QCAM Currency Asset Management

JANUARY 2019

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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QCAM Currency Asset Management AG
Guthirtstrasse 4
6300 Zug
Switzerland

Wellershoff & Partners Ltd.
Zürichbergstrasse 38
8044 Zürich
Switzerland

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Imprint
Content, concept, and layout:
QCAM Currency Asset Management AG, Zug, and Wellershoff & Partners Ltd., Zürich
Editorial deadline: January 14, 2019
FX Monthly is published monthly in English and German.

FX Monthly
January 2019

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QCAM Insight

Can the euro bounce back?

Bernhard Eschweiler, PhD, Senior Economist
QCAM Currency Asset Management AG

Will the EUR stage a rebound this year, as it did in 2017? Perhaps, but USD weakness will not be enough. More likely, the EUR will move in a relatively narrow range. Given the multiple uncertainties, it seems safer to wait for clear directional signals and not bet on opinions.

Market participants have divided views on the outlook for the EUR. Broadly, however, the optimists seem to outweigh the pessimists. At the risk of over-generalizing, the optimistic EUR view is based on three pillars: favorable valuation and market positions, a strong current account and fading economic and monetary policy support for the USD.

These are valid arguments but probably not enough to lay the groundwork for a EUR rally. Yes, the EUR appears undervalued (see page 15) and the market is generally long USD and somewhat short EUR. However, valuations and positions on their own are probably not sufficiently extreme to trigger an exchange rate adjustment. Favorable valuations and positions typically kick in when other factors provide a positive spin.

The current account surplus is clearly a big EUR support factor, especially versus the USD. Indeed, without the surplus the EUR would probably be much weaker. However, the fact is that the EUR current account surplus is no longer rising. In fact, global trade tensions as well as problems in the automobile sector have caused the surplus to narrow. This may be temporary, but the surplus has nevertheless probably peaked. Moreover, the effect of the current account surplus is easily offset if more money again leaves the Eurozone through the financial account than enters it through the current account.

Bad USD news may not boost the EUR

Many believe that the EUR will lose less on the financial account because the USD looks less attractive after the US economy started to slow and the Fed changed the tone of its policy communications from steady tightening to patience. Indeed, the US economy is slowing, but from a high pace, and a recession does not seem imminent, in our view. The market has swung from anticipating at least 50bps of rate hikes in 2019 to expecting none, and is even pricing in a small rate cut in 2020.

The changes in expectations for economic growth and monetary policy plus the government shutdown have undoubtedly hurt the USD, but the EUR was not a big beneficiary. Since late November the EUR has gained barely 2 percent versus the USD while the JPY has jumped more than 5 percent. This relative underperformance shows that the Eurozone is not regarded as a safe haven but as a region with some significant problems of its own.

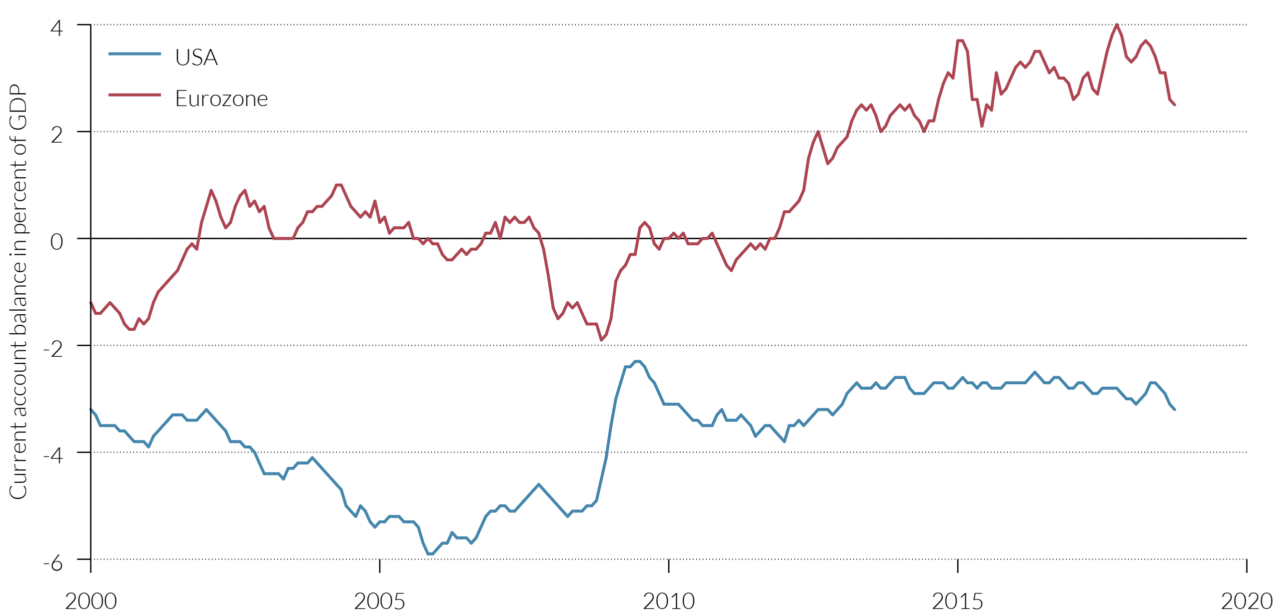
First, recent Eurozone manufacturing and retail data as well as business sentiment surveys have been soft. Second, the market has also trimmed its rate hike expectations for the Eurozone and now looks for no rate hike at all in 2019 and possibly even in 2020. Third, Europe has several unresolved trouble spots. There is a good chance that the Brexit negotiations may end with no deal. The Italian budget conflict has been swept under the carpet for now, but is likely to re-emerge when it becomes clear that Italy will run a larger deficit in 2019 than was agreed with the EU. Finally, the protests in France and the government's fiscal response suggest that Macron's reform ambitions are hitting a wall.

The EUR needs good news to rally

All in all, bad news for the USD can help the EUR but that will probably offer just temporary relief. For the EUR to truly rally, the market needs to see positive news out of the Eurozone, as it did in 2017. Back then, unexpected economic momentum and the favorable outcome of the French election were positive catalysts. Positive surprises can never be ruled out, but they seem unlikely to emerge in the current economic and political environment in Europe.

Against this backdrop, our best guess for EURUSD is a range between 1.12 and 1.17. There are risks to either side, but we prefer to see consistent signals before taking a strong position in either currency. To become bullish on the EUR again, we would like to see a significant improvement in the region's economic performance, especially in the business surveys, as well as political changes that promise more structural reforms and efforts to enhance policy integration in the Eurozone.

US and Eurozone current account balances



Source: St. Louis Fed, ECB, QCAM Currency Asset Management

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The macro perspective

Do markets know more than economists?

These days, markets are nervous about how the economy is trending. Fears of a possible imminent recession in the US are pulling prices lower. Economists, meanwhile, remain confident. But is the uncertainty in the markets now feeding into the real economy? For the moment, we think the all-clear can still be given.

Who is right—the economists or the market? So far, economists have remained confident about the development of the economy over the next few quarters, despite recognizing that the US economic cycle is already quite mature. Markets, on the other hand, have been pricing in recession expectations more and more in recent months.

According to the latest data and leading indicators, the US economy is still doing very well. The labor market is in excellent shape. Although unemployment has reached an all-time low, new jobs continue being created in large numbers. This development is also increasingly reflected in rising wages. Wage growth at the end of last year was at its highest level since 2009. Meanwhile, falling oil prices are letting workers keep more of their growing wages. Accordingly, consumers are optimistic. Moreover, anyone who wants to buy or build a house now benefits from the fact that mortgage rates, which had been rising throughout the past year, have recently declined slightly.

Clouds on the horizon

Despite the upbeat story for consumers, the first shadows on the rosy economic picture in the US are evident on the corporate side. Investments had already disappointed in the third quarter of 2018, at odds with the exceptionally positive mood of companies and their healthy profits thanks to the tax reform. A certain caution was to be noted even then. By the end of the year, sentiment had deteriorated a bit more.

Can companies be infected by the bad mood in the financial markets and thus turn the market's recession expectations into a self-fulfilling prophecy? This dynamic cannot be excluded. The penultimate recession in the US, in 2001, was partly caused by the bursting of the Dotcom bubble the previous year. From an economic point of view, however, there are good reasons that speak against a similar development today.

The current situation is not comparable to 2001

First, the slump in equity markets has not yet reached levels that would have wealth effects. Second, the decline in business sentiment commenced from exceptionally high levels. The chart shows that the economic climate in most industrialized countries is still at levels that point to growth above trend. The current situation also differs from the one at the beginning of the millennium. Then, the mood of companies darkened considerably before the stock markets suffered the biggest losses. The labor market also developed rather weakly in 2000, a year before the recession began, in March 2001.

Third, the financial markets simply may be wrong. As Nobel Prize-winning economist Paul Samuelson famously quipped, the stock market has predicted nine out of the last five recessions. The stock market slump of 1987, which was not followed by a recession, is just one better-known example of the predictive (in)accuracy of the markets.

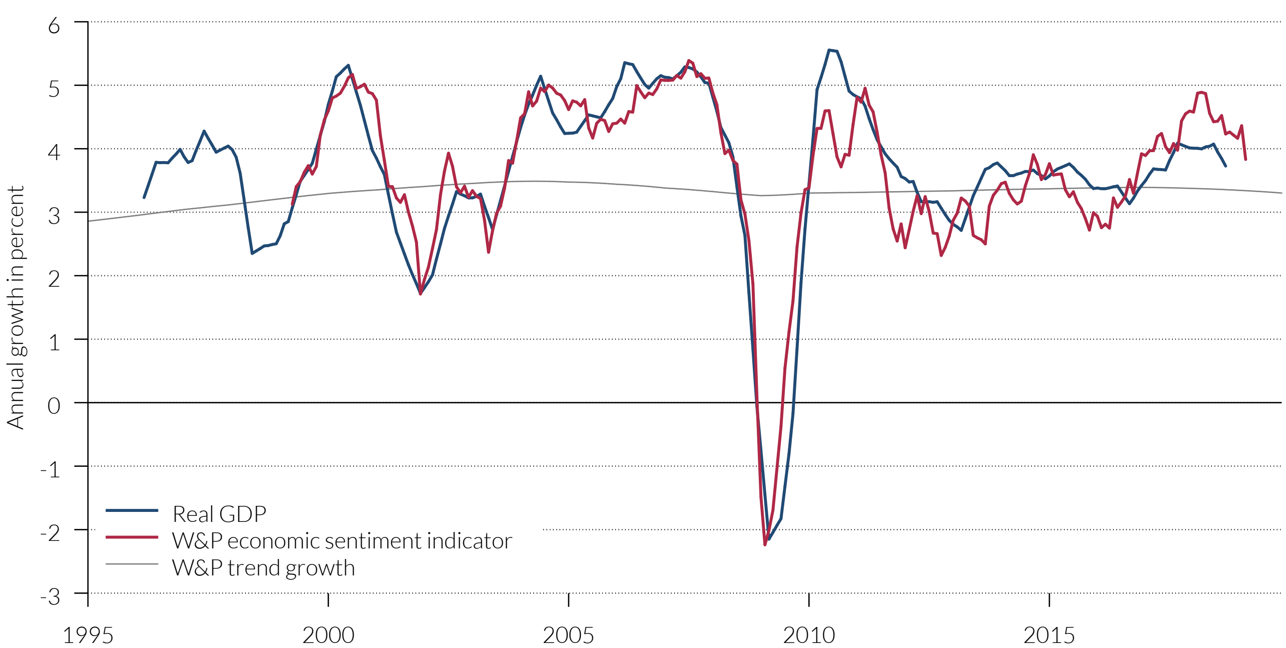
So, economists would be well advised to rely on what they can see in the data; and leading economic indicators are still pointing to robust growth ahead. At the same time, however, economists can agree with the financial markets that there are real risks for an outbreak of recession in the medium term – noting that the timing cannot yet be determined with any precision.

The recession of 2001 remained undetected for a long time

Of course, not only the financial markets can be wrong, but economists too. In November 2000, only about one-fifth of blue-chip forecasters predicted a recession in the US over the next 12 months. Even when the recession had already begun, it remained largely undetected. As late as September 2001, only a small minority of forecasters (13 percent) believed that the US was in recession. This was also because the first official estimates of economic growth were far off the mark. Instead of annualized growth of 2 percent, as reported in the first estimate, revised figures in 2002 recorded, in fact, negative growth of -0.7 percent for the first quarter of 2001.

In hindsight, the declining business sentiment and severely deteriorating labor market should have indicated a recession in 2000 even if GDP figures still seemed positive. Luckily, today both GDP as well as business sentiment and the labor market are going strong, which limits the likelihood of a recession in the short term.

Global economic sentiment indicator still shows growth above trend



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

The Japanese yen's underlying strength

The surge in the value of the Japanese yen on the first trading day of 2019 was a sharp reminder of the argument we have made here on numerous occasions: Ultimately, the fundamentals matter. We think the yen continues to be cheap against a range of currencies, including the US dollar, the euro and the Swiss franc.

The Japanese yen ended 2018 at 109.6 to the US dollar. In the early trading hours of January 2, 2019, the currency appreciated by 4.3 percent, to 104.8 – an unusually large move for a G7 currency. This was quickly labelled a "flash crash" by some pundits, although a more appropriate term might have been a "yen surge".

While we cannot know in advance how a currency might trade on any particular day, a range of data does tell us about a currency's fundamental value, which we should consider when we look at where the spot price is. This data tells us that the yen was and is still cheap relative to the US dollar. Attributing a jump in the yen closer to its fundamental value to "low liquidity" is like blaming floods on narrow rivers.

What the foreign investment numbers tell us

As can be seen in the chart, the yen has been on a long-term appreciation trend against the US dollar, strengthening from around 250 in 1985 to 110 by the end of 2018. In between, the yen hit an all-time high of 75 in 2011 – after the Fukushima nuclear disaster. The reason why a country's currency might appreciate after a domestic disaster is to be found in Japan's net international investment position. The country has external assets of 174 percent of GDP and external liabilities of 112 percent of GDP, leaving it with a very strong net international investment position of 62 percent of GDP. When bad things happen at home and money is urgently needed, there are lots of foreign assets that can be sold.

Just for comparison, the United States has a net external investment balance of -44 percent of GDP. In other words, foreigners have more assets in the US than Americans have in the rest of the world – the opposite of Japan's position. If Japanese insurers were to sell some of their US securities, the net effect would be dollars being converted to yen to bring the money home.

One of the revenue pipelines continuing to feed Japan's ability to buy foreign assets is its very healthy current account balance. In fact, the current account balance is so healthy that Japan appears on the US Treasury's watch list of countries identified as potential "currency manipulators". Over the past three years, Japan's current account surplus has been averaging at almost 4 percent of GDP. That is a very large number indeed, translating into around USD 180 billion, or USD 15 billion per month.

PPP keeps pointing in the yen's favour

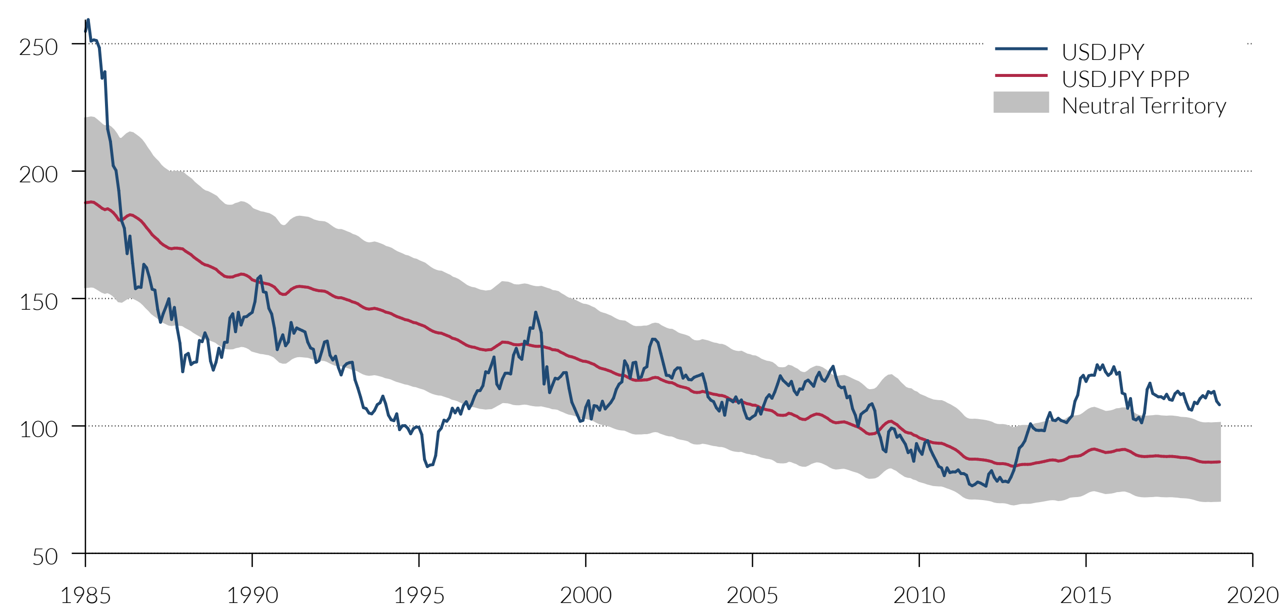
The purchasing power parity line in the chart clearly shows that the spot rate eventually crosses its fundamental value. The PPP of the yen against the US dollar has appreciated from 209 in January 1980 to 86 in December 2018. We estimate that the upper and lower ranges of the yen's central PPP value are 100 and 70, respectively. In other words, if the yen were to appreciate to 100, or even to 86, it would be fairly valued. Only a move below 70 would make the yen expensive. These numbers show the appreciation potential of USDJPY.

Purchasing power parity is essentially the inflation differential in producer prices. By this measure, Japan continued to grow more competitive with the US throughout 2018. Although the chart does not present a close-up view of recent developments, our calculations show that the PPP of USDJPY has continued to move in favour of the yen in recent years: 90.5 in January 2016, 88 in January 2017, 87.5 in Jan 2018 and, we estimate, 85.8 in January 2019. Thus, even the most recent PPP data continues to favour the yen. In our view, the evidence that the Bank of Japan is struggling to reach its 2 percent inflation target, while US Fed's preferred inflation measure is close to target, will continue to erode the US dollar's PPP value relative to that of the yen.

A concluding thought

The fundamentals are aligned in favour of the Japanese yen appreciating substantially against the US dollar. We cannot time such an appreciation but the fundamentals do explain why, even during a thin-trading day as we had on January 2, we should not be surprised when the yen again strengthens a bit more.

The yen, the dollar and their PPP paths since 1985



Source: Thomson Reuters Datastream, Wellershoff & Partners

Economic activity

The global economic outlook has grown more uncertain at the beginning of the new year. China, among other factors, is responsible for much insecurity about the general economic climate. For months, weak signals have been coming from Chinese industry. Right now, the situation is likely to be particularly difficult for those industrial companies that were unable to profit from the good export activity in the fall, and who at the same time are feeling the pinch of shrinking credit availability. In addition to industry, however, the data on the consumer side also suggest flagging momentum. For example, December car sales recorded negative growth for the fifth consecutive month.

There is no turnaround visible in the Eurozone. After the negative trend in sentiment data weakened briefly in November, early warning indicators lost more ground again at the end of the year. Although there are no acute signs of economic alarm for Europe, Germany is currently giving us some cause for concern. According to recent figures, the recovery in the German auto industry seems to have been noticeably weaker than expected.

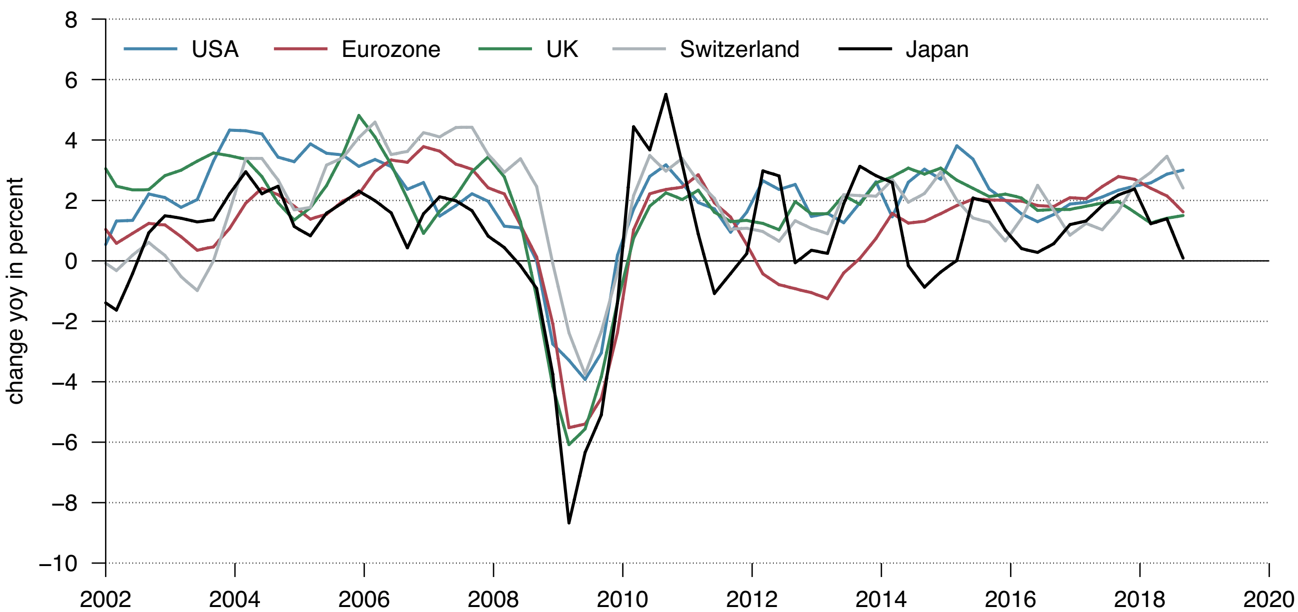
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q1/2018	Q2/2018	Q3/2018	Q4/2018	9/2018	10/2018	11/2018	12/2018
United States	1.7	2.6	2.9	3.0	–	4.3	3.9	4.0	3.1
Eurozone	1.0	2.4	2.2	1.6	–	2.9	2.7	2.7	2.4
Germany	1.4	2.0	2.0	1.2	–	3.5	3.3	3.4	3.0
France	0.7	2.2	1.7	1.4	–	2.0	1.8	1.8	1.6
Italy	0.2	1.4	1.2	0.7	–	1.5	1.4	1.2	1.0
Spain	1.6	2.8	2.5	2.4	–	2.4	2.7	2.6	2.2
United Kingdom	1.8	1.3	1.4	1.5	–	2.6	2.7	2.3	2.3
Switzerland	1.5	2.9	3.5	2.4	–	2.6	2.3	2.5	2.3
Japan	0.4	1.2	1.4	0.1	–	2.6	2.5	2.5	2.5
Canada	1.6	2.3	1.9	2.1	–	1.7	1.8	1.8	0.6
Australia	2.4	3.0	3.1	2.8	–	3.0	3.1	3.0	2.9
Brazil	1.4	1.3	0.9	1.3	–	0.2	2.7	2.8	–
Russia	0.1	1.3	1.9	1.5	–	0.0	1.2	2.4	1.6
India	7.7	7.7	8.2	7.1	–	6.7	6.8	6.8	6.7
China	7.4	6.8	6.7	6.5	–	6.4	6.5	6.5	6.2
Advanced economies[4]	1.4	2.3	2.4	2.1	–	3.7	3.5	3.5	2.9
Emerging economies[4]	6.0	5.6	5.6	5.2	–	4.6	4.7	4.9	4.7
World economy[4]	3.5	4.0	4.1	3.7	–	4.2	4.1	4.3	3.8

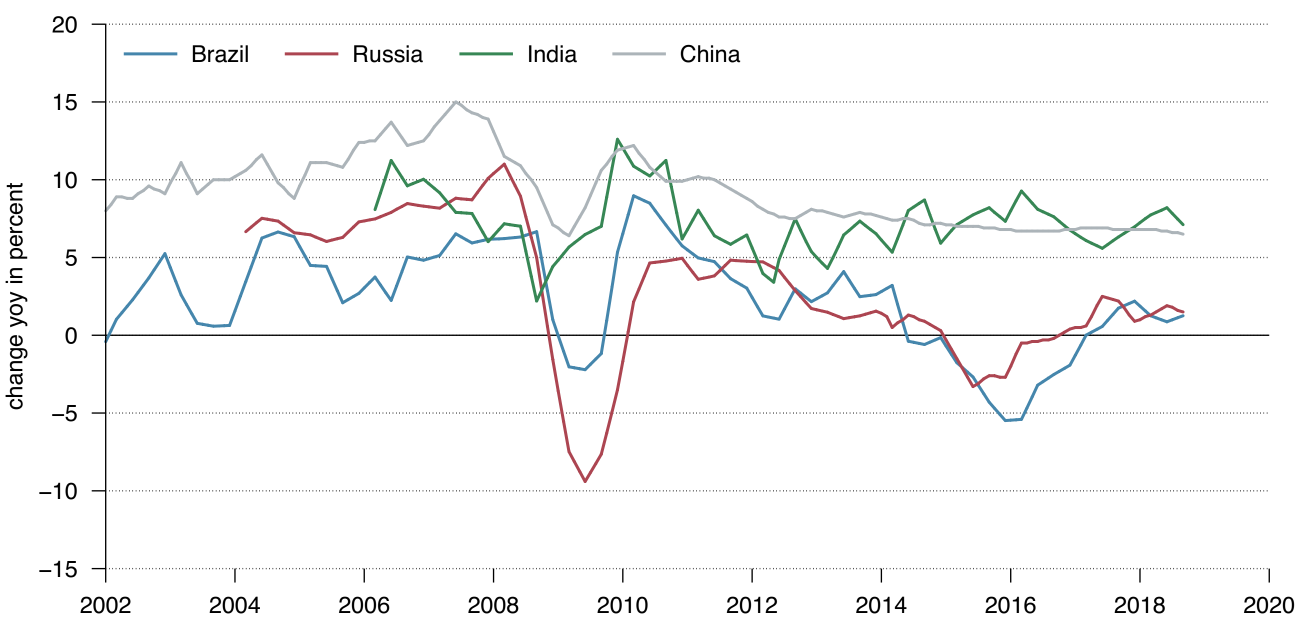
1 Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
2 Year-on-year growth rate, in percent.
3 Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6 months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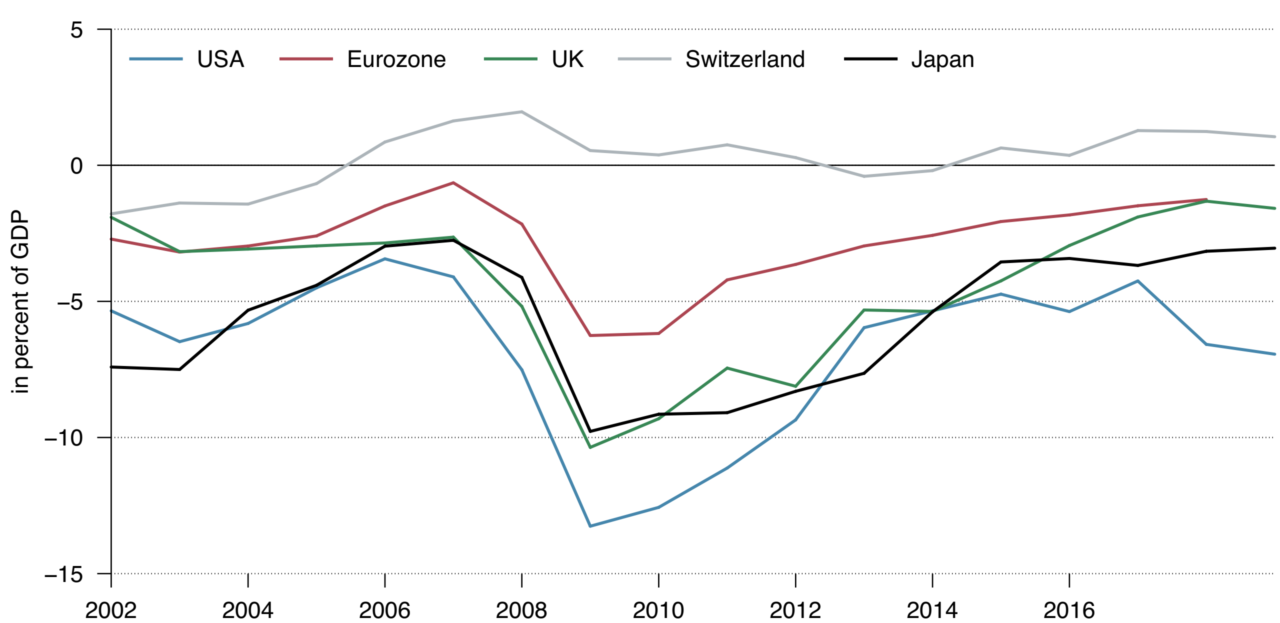
Economic indicators

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	3.9
Eurozone	16.1	15.9	3.8	–	109.2	–	-1.8	–	10.4	7.9
Germany	4.7	4.7	8.1	7.2	75.6	65.8	1.0	1.1	6.0	5.0
France	3.3	3.2	-0.6	-0.2	123.2	125.5	-3.3	-2.9	9.7	8.8
Italy	2.5	2.4	2.3	2.5	156.6	152.7	-2.5	-2.5	11.9	10.3
Spain	1.7	1.7	1.5	1.0	116.1	113.1	-4.3	-1.8	20.8	14.7
United Kingdom	3.6	3.2	-4.4	-3.3	114.3	114.6	-3.2	-1.6	4.9	2.8
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	3.2	2.5
Canada	2.1	2.1	-3.0	-2.5	88.7	84.7	-0.7	-1.1	6.6	5.6
Australia	1.7	1.7	-3.3	-3.1	38.8	40.7	-2.3	-1.1	5.9	5.1
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	9.8	11.6
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	5.4	4.8

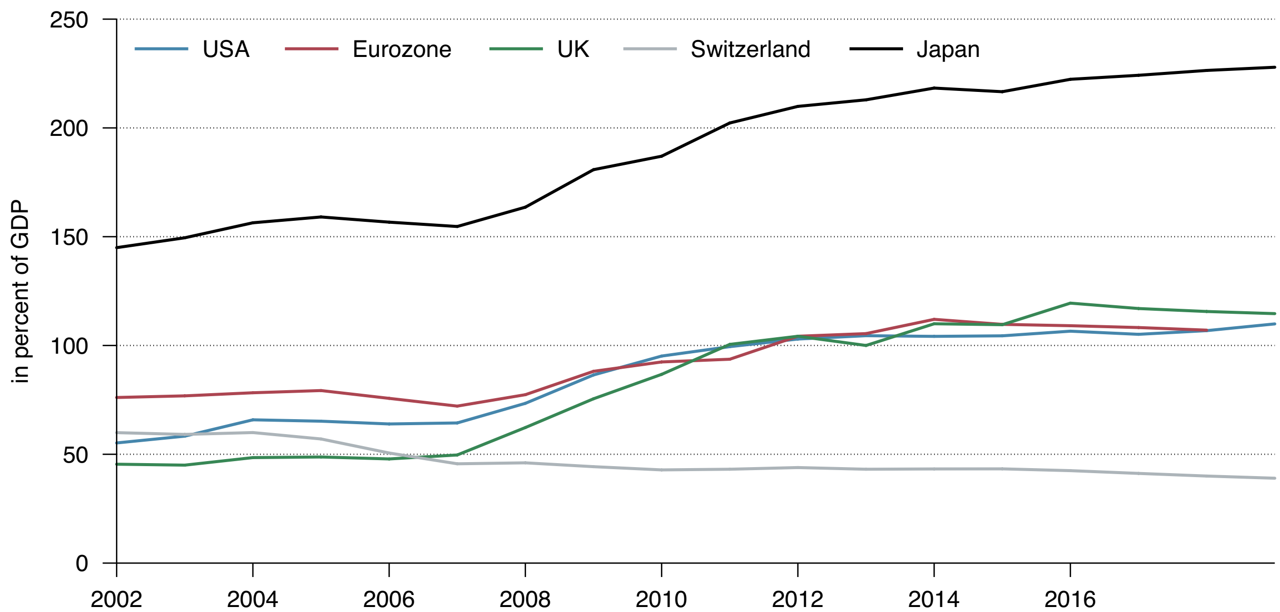
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

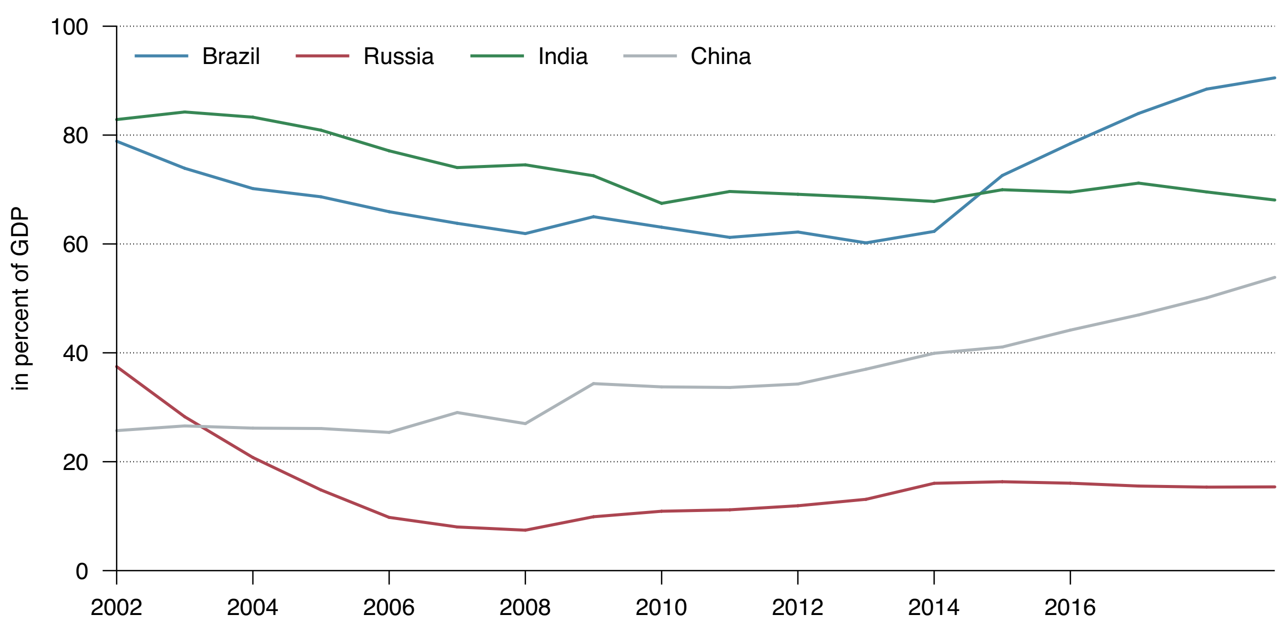


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

In the Eurozone, inflation slowed further towards the end of last year. In December, consumer prices increased by 1.6 percent year-over-year. For several months, the expiring base effects of energy prices have pushed down European inflation. In December, the energy segment only increased by 5.5 percent. The month before it was still up 9.1 percent. The weaker inflation momentum leaves room for speculation as to whether the European Central Bank (ECB) will actually raise interest rates this year. It is clear that central bankers would find a monetary policy turnaround significantly more difficult with continued weak price pressure.

We think further ECB hesitation increases the chances that the Swiss National Bank will begin monetary normalization ahead of its European counterpart. For the time being, however, the SNB will continue to point out that it is not under pressure on the inflation side to undertake an interest rate turnaround. In December, inflation fell to 0.7 percent. The core inflation rate also remains low, at 0.3 percent year-over-year.

Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		9/2018	10/2018	11/2018	12/2018	9/2018	10/2018	11/2018	12/2018
United States	1.6	2.3	2.5	2.2	1.9	2.2	2.1	2.2	2.2
Eurozone	1.2	2.1	2.2	2.0	1.6	0.9	1.1	1.0	1.0
Germany	1.2	2.3	2.5	2.3	1.7	1.6	1.8	1.5	–
France	1.0	2.2	2.2	1.9	1.6	–	–	–	–
Italy	1.2	1.4	1.6	1.6	1.1	0.7	0.7	0.7	0.6
Spain	1.1	2.3	2.3	1.7	1.2	0.8	1.0	0.9	0.9
United Kingdom	2.3	2.4	2.4	2.3	–	1.9	1.9	1.8	–
Switzerland	-0.1	1.0	1.1	0.9	0.7	0.4	0.4	0.2	0.3
Japan	0.3	1.2	1.4	0.9	–	0.3	0.4	0.3	–
Canada	1.6	2.2	2.4	1.7	–	1.5	1.6	1.5	–
Australia	2.2	1.9	–	–	–	1.2	–	–	–
Brazil	5.9	4.5	4.6	4.1	3.8	3.8	3.6	3.2	–
Russia	7.6	3.4	3.5	3.8	4.2	2.8	3.1	3.4	3.7
India	7.3	3.7	3.4	2.3	2.2	–	–	–	–
China	2.2	2.5	2.5	2.2	1.5	1.7	1.8	1.8	1.8
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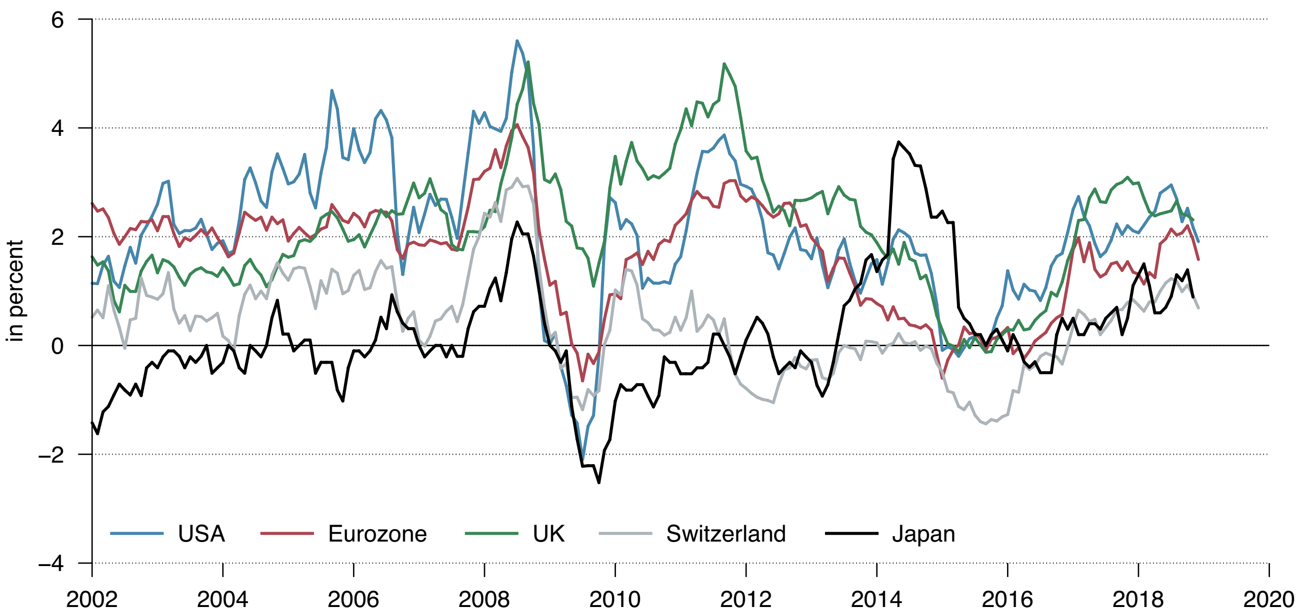
World economy[4]	2.7	2.6	2.6	2.2	2.0	1.5	1.6	1.6	1.6

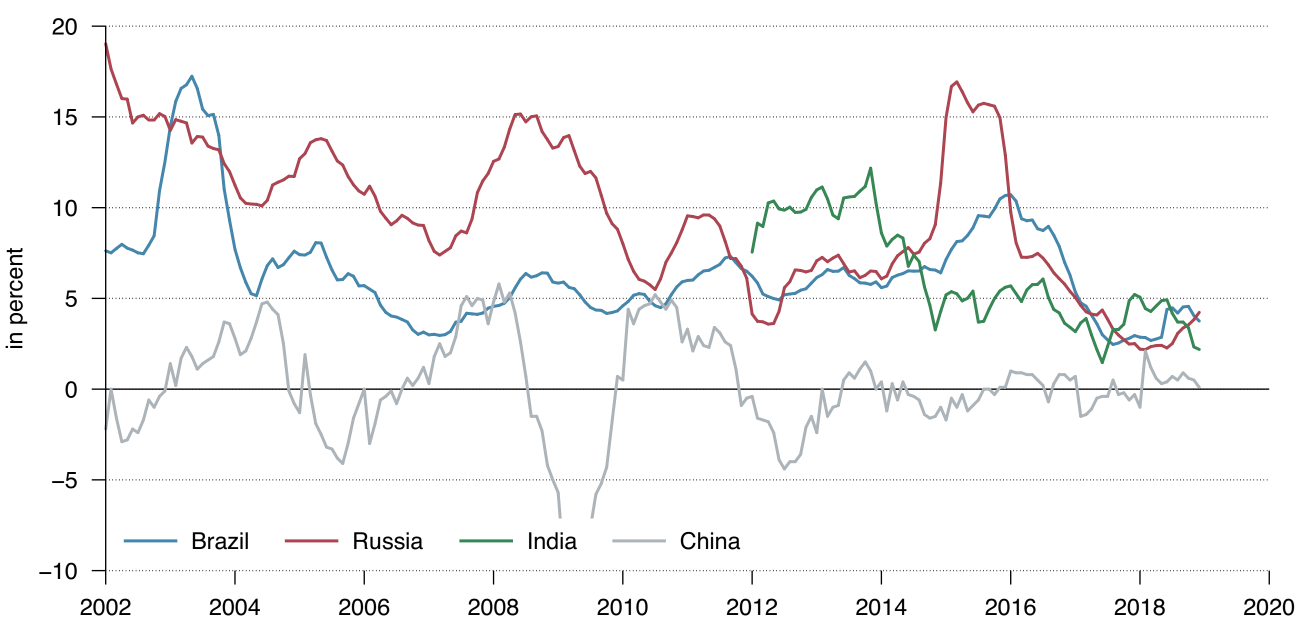
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change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

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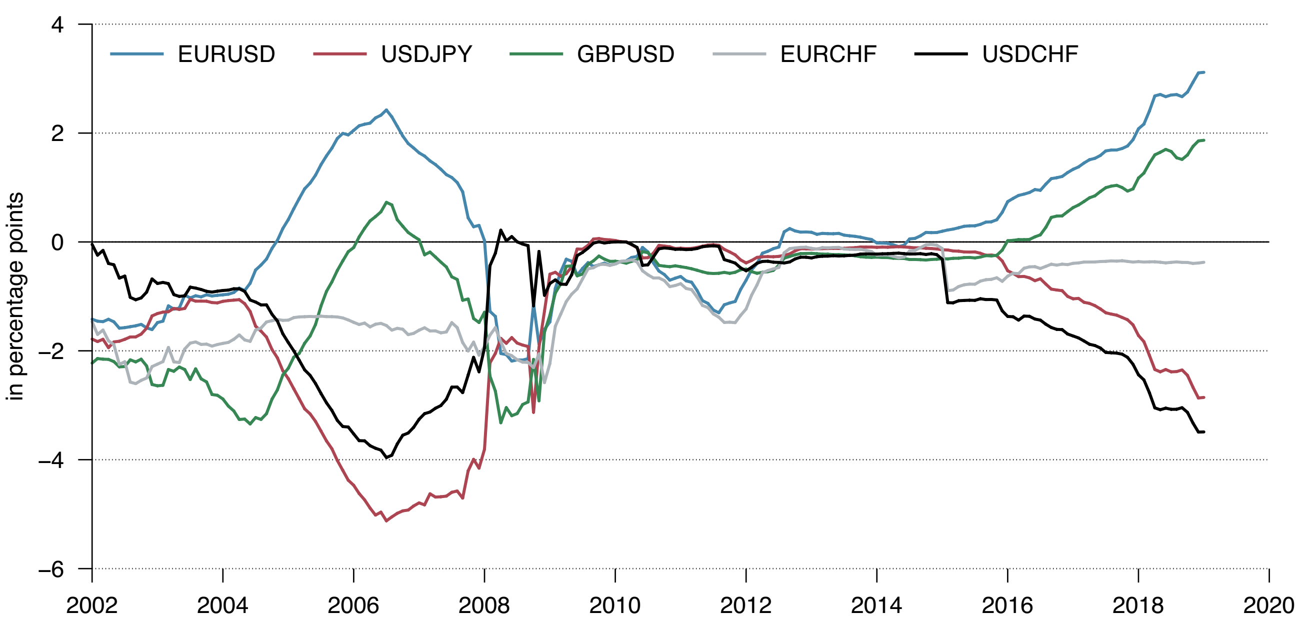
Interest rates

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	1.147	3.14	2.12	1.16	0.41	3.16	2.45	1.46	0.59
USDJPY	108.3	-2.86	-1.76	-0.96	-0.56	-2.91	-2.07	-1.29	-0.84
GBPUSD	1.291	1.87	1.21	0.45	0.02	1.83	1.41	0.55	0.06
EURCHF	1.125	-0.35	-0.35	-0.42	-0.51	-0.36	-0.27	-0.42	-0.61
USDCHF	0.981	-3.49	-2.47	-1.59	-0.92	-3.52	-2.72	-1.87	-1.20
GBPCHF	1.267	-1.62	-1.26	-1.14	-0.90	-1.69	-1.31	-1.32	-1.14
CHFJPY	110.4	0.63	0.71	0.62	0.36	0.61	0.64	0.58	0.36
AUDUSD	0.720	1.29	0.23	-0.84	-2.04	1.57	0.57	-0.33	-1.49
USDCAD	1.326	-0.49	-0.08	0.24	0.45	-0.49	-0.15	0.00	0.22
USDSEK	8.948	-2.89	-2.18	-1.23	-0.12	-2.83	-2.41	-1.43	-0.31
USDRUB	67.0	4.66	5.02	8.86	7.82	4.98	4.71	8.32	7.67
USDBRL	3.716	4.88	6.45	11.91	10.31	3.99	4.66	9.43	9.30
USDCNY	6.758	0.22	2.95	2.92	3.06	0.33	2.54	2.58	2.68
USDTRY	5.483	21.84	12.86	11.98	9.99	21.67	12.93	11.93	10.10
USDINR	70.82	7.47	7.47	8.43	7.83	3.80	4.44	6.08	5.94

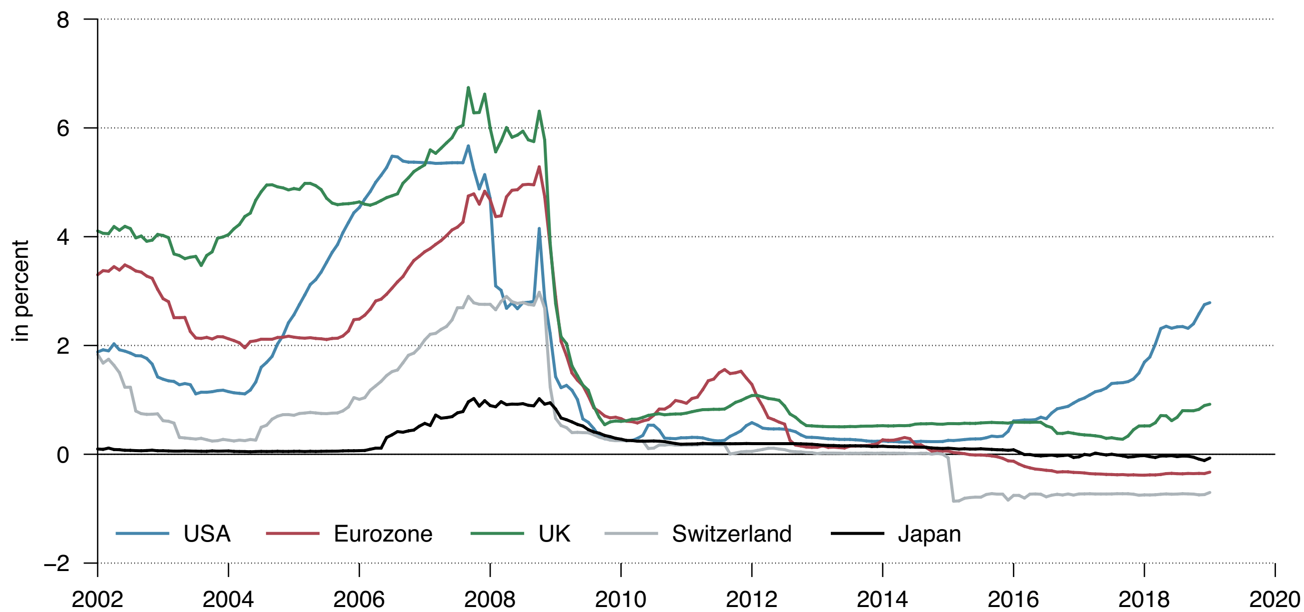
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

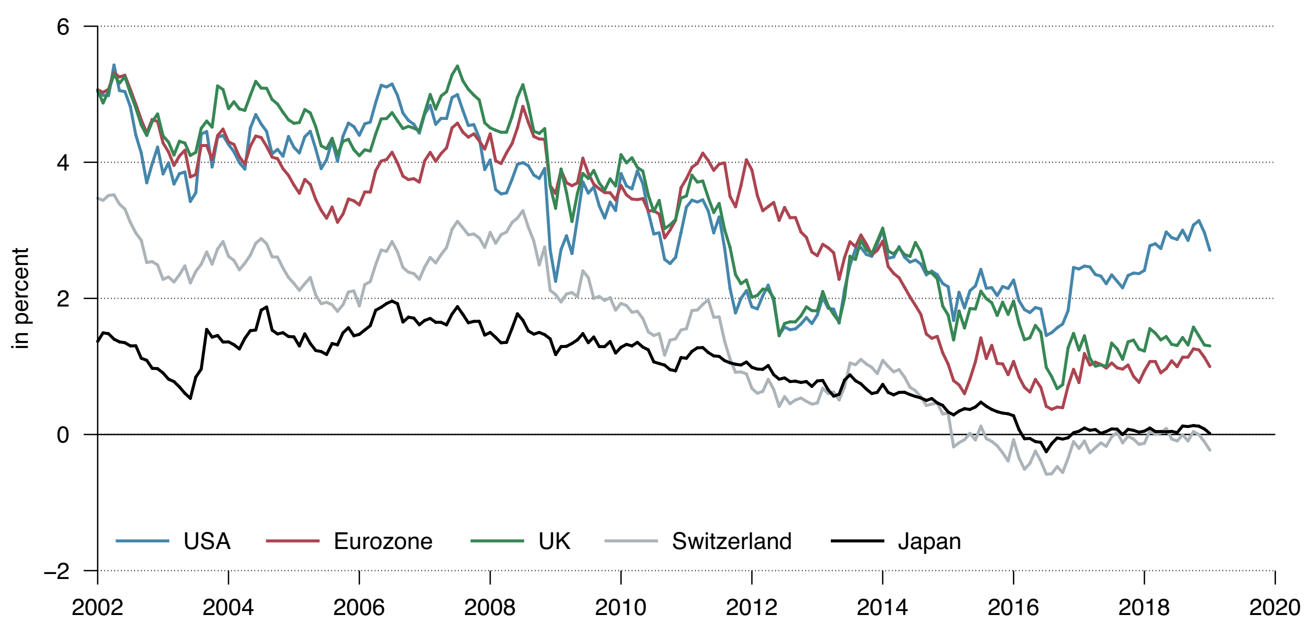


Source: Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX markets

The US dollar weakened slightly on a trade-weighted basis towards the end of last year but is still overvalued by around 13 percent, according to our purchasing power parity estimates. Compared to the Swiss franc, it is a little closer to its purchasing power parity. On the other hand, significant Greenback valuation discrepancies still exist with the Turkish lira, the Chinese renminbi and the pound sterling. The Brazilian real, the Mexican peso and the Canadian dollar are still cheap compared to the US dollar, according to the same estimates.

The Swiss franc developed strongly last month. It rose slightly against the euro by 0.5 percent. The franc nonetheless gained around 1.5 percent against the US dollar. In view of the recent turmoil on international financial markets, the franc's strength at the end of last year is hardly surprising. The Swiss currency is regarded by investors as a safe haven, which is often sought-after in periods of market turmoil. Political risks such as the looming Brexit date and the weaker economic signals from the Eurozone generally are creating further appreciation potential for the Swiss franc in the coming months.

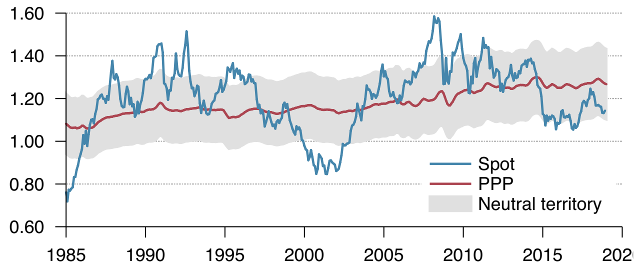
FX overview

	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.147	0.3	-1.0	-5.6	-16.2	1.27	1.1 - 1.43	-9.5
USDJPY	108.3	-1.3	-3.5	-2.7	4.6	85.8	70.8 - 100.9	26.2
GBPUSD	1.291	1.4	-2.3	-5.7	-21.6	1.66	1.48 - 1.9	-22.4
EURCHF	1.125	-0.2	-1.8	-4.6	-8.8	1.18	1.1 - 1.26	-4.6
USDCHF	0.981	-0.5	-0.9	1.0	8.9	0.93	0.81 - 1.05	5.4
GBPCHF	1.267	0.9	-3.1	-4.7	-14.6	1.55	1.33 - 1.76	-18.2
CHFJPY	110.4	-0.8	-2.6	-3.7	-4.0	92.3	78 - 106.6	19.7
AUDUSD	0.720	2.3	1.0	-8.7	-19.9	0.74	0.64 - 0.89	-3.1
USDCAD	1.326	-2.9	2.5	6.0	21.3	1.19	1.09 - 1.29	11.3
USDSEK	8.948	0.9	0.6	10.4	39.1	7.47	6.45 - 8.48	19.8
USDRUB	67.0	-3.4	2.4	18.4	101.1	46.2	36.9 - 55.5	45.0
USDBRL	3.716	-4.1	0.3	15.6	57.9	2.93	2.38 - 3.48	26.7
USDCNY	6.758	-1.6	-2.3	4.5	11.9	6.31	6.1 - 6.52	7.1
USDTRY	5.483	3.1	-4.6	46.2	151.2	3.92	3.56 - 4.28	39.9
USDINR	70.82	1.4	-3.8	11.3	15.0	67.3	63 - 71.5	5.3

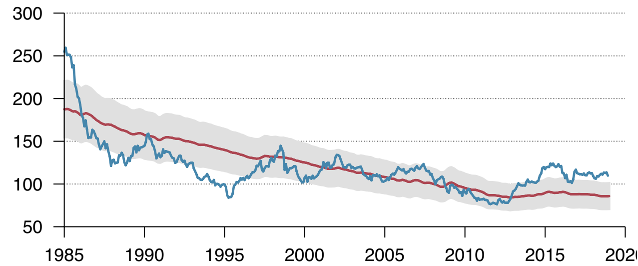
1 Performance over the respective period of time, in percent.
2 Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.
3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

Source: Thomson Reuters Datastream, Wellershoff & Partners

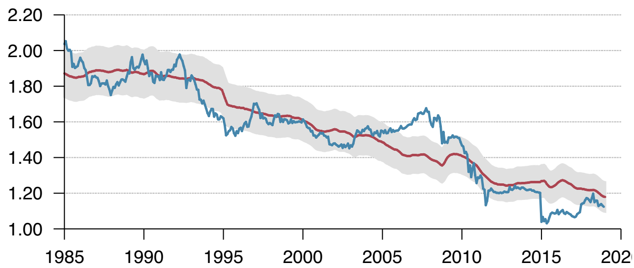
EURUSD



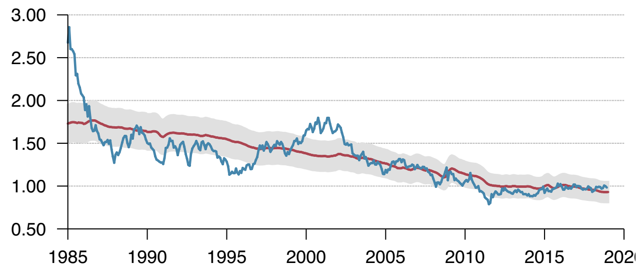
USDJPY



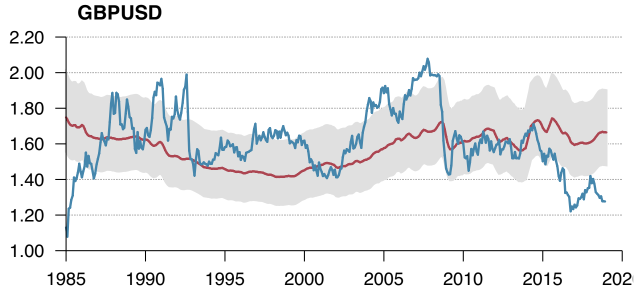
EURCHF



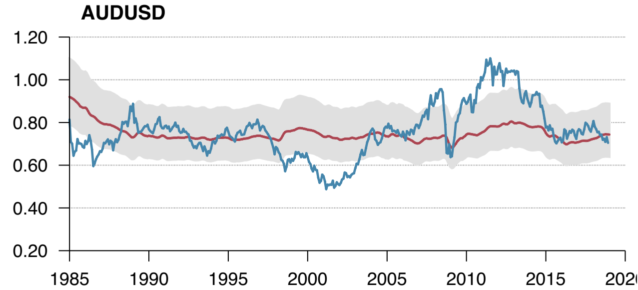
USDCHF



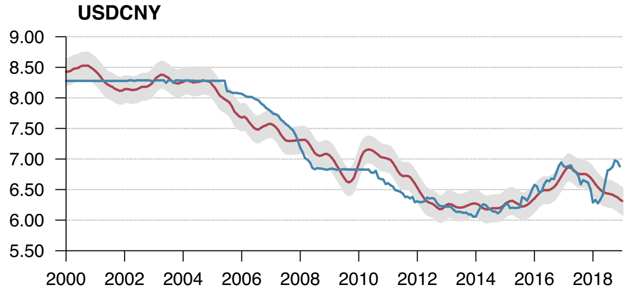
GBPUSD



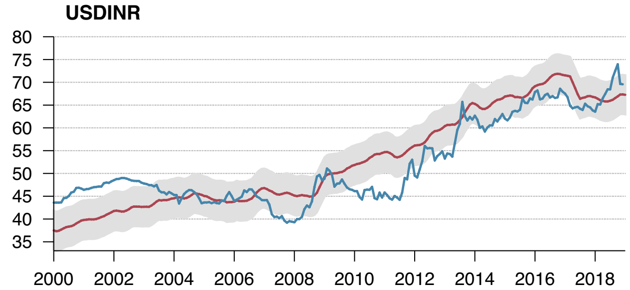
AUDUSD



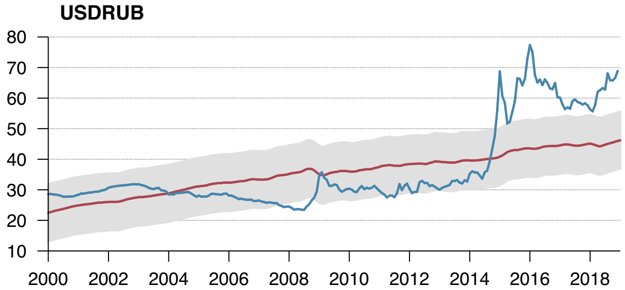
USDCNY



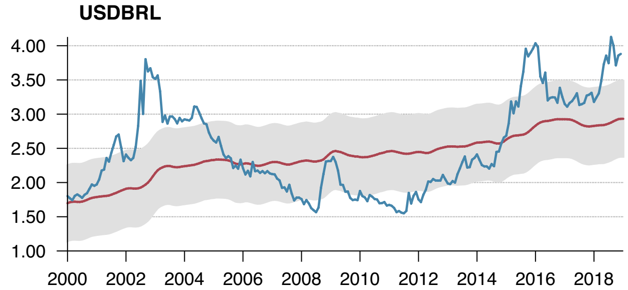
USDINR



USDRUB



USDBRL



Source: Thomson Reuters Datastream, Wellershoff & Partners

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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	1.147	7.1	6.9	8.4	10.0	7.2	7.4	8.6	10.5
USDJPY	108.3	7.6	8.0	9.1	10.3	7.0	8.5	9.6	11.0
GBPUSD	1.291	9.4	12.2	8.8	9.6	8.4	11.1	9.1	10.2
EURCHF	1.125	4.9	5.4	5.9	6.4	5.3	6.1	6.5	7.0
USDCHF	0.981	6.5	6.8	8.4	9.9	6.6	7.4	8.9	10.4
GBPCHF	1.267	8.6	11.1	9.0	9.8	7.6	10.3	9.3	10.3
CHFJPY	110.4	7.7	7.6	9.1	11.1	7.0	8.0	9.7	11.8
AUDUSD	0.720	9.4	8.9	9.8	11.6	8.7	9.6	10.3	12.3
USDCAD	1.326	6.7	6.8	7.9	9.1	7.0	7.3	8.2	9.7
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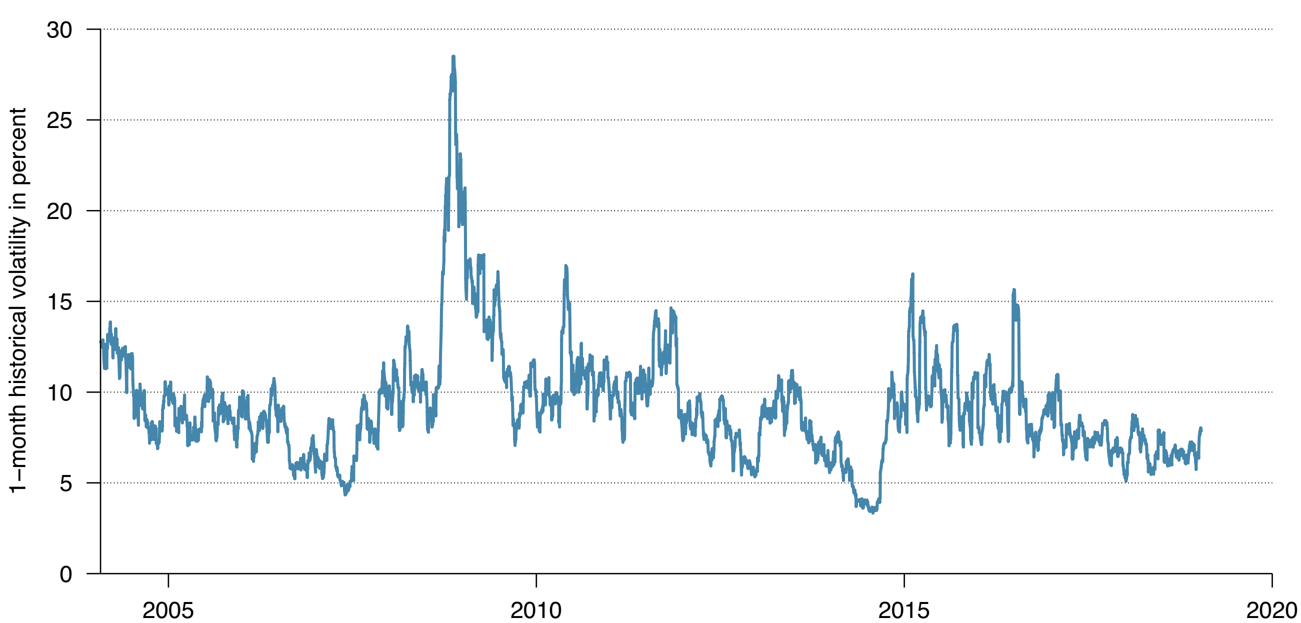
USDBRL	3.716	14.5	13.9	15.6	15.1	15.2	13.9	15.9	15.8
USDCNY	6.758	3.9	5.4	4.3	3.3	4.3	5.7	5.1	4.5
USDTRY	5.483	21.0	21.5	14.2	13.3	28.1	21.8	15.1	14.5
USDINR	70.82	7.9	8.0	6.9	8.9	6.3	8.6	8.2	9.9

[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

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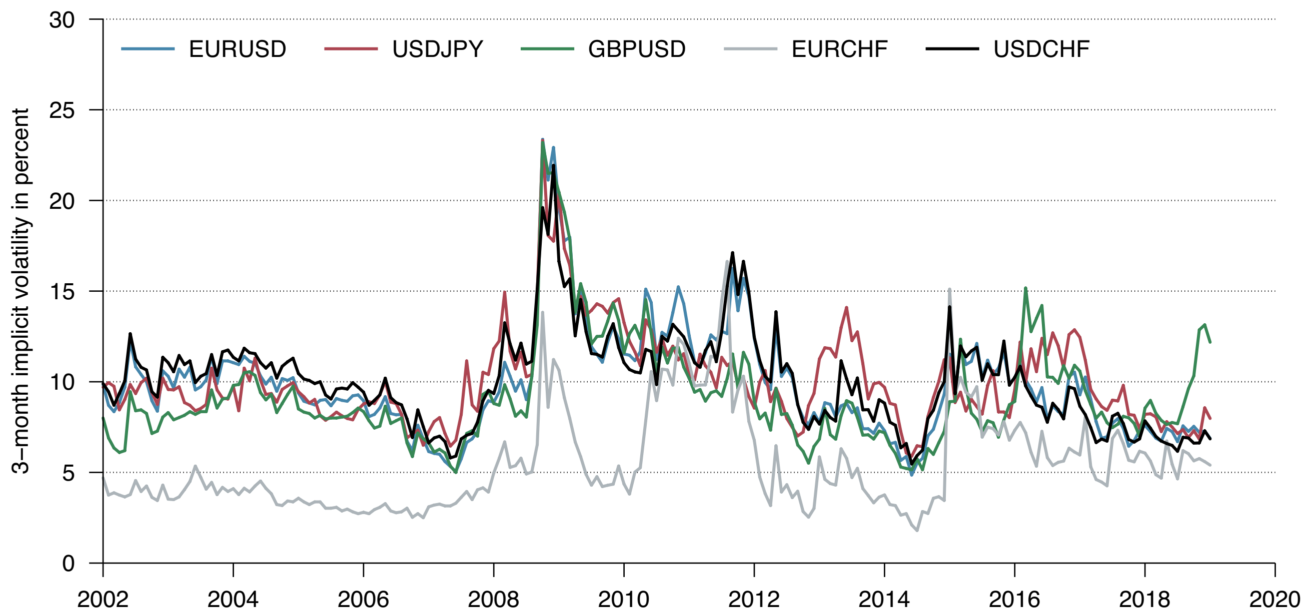
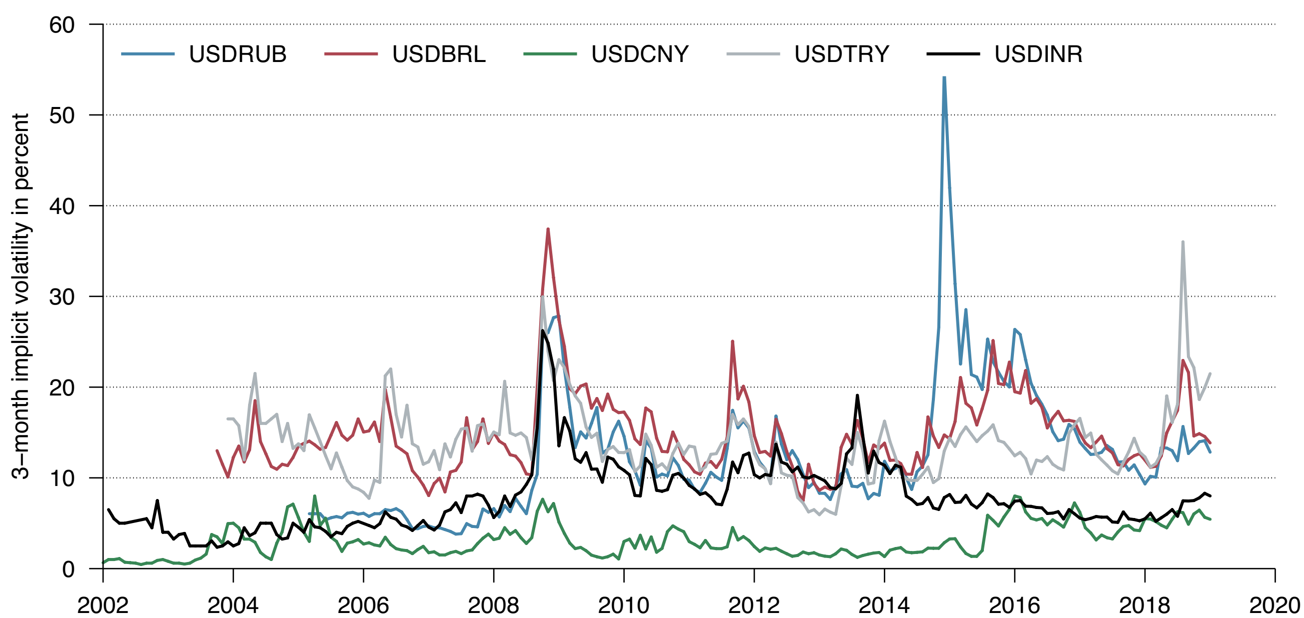
Implicit volatility



Implicit volatility



Source: Thomson Reuters Datastream, Wellershoff & Partners

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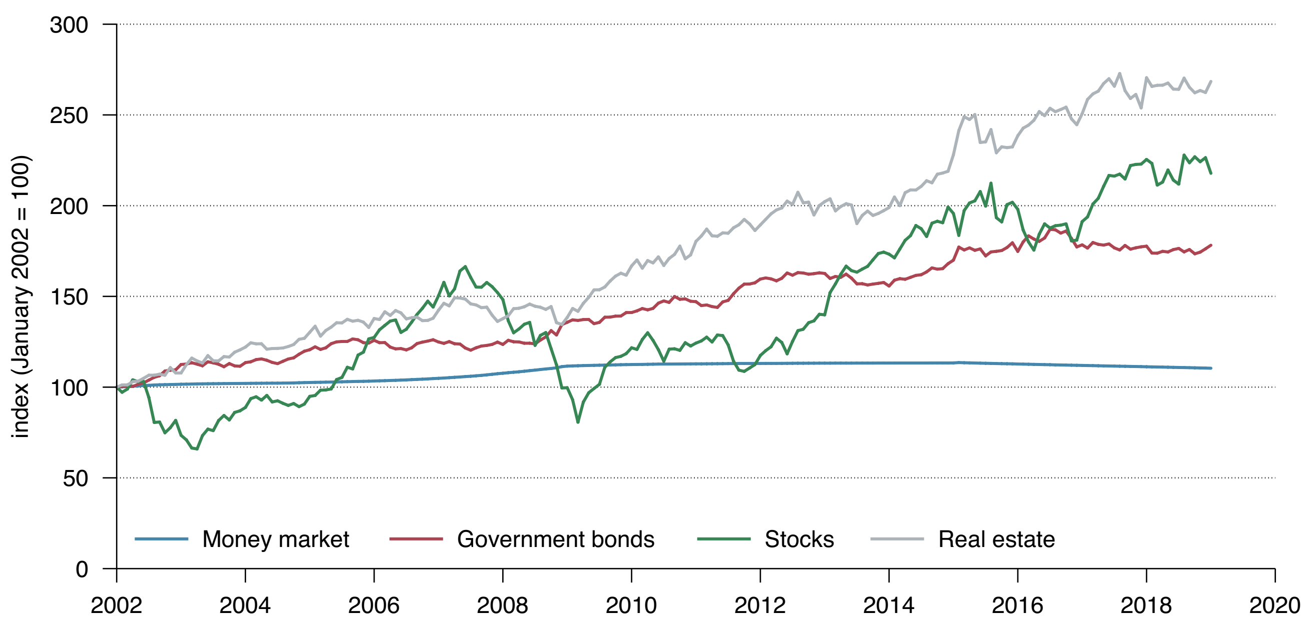
Financial markets

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	0.0	-0.2	-0.7	-2.5	0.0	-0.2	-0.7	-2.5
Swiss government bonds	-0.4	3.0	1.5	13.7	-0.4	3.0	1.5	13.7
Swiss corporate bonds	0.0	1.5	0.7	10.8	0.0	1.5	0.7	10.8
Swiss equities (SMI)	3.9	-0.4	-5.1	22.4	3.9	-0.4	-5.1	22.4
European equities (Stoxx600)	2.9	-4.5	-9.8	22.5	2.8	-6.2	-13.9	11.5
UK equities (Ftse100)	1.9	-2.3	-8.1	21.9	2.8	-5.3	-12.4	3.8
Japanese equities (Topix)	2.4	-9.2	-16.7	31.1	3.2	-6.7	-13.5	36.4
US equities (S&P 500)	3.1	-7.6	-5.5	54.9	3.6	-6.8	-6.4	43.6
Emerging markets equities	2.8	1.3	-15.5	16.5	3.3	2.2	-16.3	8.0
Global equities (MSCI World)	3.5	-6.4	-8.6	33.0	4.0	-5.6	-9.5	23.3
Swiss real estate	3.4	6.2	-0.8	37.8	3.4	6.2	-0.8	37.8
Global real estate	4.1	2.5	1.9	33.4	4.6	3.4	0.8	23.7
Commodities	4.2	-8.2	-10.0	-36.0	4.7	-7.4	-10.9	-40.7
Brent oil	13.5	-25.3	-12.9	-43.9	14.0	-24.6	-13.8	-48.0
Gold	0.7	5.0	-3.1	4.0	1.2	6.0	-4.1	-3.6

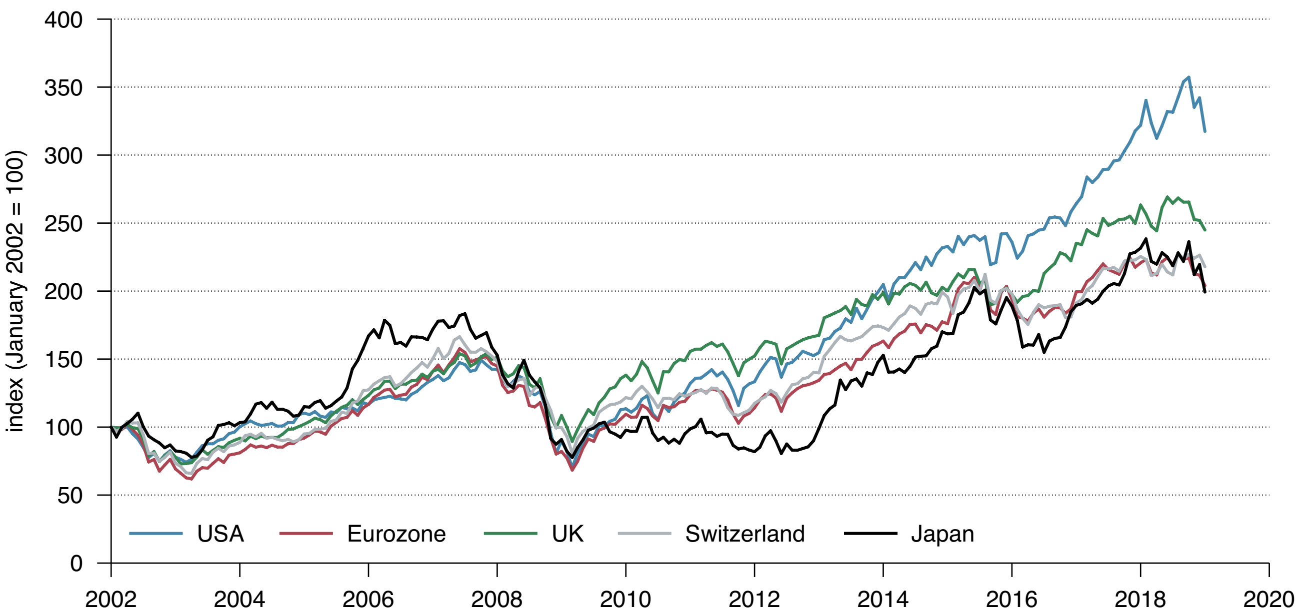
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

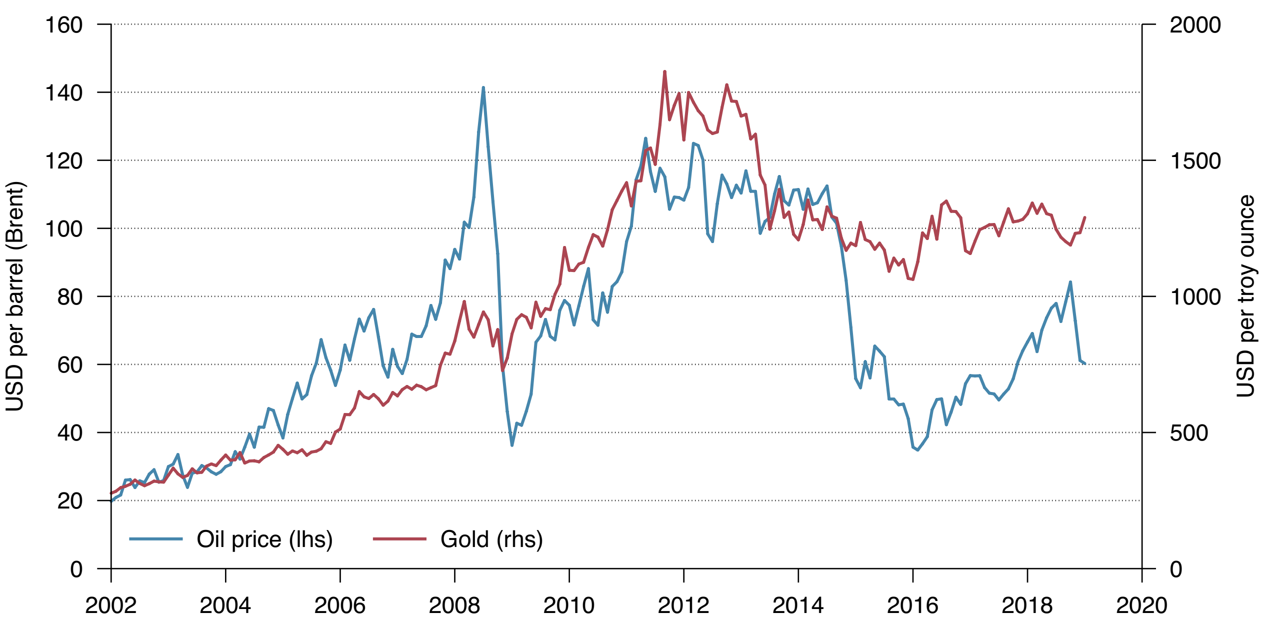


Source: Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Thomson Reuters Datastream, Wellershoff & Partners

Number of the month

2019

After the turmoil on the financial markets in the last days of the old year, 2019 has begun a little quieter. For the time being, at least, a somewhat more confident mood prevails. Whether it will persist is unclear. At least corporate earnings are likely to normalize somewhat over the course of the year. Let's hope that the financial markets will not get a case of the jitters this time around.