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FX MONTHLY

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

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April 2019

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QCAM Insight

First-quarter report card

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QCAM Currency Asset Management AG

The first quarter is over, so it's time to take stock and to cast our eyes forward to the second quarter. Bottom line: the USD held up well and we believe this will remain the case until the middle of the year.

The first quarter started on a sour note, with markets in turmoil and recession fears on the rise. Three months later, the situation has stabilized. The risk of recession has not completely vanished, but interest rates have declined across the board and risky assets have staged a comeback. In the currency markets, four themes emerged in Q1:

1. The USD generally held up well.
2. The EUR and the JPY were the main underperformers, while the GBP did surprisingly well.
3. Emerging markets (EM) currencies mostly rallied, except in countries with acute domestic problems.
4. Commodity currencies have recovered on the back of firmer oil prices.

USD gained versus EUR and JPY ...

The USD was widely viewed as overbought and overvalued at the start of the year and the Fed's surprising dovish policy shift could easily have pushed it off track. Three months later, the DXY USD index is 1.2 percent stronger than it was at the start of the year. The dollar's overall appreciation is mostly due to its gains versus the EUR and the JPY.

Offsetting the Fed's dovish shift were worsening economic news from both the Eurozone and Japan. Manufacturing in both currency areas is in recession and the ECB and the BoJ have both signaled that they will continue to keep monetary policy accommodative. The EUR has also suffered from uncertainties related to Brexit and Italy, while the JPY struggled with rising fund outflows as risk aversion declined again. The CHF, pulled down by the EUR, also saw outflows as risk appetites returned.

... but not versus the GBP

The British pound was the big outlier. Many thought it should have fared at least as poorly as the EUR. Instead, the GBP gained nearly 3 percent versus the USD. One explanation may be that the UK economy has not done as badly as the market feared. But was that enough to outweigh the political chaos created by the UK government and parliament over Brexit? Probably not. Instead, the GBP seems to have benefitted from the market's faith that the final Brexit outcome will be positive, making the GBP appear cheap.

EM and commodity currencies shine

Lower US interest rates and declining risk aversion gave a big boost to EM currencies, especially those where carry trades are rewarding. Only currencies with weak fundamentals and serious political uncertainties struggled, most notably the TRY. The CNY made an impressive rebound as it became clear that China's economy was not going into recession. The recovery of WTI oil prices, up from USD 45/barrel to above USD 60/barrel, was a big boost for oil and commodity currencies, most notably the RUB.

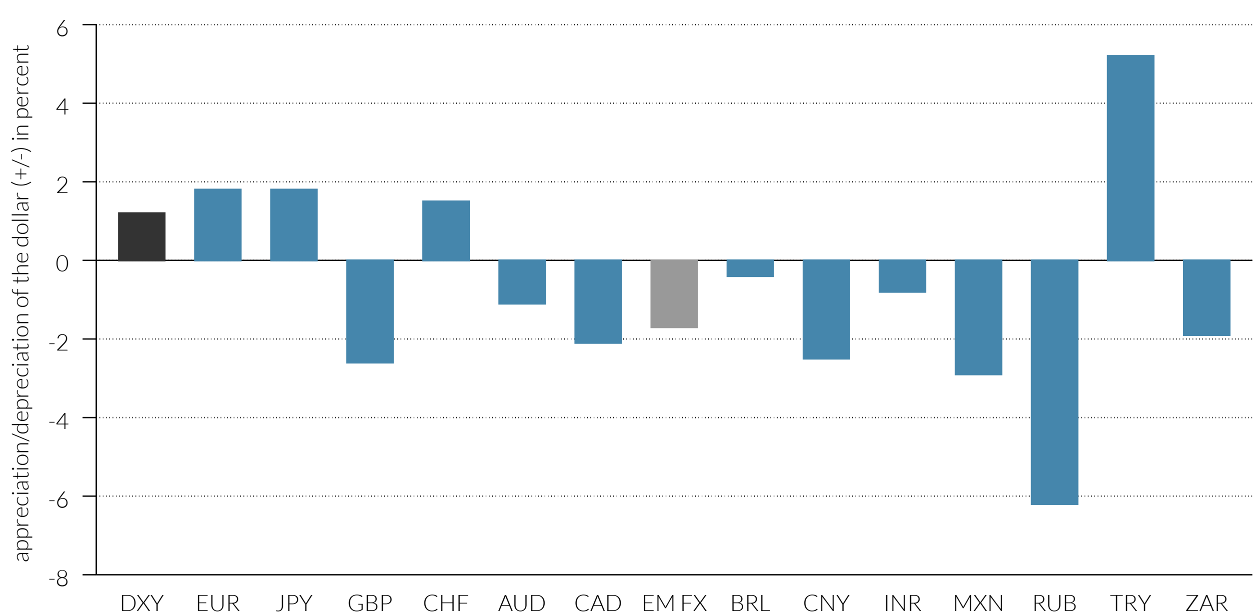
What's next

We think the USD should continue to do well versus EUR and JPY. We are not looking for big moves but we believe the US economy will continue to outperform the economies of the Eurozone and Japan. For the EUR, Brexit remains a risk, in our view, and Italy is set to become a big growth and debt problem. We also believe that the market has become too complacent in its hopes that, in the end, everything will work out fine with Brexit. Thus, we see downside risk for the GBP.

For EM currencies, we think the "Fed-on-hold and risk-on" rally is likely to lose some steam. Risky assets have rallied briskly and are now starting to look expensive versus the fundamentals. Thus, we think EM currency investors are likely to take a closer look at the economic fundamentals, which are not uniformly positive. Bottom line: EM currencies will probably continue to do well, but less well than in the first quarter, and with more variation between individual currencies.

A similar theme probably applies to commodity currencies. The oil price recovery is likely to flatten unless there is a major production cut or shortfall, which we do not expect. That should open the door for more differentiation. Sluggish property markets and political uncertainties in the run-up to general elections in Australia and Canada are possible handicaps for both the AUD and the CAD.

USD exchange rate changes from 31.12.2018 to 01.04.2019



Source: Bloomberg, QCAM Currency Asset Management

Economic prospects remain good for the US

When will the US economy end its lengthy expansion and fall into recession? This question is hotly debated by financial market observers. And the situation is in fact less clear than it was six months ago. The data still suggests that a recession isn't lurking around the corner, even though growth will likely be lower than it was in 2018.

The possibility of a recession in the US remains a topic of conversation. And it recently acquired some fresh urgency when, for the first time since 2007, the yield curve briefly inverted – that is, for a short time, the yields on 10-year government bonds moved below those of short-term money market investments. An inverted yield curve is widely viewed as a recession signal because it has preceded every US recession over the past sixty years. The problem with this signal, however, is that historically the length of time varies between the yield curve's inversion and the onset of a recession. At the least, an inverted yield curve says that the cycle in the US is already relatively mature – which is no surprise. At ten years of age, it stands to become the longest upswing in its history later this year. In order to determine the timing more precisely, however, other data and indicators must also be considered.

Solid first-quarter growth

So, what can we say about the current state of the American economy? A clear verdict is not easy right now, since both good and bad news have recently been reported. The closely watched estimates of Atlanta Fed's GDPNow model have undergone major changes lately. In mid-March, the model still expected Q1 annualized growth of less than 0.5 percent. In effect, this estimate implied that US economic growth was coming to a halt. In the meantime, however, the estimate has recovered significantly. It now forecasts growth of over 2 percent for the first quarter of the year. This would roughly correspond to the potential growth rate – that is, decent growth, albeit not at the level seen in 2018.

Good growth prospects

Recently, industrial production data – in particular from the auto sector – has been rather disappointing. But viewed historically, production in this sector is still at peak levels, so we would argue that some lower figures should not be over-interpreted. The mood of industrial companies remains good, and sentiment among service companies also remains at a high level. On the negative side of the ledger, companies are reporting problems with filling open positions. This is just one sign of the continuing health of the labor market. Yes, the number of newly created jobs has been volatile, but, on average, the rate of new job creation remains high. The shortage of labor is also reflected in rising wages, which grew as much in February as they never had since the financial crisis struck over a decade ago. Thanks to low inflation in recent years, more money remains in the pockets of workers.

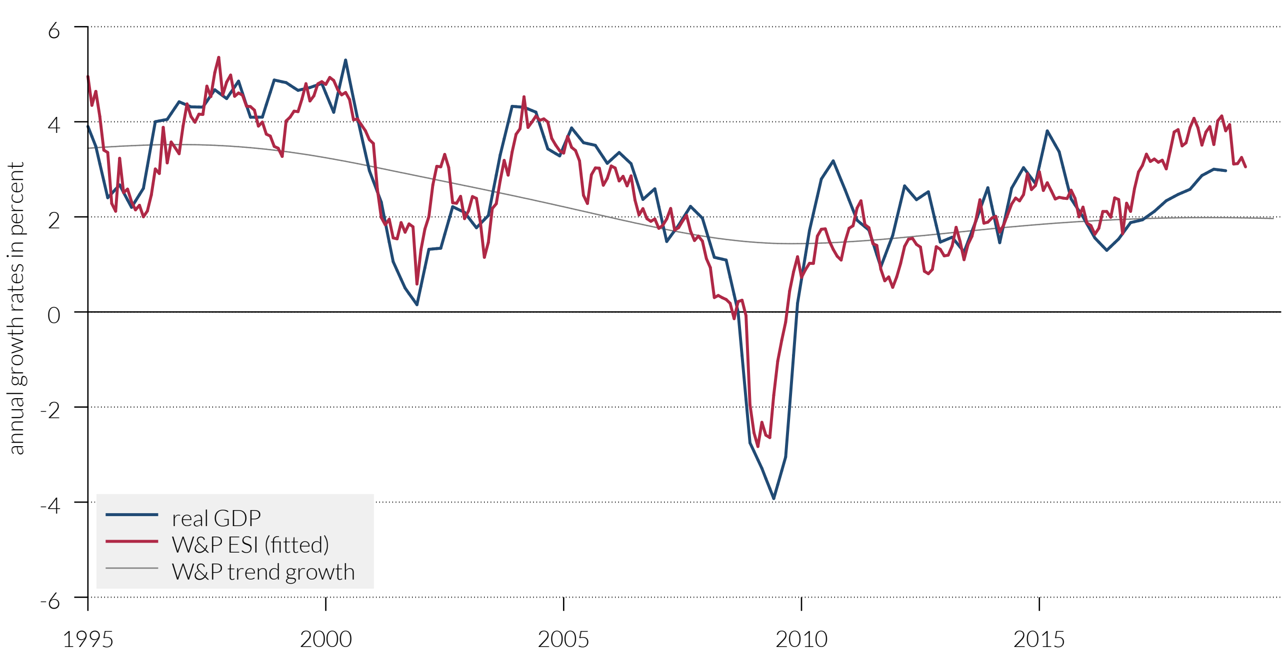
As a result, consumer sentiment is still at a high level. The drag on sentiment from the partial US government shutdown at the beginning of the year proved to be short-lived. That said, recent consumption data has weakened. After a feeble year-end, consumers recovered a bit in January but, all in all, the first-quarter numbers fell well short of expectations.

The lower mortgage rates could help spur consumption and also add to momentum in the real estate market. Interest rates on 30-year mortgages again approached the 4-percent mark, after reaching nearly 5 percent last November. This should further curb the year-long slowdown in the real estate market. As is the case in other sectors, real estate has also seen some positive and negative surprises recently, and the sector is not yet sending a clear signal on its development.

The outlook remains fraught

We must conclude our assessment on a cautionary note. There is still no shortage of risks for the US economy. The trade talks with China are continuing but the outcome remains uncertain, even though, in terms of their domestic economies and stock markets, both governments would have sufficient incentive to settle amicably. There are also significant risks outside the US, for example, the weakness of the Chinese economy (independent of the trade dispute with the US) and the unresolved problems of Brexit.

Growth expectations in the US remain solid



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

Revisiting the Swiss franc's valuation

As March 2019 ended, the Swiss franc appreciated to its strongest level against the euro since last September, leading to market speculation about the exchange levels the Swiss National Bank (SNB) would tolerate. We examined the franc's valuation versus the euro and other currencies and we generally find it fairly valued. But the central bank still tries to portray the franc as overvalued.

The IMF classifies the monetary policy framework that governs the Swiss franc as being in the same category of countries "that have no explicitly stated nominal anchor, but rather monitor various indicators in conducting monetary policy." By this measure, Switzerland finds itself in the same group as Egypt, Malaysia, Mauritius, Mongolia, Tunisia and Zambia. Accordingly, when the Swiss franc suddenly strengthens against the euro, as it did in late March, the tea-leaf reading begins. Was the SNB intervening to counter the appreciation? If not, might it soon do so? Given the lack of transparency about the SNB's interventions, there was even a counter view: Had the SNB perhaps begun to taper its almost 800 billion francs in foreign exchange reserves? After all, policy normalization would have to begin someday. Could we perhaps see any early hints of what was going on from the bank's weekly update of its sight deposits (part of the monetary base)? The initial answer was, no, we are unable to detect any evidence of SNB interventions.

Could we glean anything at all from the SNB's recent statements? Under Swiss law, the SNB is required to "regularly inform the public about its monetary policy and shall announce its monetary policy intentions." Despite this clear obligation to communicate, we actually know very little about the SNB's intentions to normalize interest rates and its plans for reducing its massive balance sheet. What we get instead is the steady refrain that the Swiss franc is "highly valued" and that the SNB stands ready to intervene to weaken the currency's value. The market remains on notice, therefore, that on the other side of any FX trade involving the Swiss franc, there stands the central bank, ready to jump in when it objects to the quoted price. In the age of central bank transparency, where the Fed and the European Central Bank (ECB) willingly telegraph their intentions, the SNB has opted for inscrutability.

Purchasing power parity as a guide

Our model shows that the Swiss franc was fairly valued on a trade-weighted basis at the end of March. In fact, our data showed the franc was just 2.5 percent stronger than its theoretically ideal, trade-weighted number. That's about as good as it gets with these types of calculations. When we look at the individual currency constituents, some of which are shown in the chart, we find the Swiss franc straddling a position between stronger and weaker currencies.

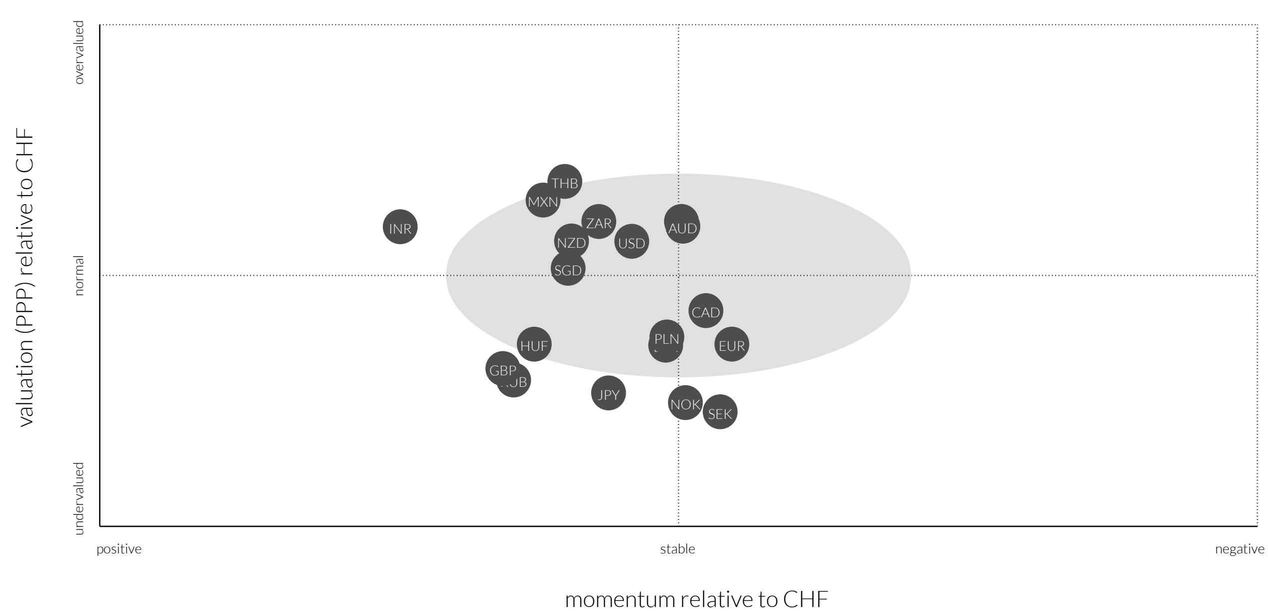
On the strong side – that is, those currencies that are currently slightly overvalued against the Swiss franc, and where the franc has appreciation potential – we find the US dollar (around 6 percent overvalued versus the franc), the Australian dollar, the Korean won, Mexican peso, South African rand and, surprisingly, the Thai baht.

On the weaker side, we find a group of European currencies, including the euro (around 5 percent too cheap against the franc), Sterling (-11 percent), the Hungarian forint, Norwegian krone and Swedish krona (both around 13 percent too cheap) and the Russian ruble (-20 percent). In Asia, the Japanese yen continues to be an outlier among the majors (-16 percent). When taken all together, our model clearly shows that the Swiss franc was not overvalued at the end of March.

Trade data also shows a competitive franc

Swiss trade data also does not suggest that the franc is overvalued. In February, Swiss nominal exports, excluding gold transfers, grew 6 percent year-over-year. That's a very solid performance from an economy with an allegedly "over-valued" currency. The monthly trade surplus was also strapping – over USD 2 billion. These additional indicators confirm that the Swiss franc is competitive. All in all, despite the familiar refrain from the SNB, the fundamentals of trade data and the franc's evident purchasing power imply that the outlook for Switzerland's currency is probably not pointing to the downside.

Swiss franc fairly valued at the end of March



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Economic activity

The global economic picture changed little last month. In the Eurozone, the sentiment trend remains downward. Pressure on the mood is coming particularly from industry, where a turning point in the recent decline in production remains absent. Lately, Switzerland's industrial sector is also a problem. The latest Swiss sentiment data suggests a slowdown in growth over the coming months. For the time being, however, export growth remains robust thanks to the country's pharmaceutical sector.

In the US, the latest economic data confirms the overall solid growth picture of recent months. February's update on capacity utilization once again confirmed the high utilization rates of production capacities. The production figures from the industrial sector were solid in February and the ISM Manufacturing Index for March once again recorded a slight improvement in sentiment among industrial companies. On the consumption side, the labor market also continues to support sentiment. US unemployment remained at a low 3.8 percent. Although wage growth receded somewhat, it remained robust, at 3.2 percent. Employment growth was positive and picked up again after showing some weakness in February.

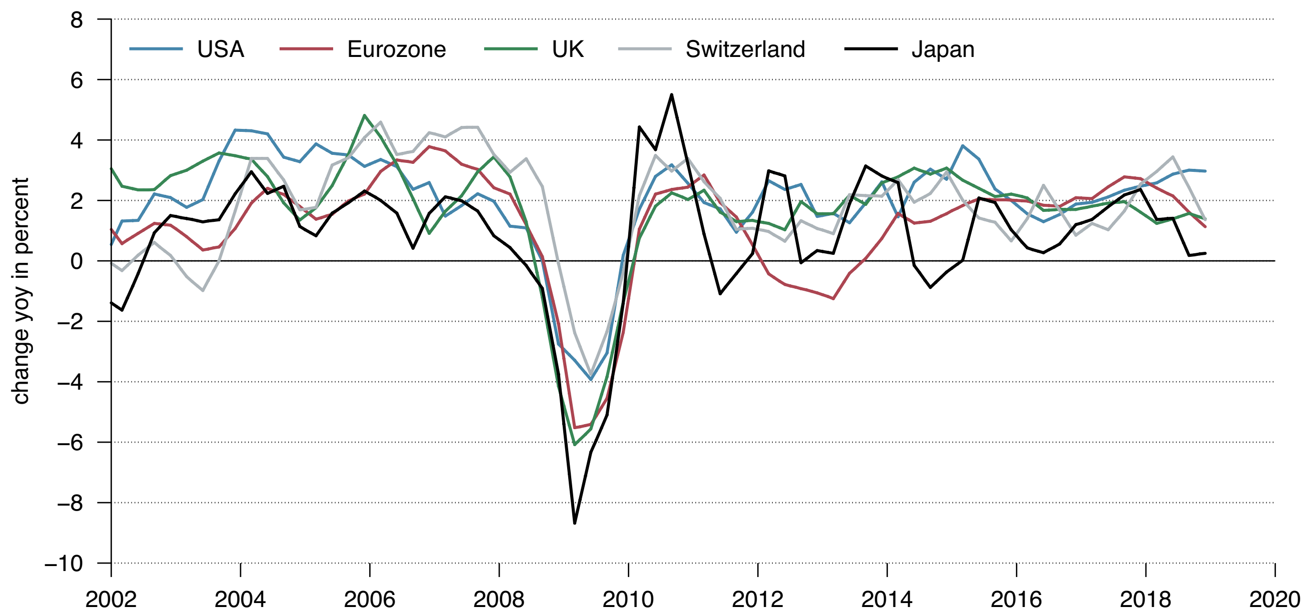
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q2/2019	Q3/2018	Q4/2018	Q1/2019	12/2018	1/2019	2/2019	3/2019
United States	1.7	2.9	3.0	3.0	–	3.1	3.1	3.2	3.1
Eurozone	1.0	2.2	1.6	1.1	–	2.4	2.3	2.3	2.2
Germany	1.4	2.0	1.2	0.6	–	2.9	2.8	2.8	2.5
France	0.7	1.7	1.4	1.0	–	1.4	1.5	1.5	1.5
Italy	0.2	1.1	0.6	0.0	–	1.0	0.8	0.6	0.6
Spain	1.6	2.6	2.5	2.3	–	2.3	2.3	2.3	2.7
United Kingdom	1.8	1.4	1.6	1.4	–	2.3	2.1	1.6	1.8
Switzerland	1.5	3.4	2.4	1.4	–	2.3	2.1	2.1	1.9
Japan	0.4	1.4	0.2	0.3	–	2.5	2.3	2.2	2.0
Canada	1.6	1.7	1.9	1.6	–	0.6	0.9	1.0	1.3
Australia	2.4	3.1	2.7	2.3	–	2.8	2.7	2.6	2.5
Brazil	1.4	0.9	1.3	1.1	–	3.2	3.1	2.3	–
Russia	0.1	2.2	2.2	2.7	–	1.8	1.0	0.3	2.8
India	7.7	8.0	7.0	6.6	–	6.9	7.0	7.0	6.8
China	7.4	6.7	6.5	6.4	–	6.2	5.5	6.3	6.7
Advanced economies[4]	1.4	2.5	2.1	2.0	–	2.9	2.8	2.8	2.6
Emerging economies[4]	6.0	5.6	5.2	4.9	–	4.8	4.5	5.0	5.0
World economy[4]	3.5	4.1	3.8	3.5	–	3.9	3.6	4.0	3.9

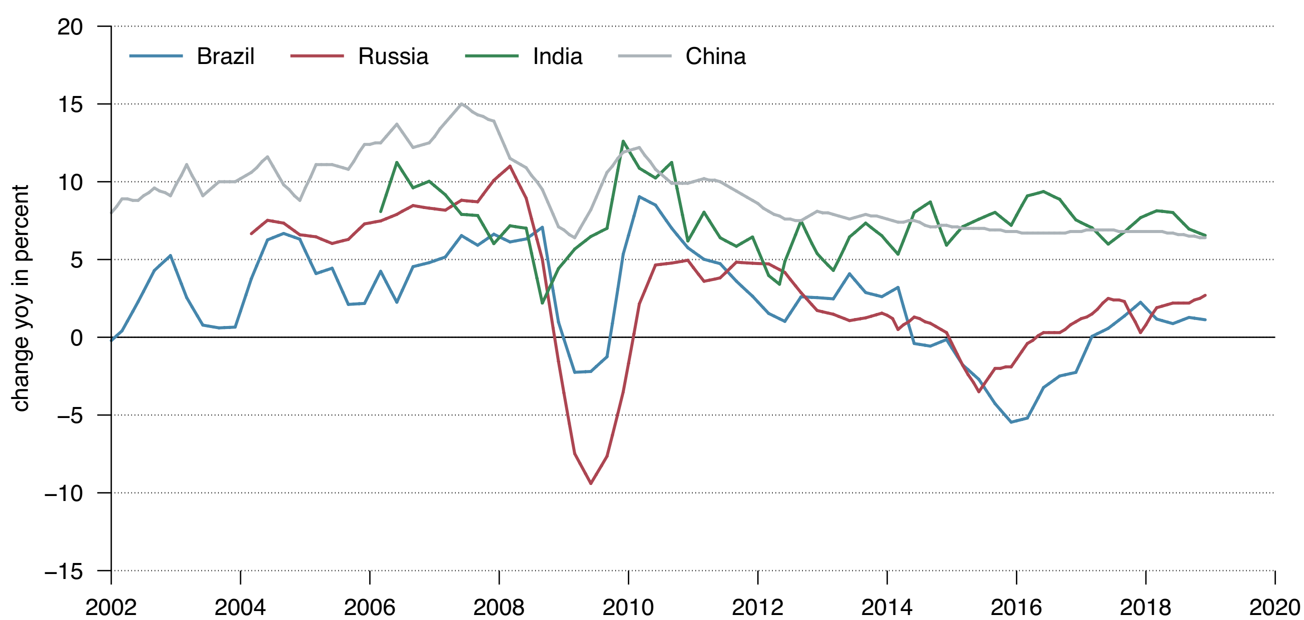
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent.
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6 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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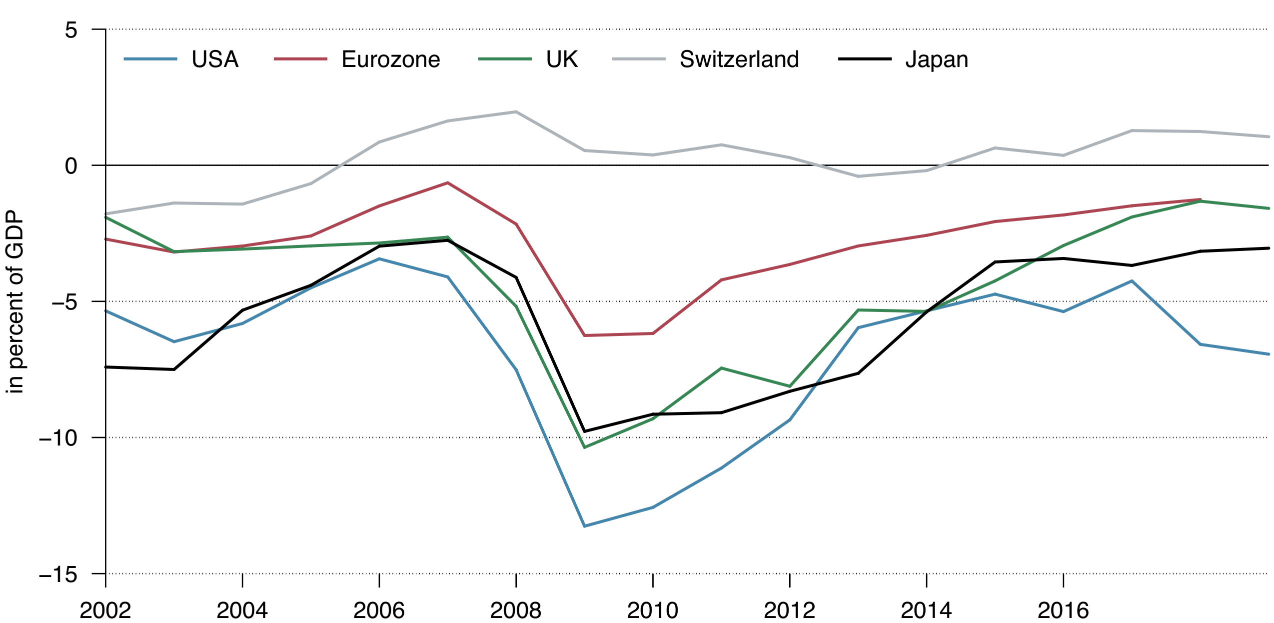
Economic indicators

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	24.0	24.4	-2.3	-2.9	105.4	109.9	-5.3	-6.9	4.9	3.8
Eurozone	16.1	15.9	3.8	–	109.2	–	-1.8	–	10.0	7.8
Germany	4.7	4.7	8.1	7.2	75.6	65.8	1.0	1.1	6.0	4.9
France	3.3	3.2	-0.6	-0.2	123.2	125.5	-3.3	-2.9	9.5	8.5
Italy	2.5	2.4	2.3	2.5	156.6	152.7	-2.5	-2.5	11.6	10.6
Spain	1.7	1.7	1.5	1.0	116.1	113.1	-4.3	-1.8	19.7	13.9
United Kingdom	3.6	3.2	-4.4	-3.3	114.3	114.6	-3.2	-1.6	4.7	2.9
Switzerland	0.9	0.8	10.0	10.7	42.0	39.0	0.7	1.0	3.1	2.7
Japan	6.1	5.9	3.0	2.6	221.6	227.9	-3.8	-3.0	3.1	2.3
Canada	2.1	2.1	-3.0	-2.5	88.7	84.7	-0.7	-1.1	6.6	5.8
Australia	1.7	1.7	-3.3	-3.1	38.8	40.7	-2.3	-1.1	5.7	4.9
China	14.8	16.1	1.8	0.7	44.4	53.9	-3.1	-4.4	4.0	–
Brazil	2.5	2.2	-2.1	-1.6	77.1	90.5	-8.2	-8.0	10.3	12.4
India	3.0	3.4	-1.6	-2.5	69.6	68.1	-7.1	-6.5	–	–
Russia	2.0	1.9	3.6	5.2	15.9	15.4	-1.6	1.8	5.3	4.9

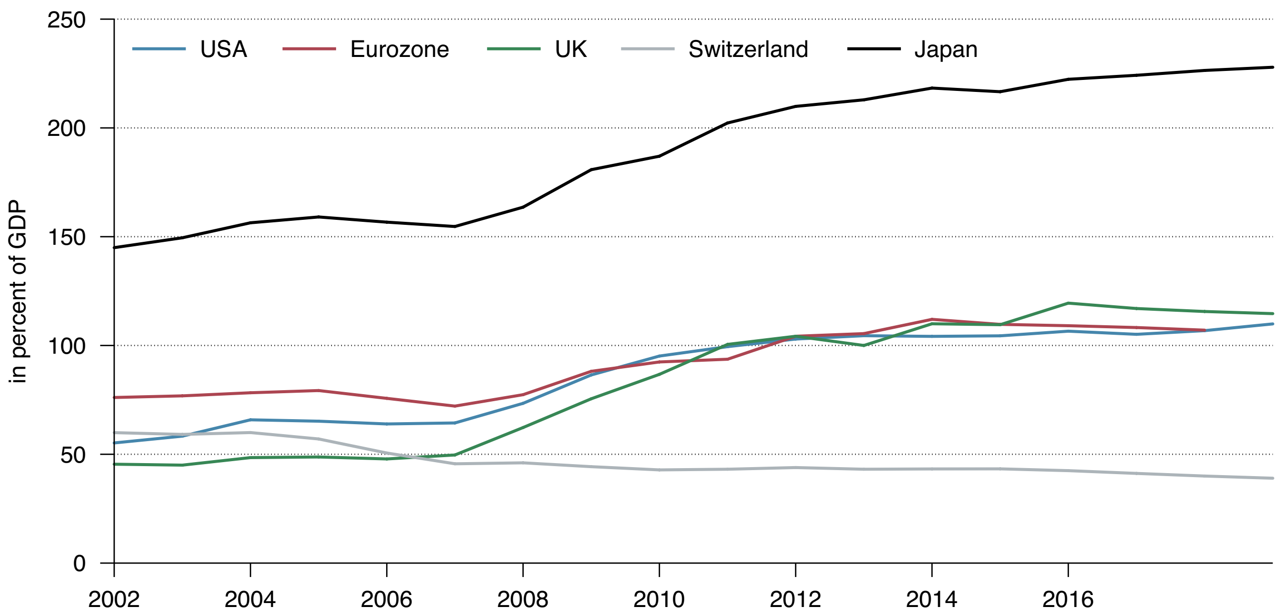
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

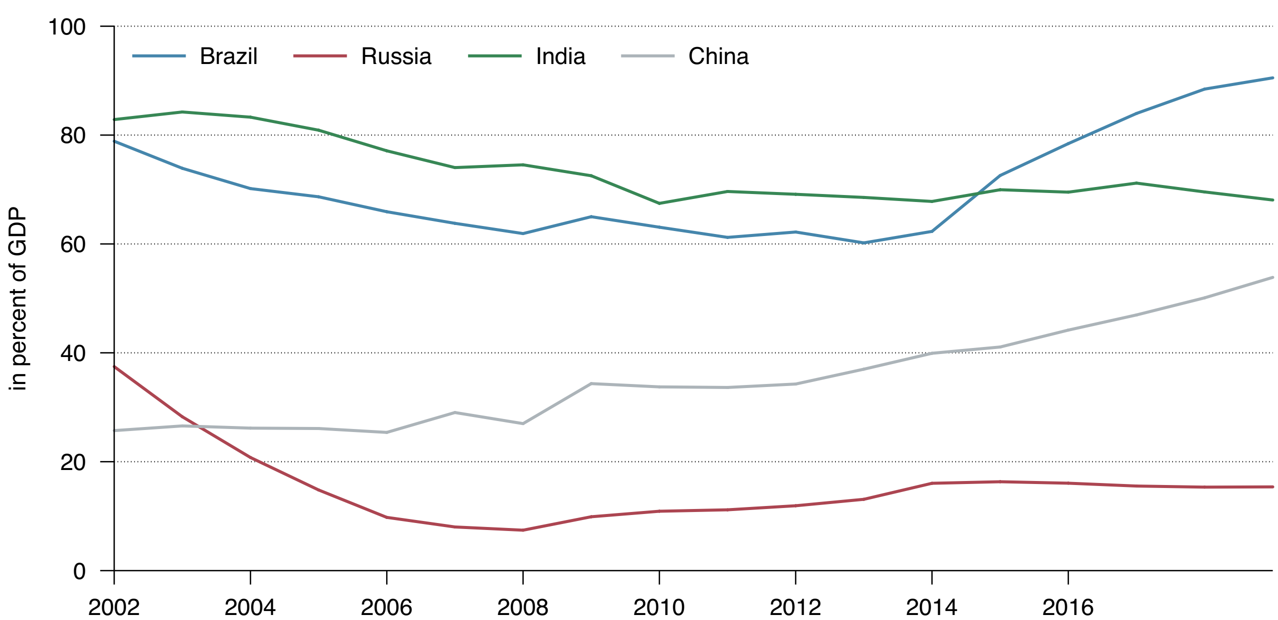


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

Inflation

Worldwide, there is still no major inflationary pressure. Inflation remains close to the target in the UK. Rising slightly, to 1.9 percent in February, British inflation has slowed steadily in recent months. In contrast, the UK's core inflation rate cooled surprisingly. In the coming months, the pound's recent appreciation is likely to dampen inflation momentum somewhat. However, with another robust increase of 3.4 percent annually in January, wage growth remains an upside risk to inflation.

In Japan, inflation continues developing at a snail's pace. February saw a meager price increase of 0.2 percent. Core inflation was only marginally higher, at 0.4 percent. Japan's current inflation outlook is subdued. Flagging economic growth reduced the economy's capacity utilization noticeably at the beginning of the year. That should make itself felt on the inflation side in the coming months. In addition, the government's efforts to subsidize the cost of preschool and college education will have a temporary negative impact on inflation. However, there is currently room for positive inflationary momentum in private consumption, which is likely to increase in the coming months, before the planned increase in consumption tax rates coming into force in October.

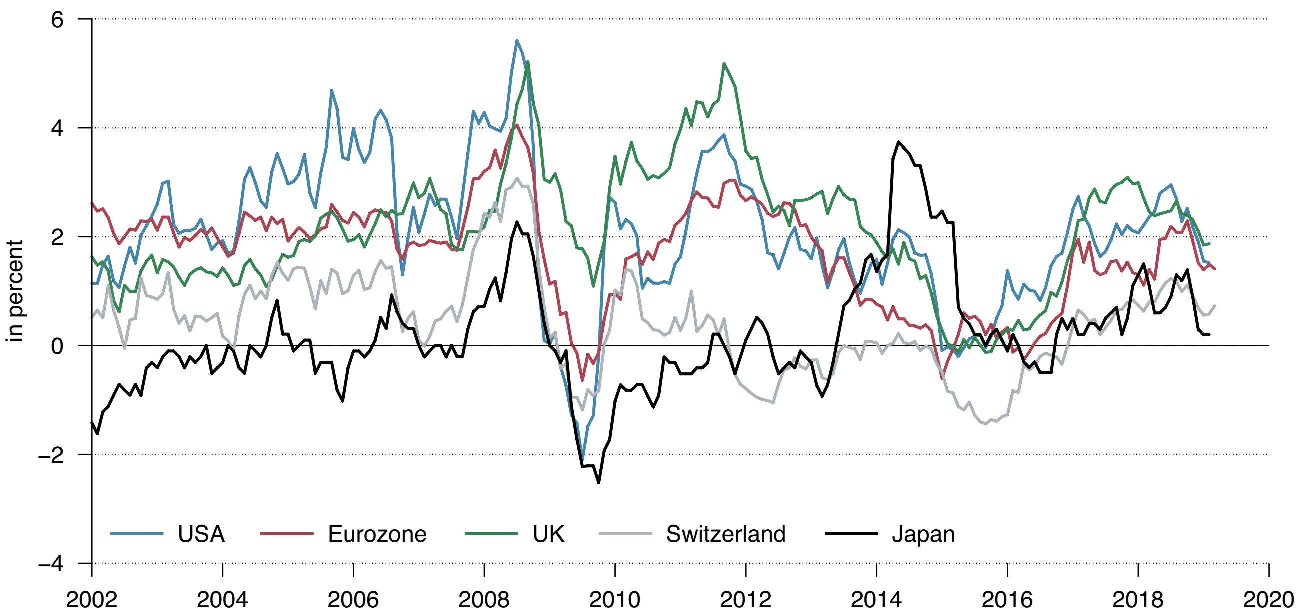
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		12/2018	1/2019	2/2019	3/2019	12/2018	1/2019	2/2019	3/2019
United States	1.6	1.9	1.6	1.5	–	2.2	2.2	2.1	–
Eurozone	1.3	1.5	1.4	1.5	1.4	0.9	1.1	1.0	0.8
Germany	1.2	1.6	1.4	1.5	1.3	1.3	1.3	1.4	–
France	1.0	1.6	1.2	1.3	1.1	0.7	0.7	0.7	–
Italy	1.2	1.1	0.9	1.0	1.0	0.6	0.5	0.4	0.5
Spain	1.2	1.2	1.0	1.1	1.3	0.9	0.8	0.7	–
United Kingdom	2.2	2.1	1.8	1.9	–	1.9	1.9	1.8	–
Switzerland	0.0	0.7	0.6	0.6	0.7	0.3	0.5	0.4	0.5
Japan	0.3	0.3	0.2	0.2	–	0.3	0.4	0.4	–
Canada	1.6	2.0	1.4	1.5	–	1.7	1.5	1.5	–
Australia	2.1	1.8	–	–	–	1.6	–	–	–
Brazil	5.9	3.8	3.8	3.9	–	3.3	3.7	3.8	–
Russia	7.4	4.3	5.0	5.2	5.2	3.7	4.1	4.4	4.6
India	7.1	2.1	2.0	2.6	–	–	–	–	–
China	2.3	1.9	1.7	1.5	1.5	1.8	1.9	1.8	–
Advanced economies[4]	1.4	1.6	1.4	1.4	1.3	1.5	1.6	1.5	1.4
Emerging economies[4]	4.3	2.3	2.2	2.3	2.3	2.2	2.4	2.3	2.3
World economy[4]	2.7	2.0	1.8	1.8	1.8	1.6	1.7	1.6	1.6

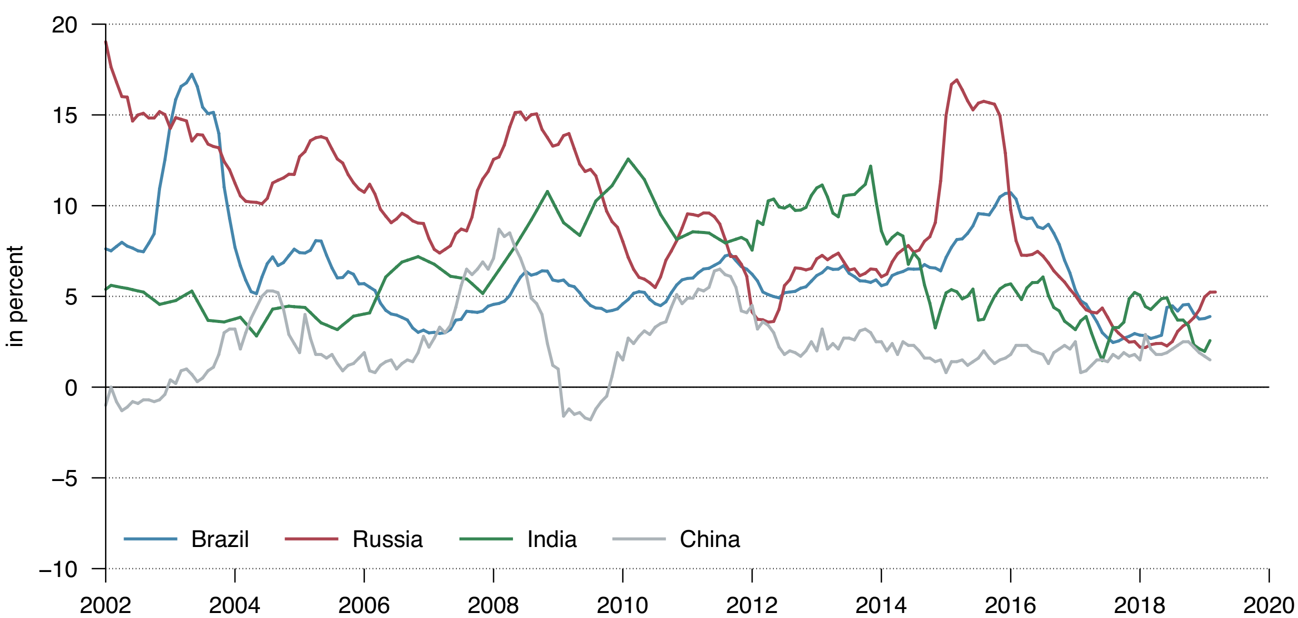
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change 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

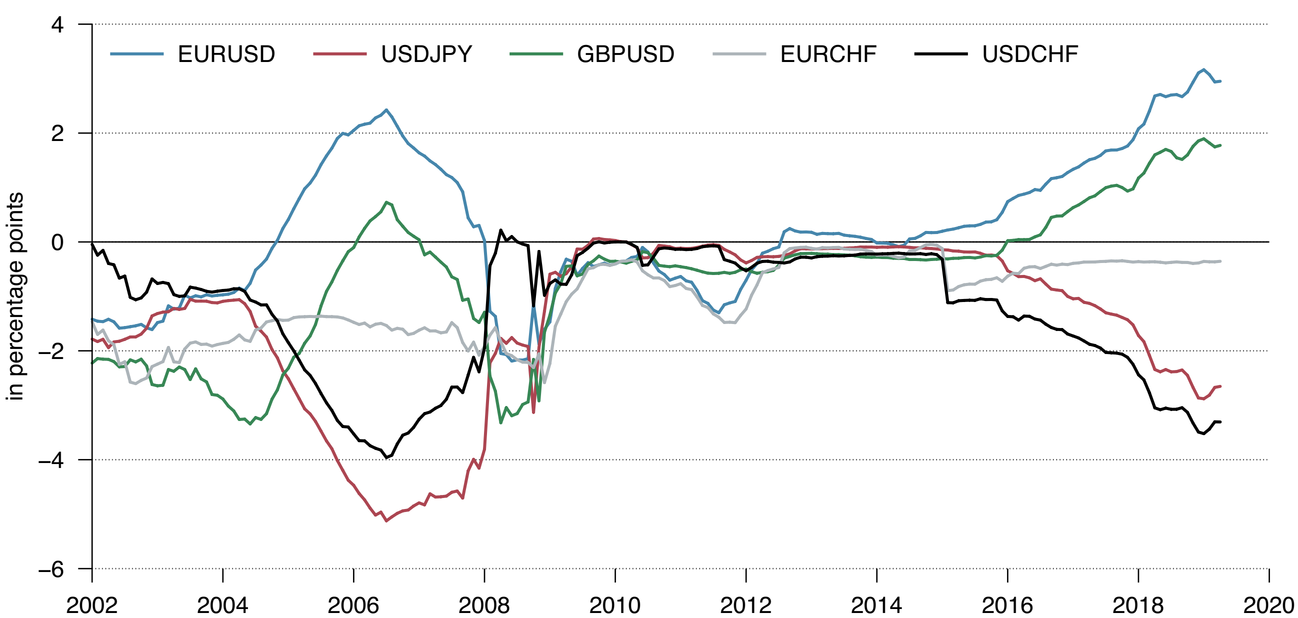
Interest rates

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	1.122	2.93	2.69	1.31	0.49	2.91	2.95	1.60	0.66
USDJPY	111.8	-2.65	-2.37	-1.09	-0.61	-2.66	-2.59	-1.41	-0.88
GBPUSD	1.301	1.77	1.58	0.55	0.08	1.67	1.67	0.65	0.11
EURCHF	1.123	-0.38	-0.38	-0.43	-0.49	-0.34	-0.28	-0.42	-0.59
USDCHF	1.000	-3.31	-3.07	-1.74	-0.98	-3.25	-3.23	-2.02	-1.25
GBPCHF	1.301	-1.53	-1.49	-1.19	-0.90	-1.58	-1.56	-1.36	-1.14
CHFJPY	111.7	0.65	0.70	0.65	0.37	0.59	0.64	0.60	0.37
AUDUSD	0.710	1.15	0.84	-0.67	-1.98	1.49	1.15	-0.16	-1.44
USDCAD	1.337	-0.57	-0.60	0.17	0.45	-0.50	-0.60	-0.07	0.23
USDSEK	9.288	-2.62	-2.76	-1.39	-0.19	-2.50	-2.93	-1.59	-0.37
USDRUB	65.3	5.31	4.16	8.75	7.61	5.20	3.54	8.22	7.27
USDBRL	3.862	13.54	13.54	11.97	9.83	3.76	3.59	9.10	9.15
USDCNY	6.719	0.17	1.99	2.69	3.06	0.31	1.90	2.39	2.68
USDTRY	5.614	23.66	11.81	12.50	10.24	22.97	12.53	12.42	10.31
USDINR	69.23	7.47	7.47	8.28	7.88	3.72	4.47	5.92	6.00

[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.

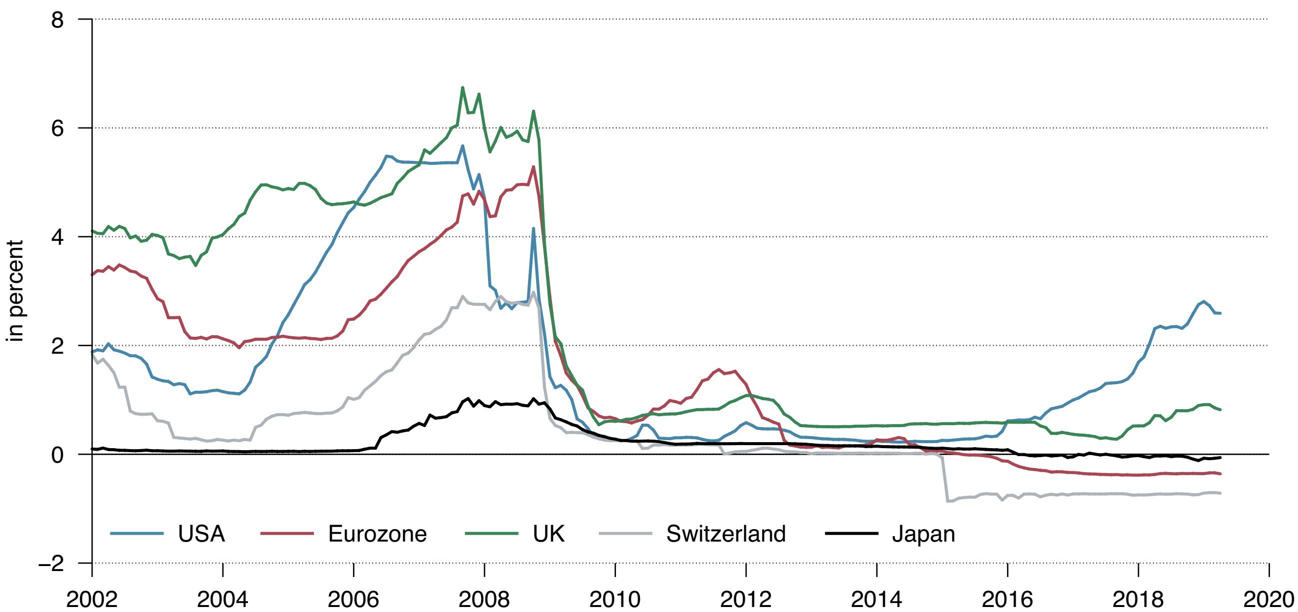
Interest rate differentials



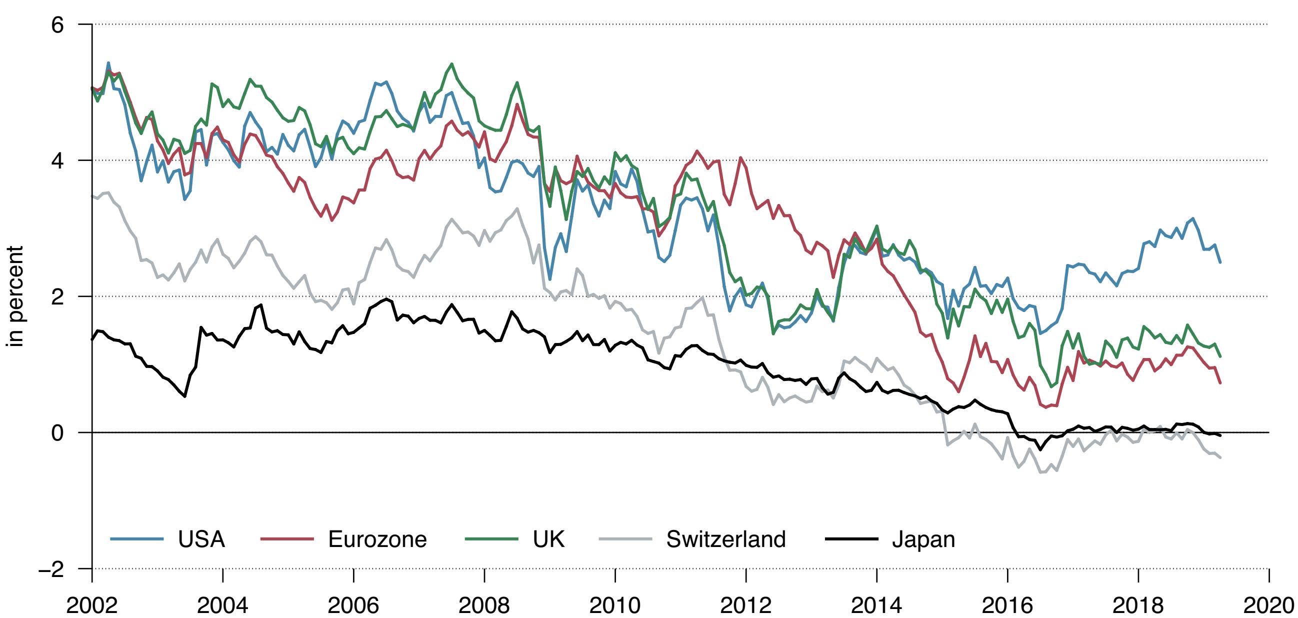
Source: Thomson Reuters Datastream, Wellershoff & Partners

Currency
Asset
Management

3-month Libor



10-year government bond yields



Source: Thomson Reuters Datastream, Wellershoff & Partners

QCAM®
Currency
Asset
Management

FX markets

Volatility remained low on international currency markets last month. The Swiss franc proved to be a rather strong currency, even though overall value changes were small. As a result, the franc moved sideways against the US dollar. Nonetheless, it gained 1.4 percent versus the euro. Against emerging market currencies, the franc's gains were more pronounced. According to our purchasing power parity estimates, the Swiss currency once again is slightly overvalued versus a basket of emerging market currencies. Declines against the franc by the Brazilian real, the Turkish lira and the Argentine peso contributed to this result last month.

Meanwhile, China's currency was stable in March, with the renminbi gaining only slightly against the US dollar. The extent to which the stimulus package launched by the Chinese authorities is able to bring about the desired growth effects is also likely to be reflected in currency developments. If the renminbi appreciates significantly over the coming months, it's a sign that Chinese investors have been able to bypass the capital controls imposed by the authorities, and the liquidity released by the stimulus package did not find its way into the real economy, as desired.

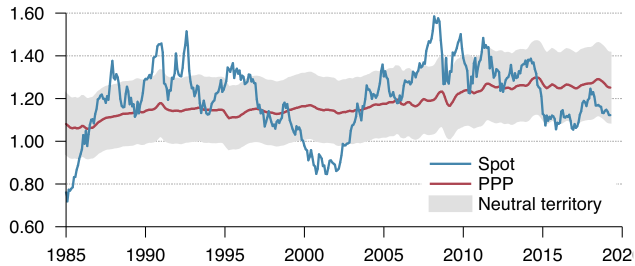
FX overview

	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.122	-1.8	-1.6	-8.2	-18.0	1.25	1.09 - 1.41	-10.3
USDJPY	111.8	1.9	3.3	4.0	7.9	87.2	71.9 - 102.5	28.1
GBPUSD	1.301	2.2	2.3	-7.0	-21.6	1.57	1.4 - 1.79	-17.2
EURCHF	1.123	-0.4	-0.2	-4.7	-8.2	1.18	1.09 - 1.26	-4.5
USDCHF	1.000	1.5	1.5	3.9	12.0	0.94	0.82 - 1.06	6.5
GBPCHF	1.301	3.7	3.8	-3.5	-12.2	1.48	1.27 - 1.68	-11.9
CHFJPY	111.7	0.4	1.9	0.1	-3.6	92.8	78.5 - 107.1	-20.9
AUDUSD	0.710	0.9	0.0	-7.6	-23.6	0.70	0.59 - 0.85	2.2
USDCAD	1.337	-2.1	-0.1	4.5	21.9	1.21	1.11 - 1.31	10.7
USDSEK	9.288	4.8	3.9	10.1	41.8	7.68	6.63 - 8.73	21.0
USDRUB	65.3	-5.9	-3.6	13.1	85.0	46.0	36.5 - 55.5	41.9
USDBRL	3.862	-0.4	3.8	16.0	72.4	2.99	2.43 - 3.54	29.4
USDCNY	6.719	-2.1	-2.1	6.6	8.1	6.32	6.11 - 6.53	6.3
USDTRY	5.614	5.5	4.8	38.8	166.0	4.00	3.62 - 4.38	40.3
USDINR	69.23	-0.8	-0.7	6.5	15.0	68.5	64.2 - 72.7	1.1

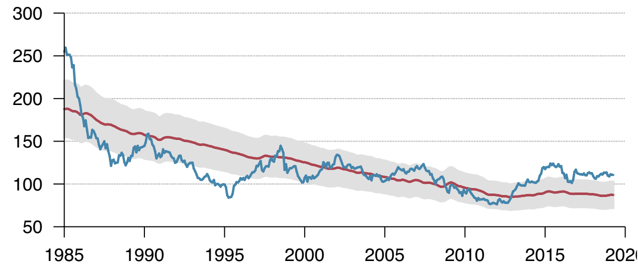
[1] Performance over the respective period of time, in percent.
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by ± 1 standard deviation of the historical variation around the PPP value.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

Source: Thomson Reuters Datastream, Wellershoff & Partners

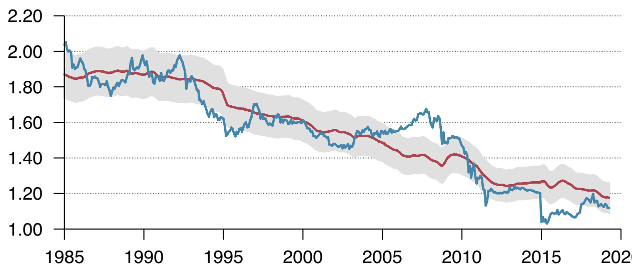
EURUSD



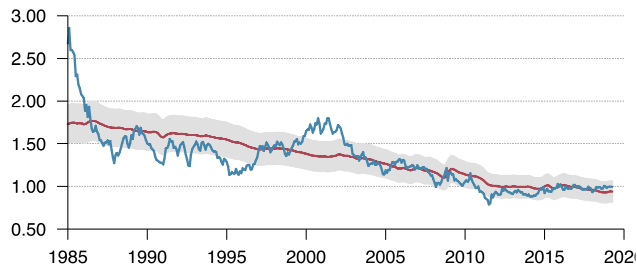
USDJPY



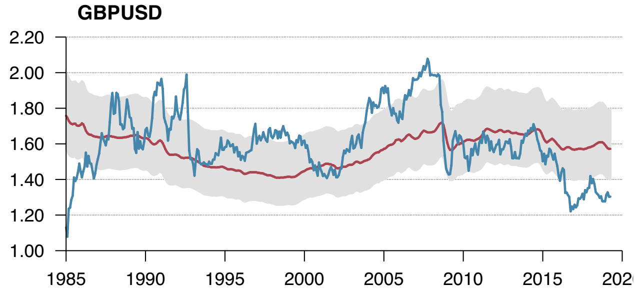
EURCHF



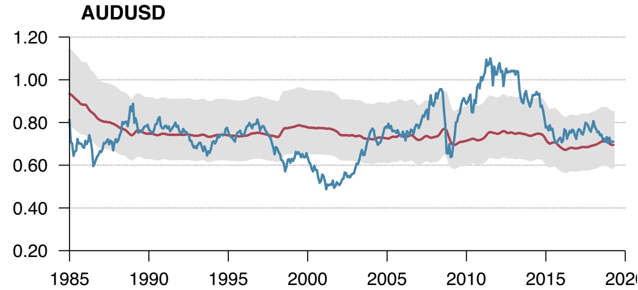
USDCHF



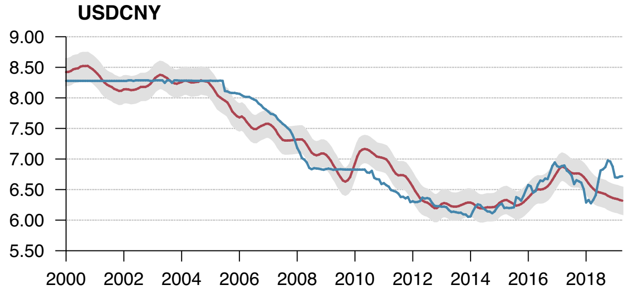
GBPUSD



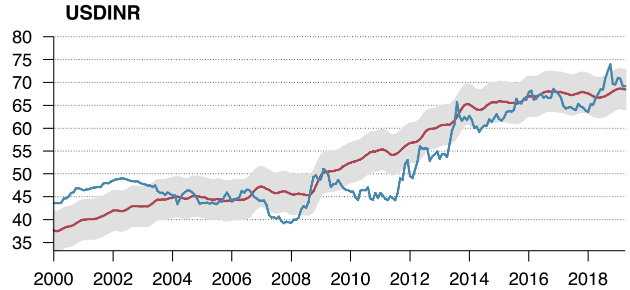
AUDUSD



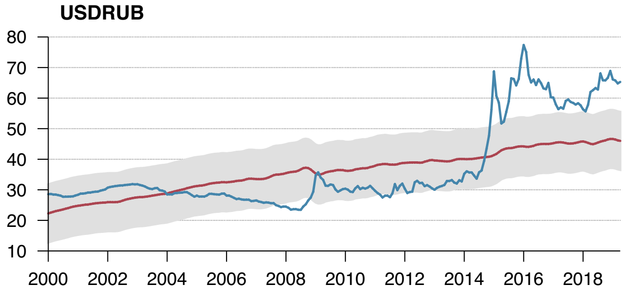
USDCNY



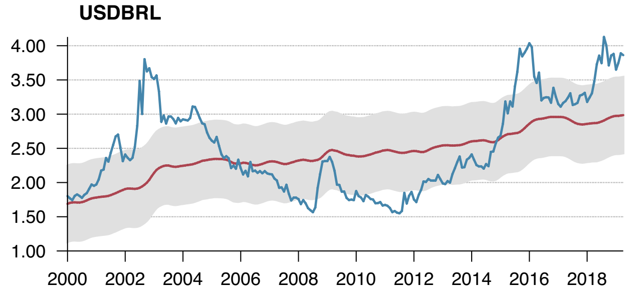
USDINR



USDRUB



USDBRL



Source: Thomson Reuters Datastream, Wellershoff & Partners

QCAM® Currency Asset Management

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	1.122	5.6	5.3	8.4	9.7	6.7	6.3	8.6	10.2
USDJPY	111.8	5.5	5.6	9.0	10.1	6.3	6.8	9.5	10.9
GBPUSD	1.301	9.5	9.6	9.0	9.4	8.5	8.9	9.3	10.0
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CHFJPY	111.7	5.8	5.4	8.9	10.7	6.5	6.5	9.6	11.5
AUDUSD	0.710	8.0	7.5	9.7	11.3	8.4	8.3	10.3	12.0
USDCAD	1.337	5.7	5.5	7.9	8.9	6.6	6.1	8.2	9.4
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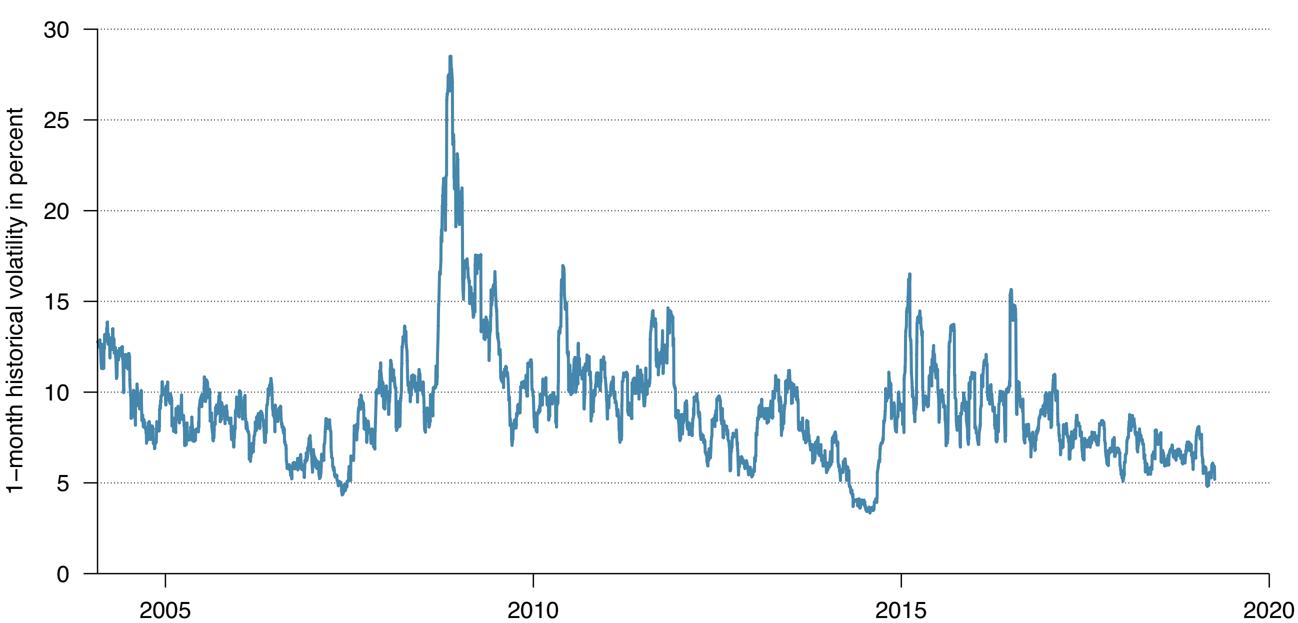
USDBRL	3.862	13.3	13.8	15.7	14.9	15.5	13.9	15.9	15.6
USDCNY	6.719	3.6	4.4	4.4	3.3	4.2	5.0	5.2	4.5
USDTRY	5.614	17.8	23.2	14.4	13.2	28.9	24.2	15.3	14.4
USDINR	69.23	5.6	8.0	6.8	8.7	6.5	7.3	8.0	9.7

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

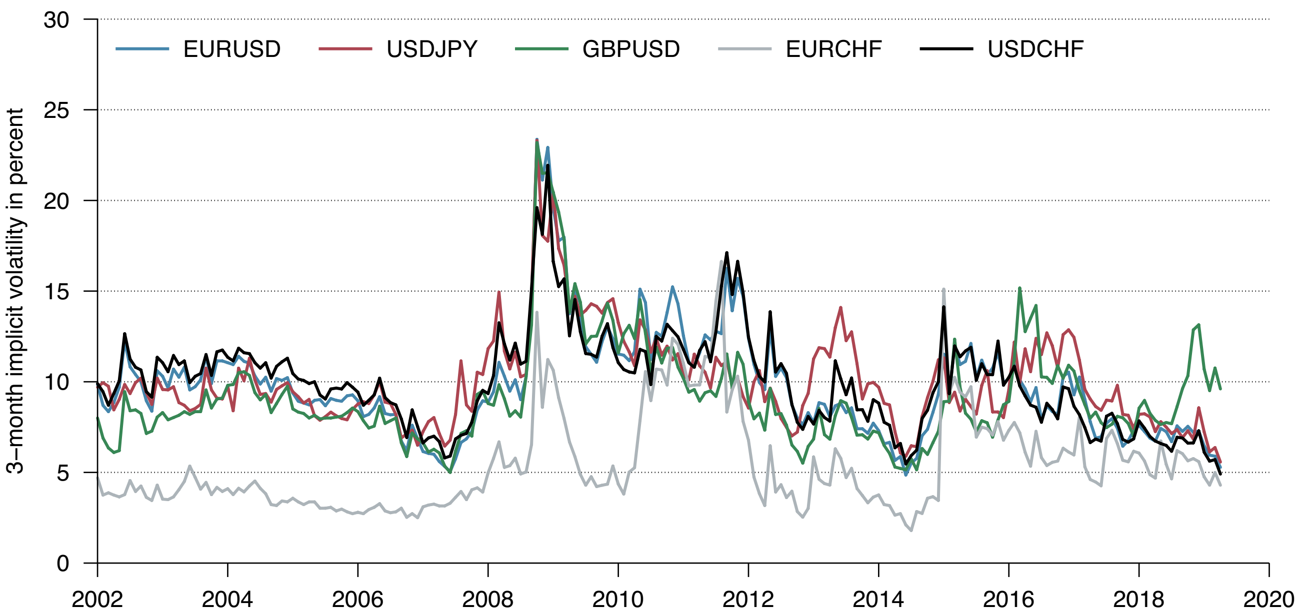
QCAM volatility indicator[3]



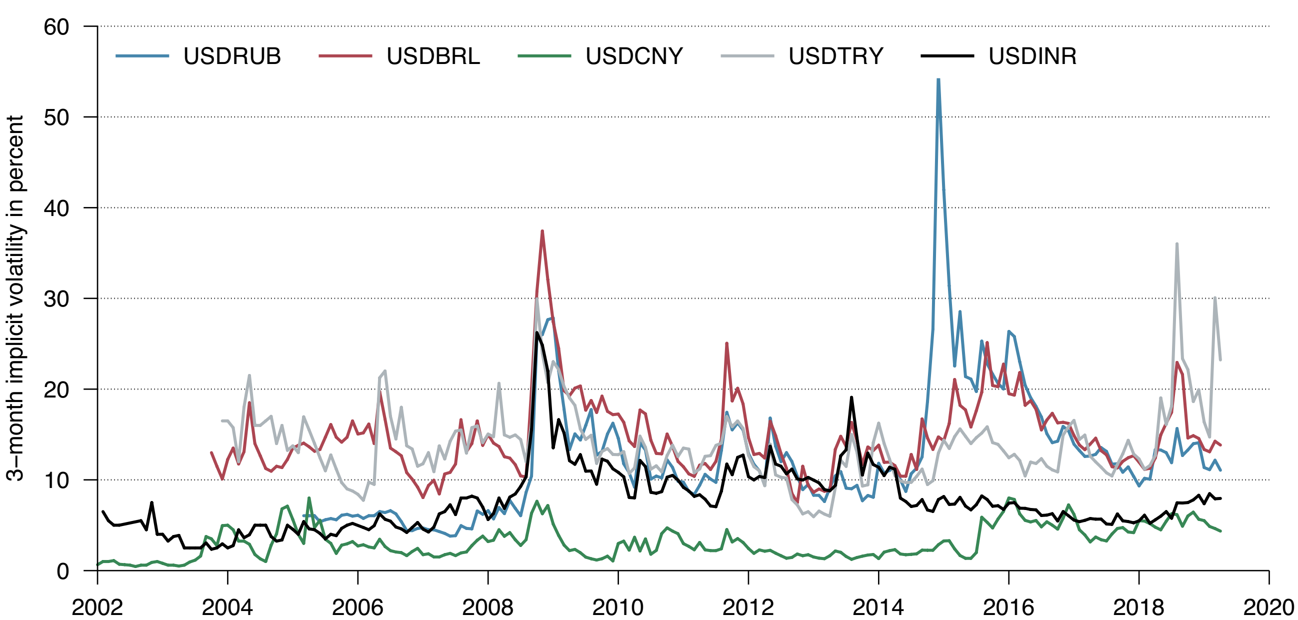
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implicit volatility



Implicit volatility



Source: Thomson Reuters Datastream, Wellershoff & Partners

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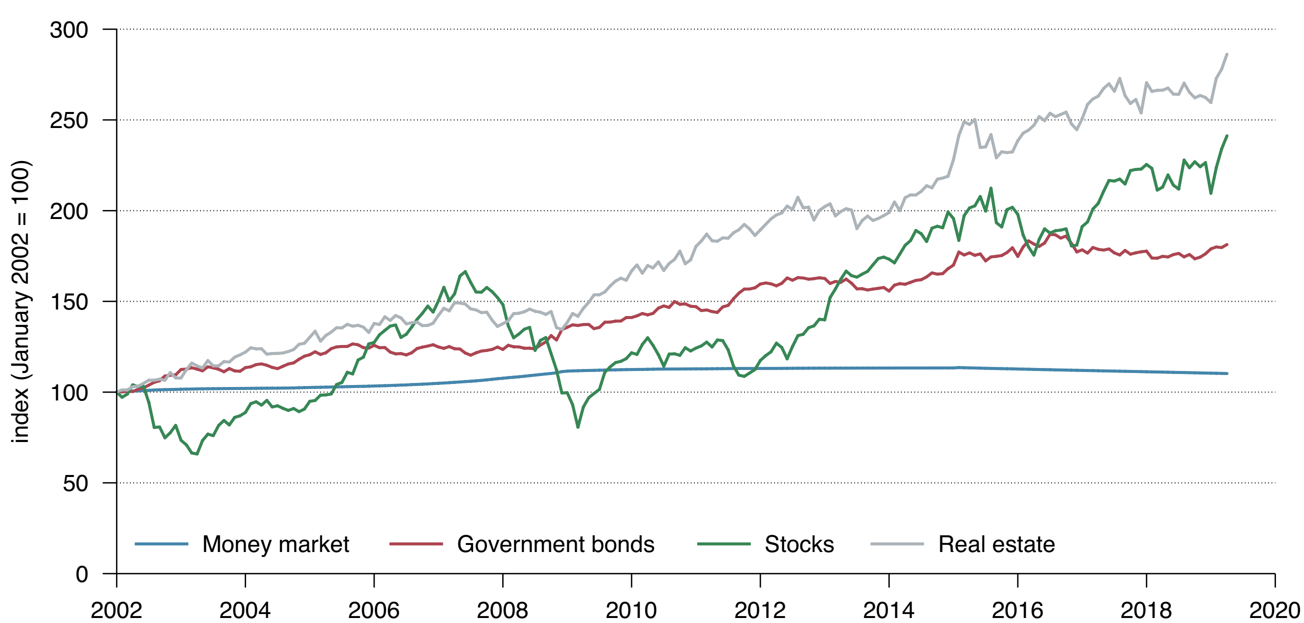
Financial markets

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	-2.7	-0.2	-0.2	-0.7	-2.7
Swiss government bonds	1.3	1.1	3.6	13.4	1.3	1.1	3.6	13.4
Swiss corporate bonds	1.7	1.5	2.2	10.5	1.7	1.5	2.2	10.5
Swiss equities (SMI)	15.1	12.7	13.1	32.3	15.1	12.7	13.1	32.3
European equities (Stoxx600)	16.1	14.1	7.0	35.3	15.6	13.9	2.0	24.1
UK equities (Ftse100)	12.2	10.4	8.0	35.3	16.3	14.5	4.3	18.8
Japanese equities (Topix)	10.1	11.8	-3.5	48.6	9.6	9.7	-3.6	54.2
US equities (S&P 500)	16.0	14.8	10.8	71.9	14.3	13.2	6.7	53.6
Emerging markets equities	12.8	12.9	-4.3	24.1	11.2	11.3	-7.9	10.9
Global equities (MSCI World)	15.0	13.7	6.0	45.4	13.3	12.1	2.1	29.9
Swiss real estate	10.3	8.0	7.4	37.5	10.3	8.0	7.4	37.5
Global real estate	14.4	14.3	14.0	40.5	12.7	12.7	9.8	25.5
Commodities	7.4	5.2	-5.5	-38.9	5.8	3.6	-9.0	-45.4
Brent oil	31.5	22.8	2.3	-34.4	29.6	21.0	-1.5	-41.4
Gold	0.9	0.7	-2.5	-1.0	-0.6	-0.7	-6.1	-11.6

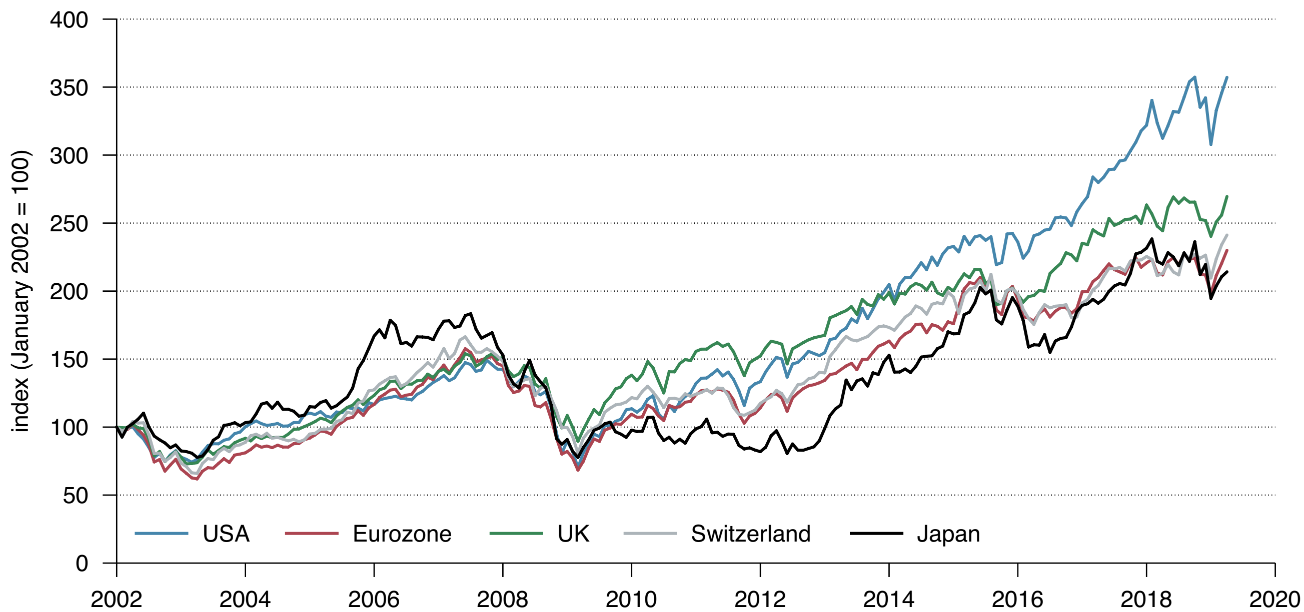
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

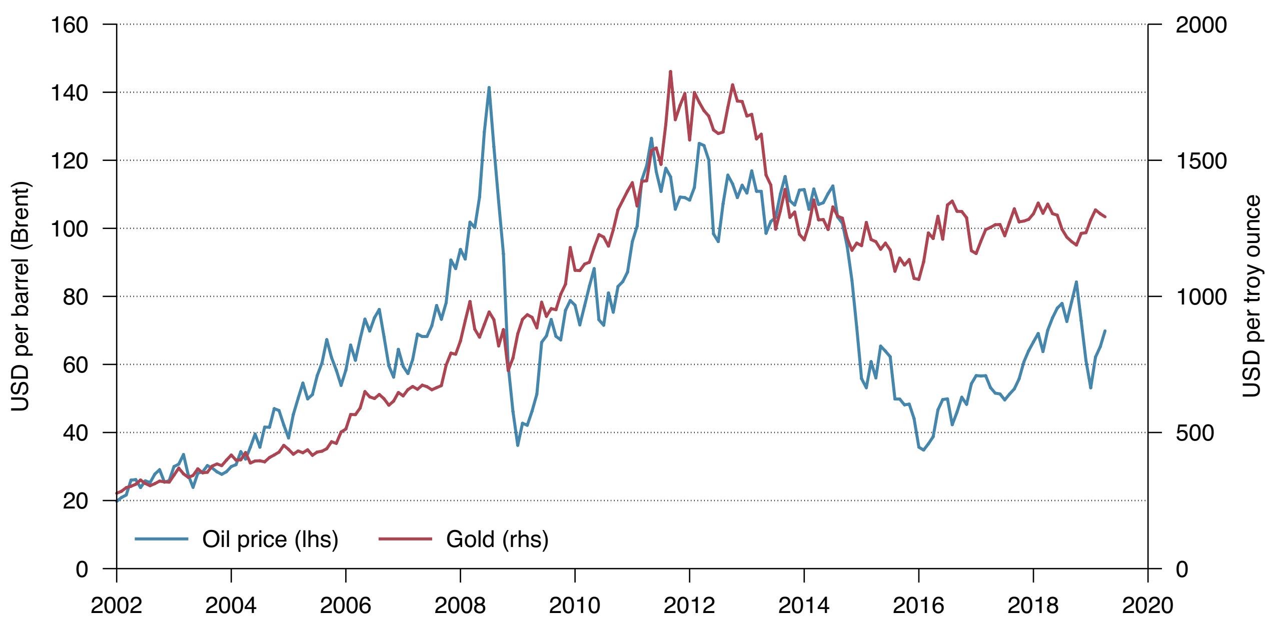


Source: Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Number of the month

50.8 points

In China, the PMI for the manufacturing sector rose from 49.9 to 50.8 in March. This puts it above the 50-point mark for the first time in months. But one swallow does not make a summer. It is too soon to draw any conclusions about the future development of China's economy from a single positive indicator. Consumption remains weak. The PMI's rise could be a first reaction to the government's efforts to stimulate China's economy, though.