuters Datastream, QCAM Currency Asset Management, Wellershoff & Partners

Implicit volatility



Implicit volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

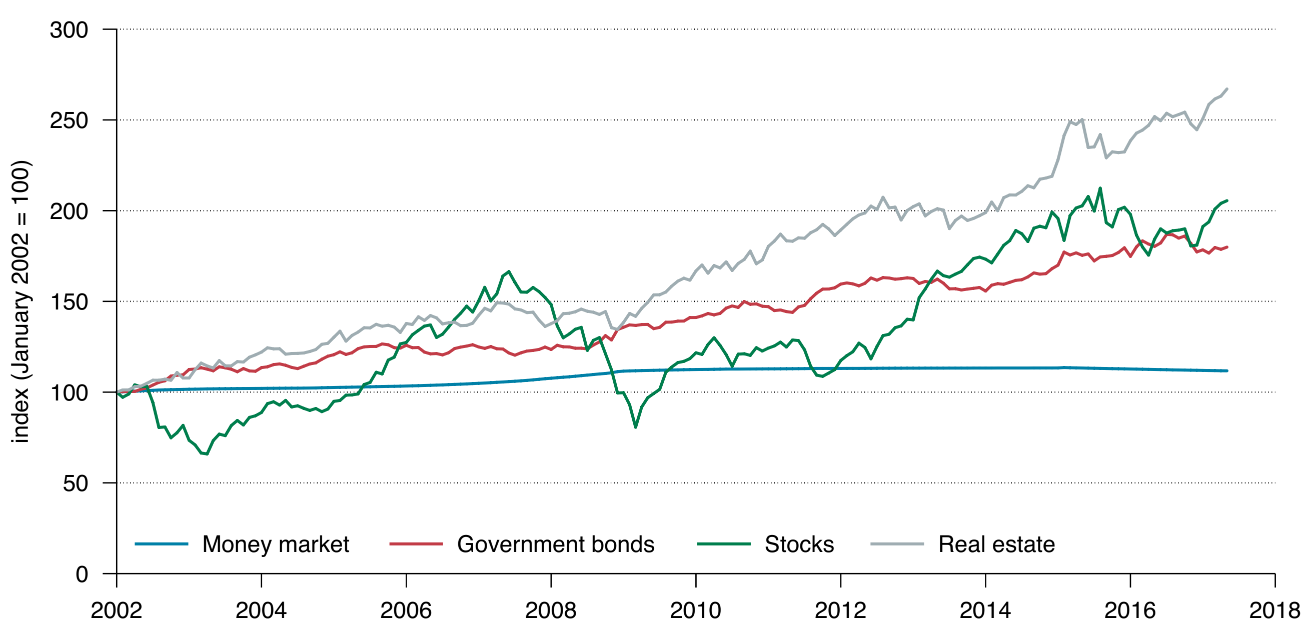
Financial markets

Performance overview

	Performance in either local curreny or USD[1]				Performance in CHF[1]			
	YTD	3 months	1 year	5 years	YTD	3 months	1 year	5 years
Swiss money market	-0.2	-0.2	-0.7	-1.2	-0.2	-0.2	-0.7	-1.2
Swiss government bonds	0.8	0.4	-1.1	12.7	0.8	0.4	-1.1	12.7
Swiss corporate bonds	0.9	0.6	-0.4	12.7	0.9	0.6	-0.4	12.7
Swiss equities (SMI)	7.5	6.4	11.4	64.8	7.5	6.4	11.4	64.8
European equities (Stoxx600)	6.4	6.1	14.9	75.4	5.8	5.7	12.6	55.9
UK equities (Ftse100)	3.9	2.8	20.1	53.8	4.7	6.0	10.5	31.9
Japanese equities (Topix)	-2.6	-1.9	10.0	98.3	3.3	1.7	14.4	62.0
US equities (S&P 500)	5.5	4.1	15.3	88.7	4.3	4.1	19.6	106.2
Emerging markets equities	12.1	8.0	16.8	8.2	10.7	8.0	21.2	18.2
Global equities (MSCI World)	6.2	4.3	13.4	63.8	4.9	4.3	17.6	79.0
Swiss real estate	6.5	5.0	6.0	32.8	6.5	5.0	6.0	32.8
Global real estate	5.8	4.7	4.9	53.3	4.5	4.8	8.8	67.5
Commodities	-1.7	-3.3	7.0	-37.3	-2.9	-3.2	11.0	-31.4
Brent oil	-1.3	0.0	30.3	-52.2	-2.5	0.0	35.2	-47.8
Gold	11.5	6.2	5.0	-21.5	10.2	6.2	8.9	-14.2

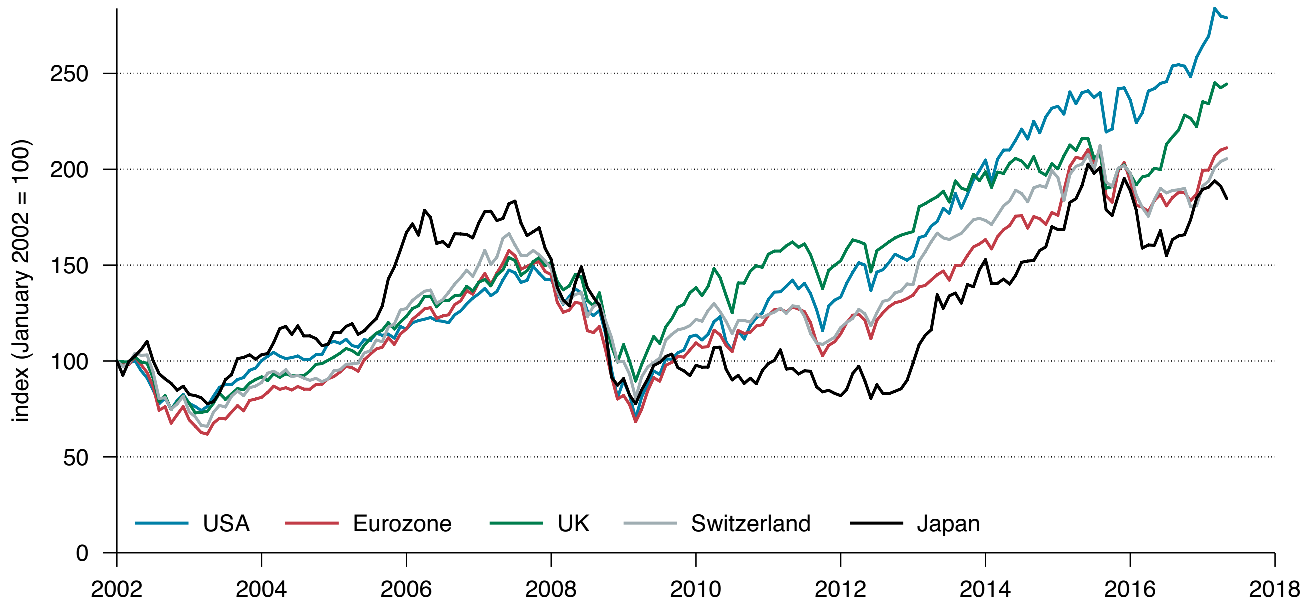
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

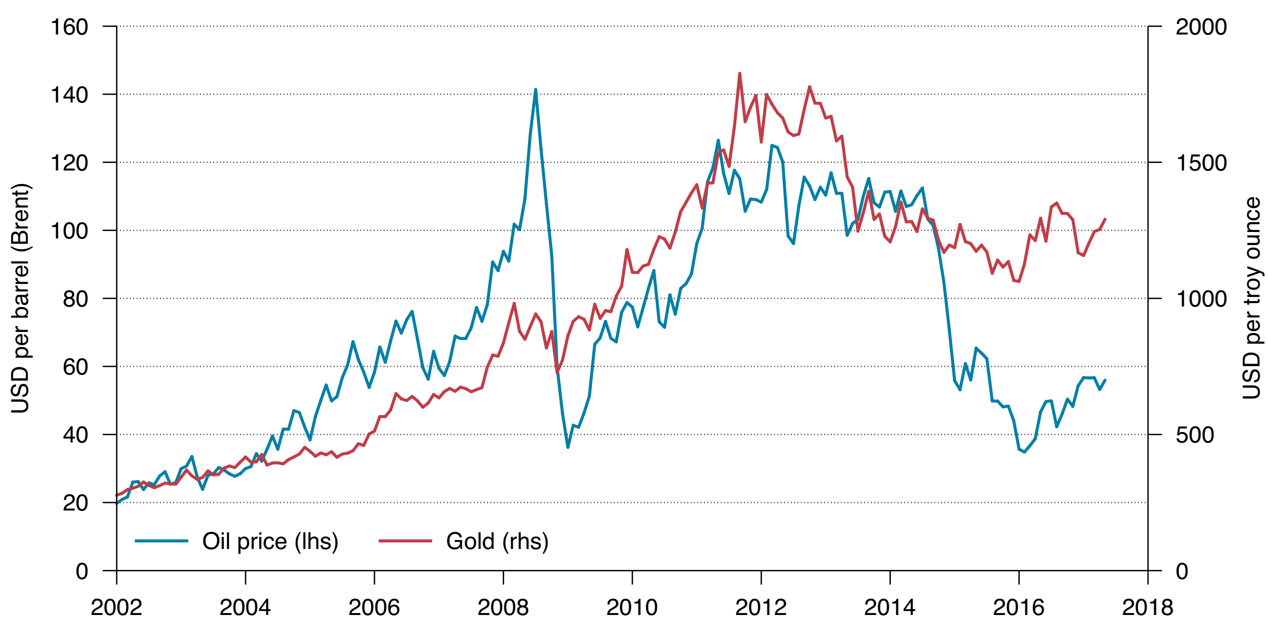


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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Number of the month

-5.24 percent

On March 8, futures contracts for WTI crude oil fell by 5.24 percent, the largest one-day loss in over a year. The reason: US crude oil reserves grew to 536 million barrels, their highest level since the statistic was introduced, in 1982. Reserves swelled by more than 8.2 million barrels in a single week recently, which unsettled traders. After all, 95 percent of the time, reserves grow by less than 7.2 million barrels per week.