November 2015

FX Monthly

Quaesta Capital Inside ++ The macro perspective ++ FX market talk ++ Economic activity ++ Inflation ++ FX markets ++ Financial markets ++ Number of the month

QUAESTA CAPITAL
your currency specialist

Quaesta Capital AG
Huobstrasse 9
8808 Pfäffikon SZ
Switzerland

Wellershoff & Partners Ltd.
Zürichbergstrasse 38
8044 Zürich
Switzerland

Wellershoff & Partners Ltd. is a strategic research partner of Quaesta Capital 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 Lts. is available to Quaesta Capital AG for selected events as well as client meetings.

Imprint
Content, concept, and layout:
Quaesta Capital AG, Pfäffikon, and Wellershoff & Partners Ltd., Zürich
Editorial deadline: November 17, 2015
FX Monthly is published monthly in English and German.

FX Monthly
November 2015

Contents

Quaesta Capital Inside

«Currencies are a topic that affects everyone.»

Most investors are greatly concerned about currency-related portfolio effects. In most cases this is not for return reasons, but rather because they wish to adequately manage the currency risk that international investments are exposed to.

Many investors pursue an active hedging strategy (dynamic overlay) geared towards realising additional returns, either on their own or with the help of a specialised overlay manager. These are predominantly institutional clients whose corporate structures make it difficult to invest in separate investment products. The client works out an agreement with the overlay manager defining minimum and maximum hedge ratios and other parameters and specifies a risk budget. This is done with the aim of generating extra return on foreign currency holdings above the benchmark hedge ratio.

Currency overlay

The overlay manager is generally hired to focus on currencies already in the client's investment portfolio. The manager is accordingly limited in the execution of the FX trading strategy. Yet granting the FX manager maximum leeway increases his or her chances of generating the projected return, as the manager can then implement the trading strategy without being limited to specific currencies or instruments. This is best approached by separating FX hedging activity (passive overlay) from return-generating activity (FX alpha) so that the two activities are carried out completely independently, ideally by different providers in the case of external management.

Liquidity

What general reasons are there for investing in currencies? What strategies are best suited to which investors, and what factors should be considered? The FX market is the most liquid financial market in the world. Even in the midst of the 2008/2009 financial crisis, currency managers never had a problem settling investor closeout transactions. This laudable circumstance starkly contrasts with certain other investments and vehicles, which in some cases were having big problems guaranteeing much-needed liquidity, even though this was something that had, of course, been promised.

Transparency

Calls for greater transparency became louder as the financial crisis worsened, not least because doubts arose as to whether fund managers had actually been investing in accordance with the agreed strategy. Investing in currencies has long been a transparent affair, and for many years institutional investors have made use of managed accounts for their currency assets. These give investors real-time portfolio access and control at all times over the FX manager's actual positioning, allowing them to remain the owner of the specific accounts.

Diversification

Currency investments are generally considered excellent for investment portfolio diversification. However, depending on the underlying investment strategy, an FX strategy may perform with a positive, negative or neutral correlation to conventional portfolio securities, i.e. similarly, oppositely, or without evident connection. The three indices shown below show different focus areas (growth/return, momentum/insurance, market neutral/diversification). It is thus very important for investors to be clear on what they wish to achieve by holding currencies. Credible due diligence is also essential before decisions are taken on an investment strategy – without it, unpleasant surprises may be in store if the currency strategy proves ineffective or only partially effective at delivering the expected diversification benefits should markets turn rough.

Conclusion

Currencies can enhance portfolio diversification, although due diligence is of the utmost importance in selecting an investment strategy.

Different FX trading strategies with different correlations

Global Growth Performance	**Momentum** Insurance	**Market-Neutral** Diversification	
0.40	-0.20	0.02	**MSCI** World Stocks Index
0.46	-0.28	0.09	**Rogers International** Commodities Index
0.43	-0.31	-0.04	**HFRX** Global Hedge Fund Index
-0.20	0.26	0.00	**Bloomberg** Bond Index

Source: Quaesta Capital, Bloomberg

The macro perspective

«The Fed finds itself in the same dilemma as back in its September meeting.»

A series of positive economic data releases have swept away worries over the state of the US economy. The next thing to keep an eye on over the next several months, however, will be rising US inflation data. This could bring an abrupt end to the relatively relaxed current mood on the capital markets.

We have several eventful weeks behind us, with US economic data in part disappointing, although more recent data have reassured market observers. The labour market report for October substantially exceeded market expectations, with the actual figure of 271 000 new jobs coming in well above the forecasted 185 000 and representing the year's strongest job growth. Unemployment has thus fallen to 5.0 percent, the lowest recorded rate since April 2008.

Output gap closing

The initial gross domestic product growth estimate released for the third quarter has underpinned views that the US economy is remaining on track for robust growth. If we factor out the unusually large decline in inventories, we see that growth for the quarter was strong, at an annualised 3.0 percent. Private consumption is again proving to be a reliable pillar of the economy, contributing 2.2 percentage points to growth. Another positive factor is that exports and imports have been in balance despite the continuing strength of the dollar; thus foreign trade has not had the slowing effect that had been feared. The level of our economic climate indicator recovered somewhat in October after the significant revival in business activity in the service sector, signalling further above-trend growth for the US economy in the fourth quarter. This would then close the output gap for the US economy.

Core inflation rising

Increasing production capacity utilisation generally means rising inflationary pressure, as has been observed over the course of this year. The core inflation rate, which excludes volatile prices such as energy prices, has now risen to 1.9 percent. If the economy continues expanding, this rate should trend higher over the next several months. Such a view is supported in particular by the fact that the average hourly wage was up 2.5 percent year-on-year in October, representing the largest such increase in over six years.

Energy price effect subsiding

Falling energy prices have, as we know, recently caused the inflation rate for the aggregate basket of goods applied to calculate the consumer price index to fall to 0 percent. This will be changing soon, however: our calculations indicate that the energy price drag on inflation will already be fading in the upcoming inflation data report, and will have evaporated nearly entirely by January. There will thus be a rapid convergence of headline and core inflation, and the financial markets are likely to be affected by inflation increasing from 0 to almost 2 percent within a just few months. The casual attitude displayed by both the Fed and the financial markets regarding inflation is thus surprising.

Focus on interest rates and the dollar

Futures markets have reacted to recent economic data by confirming expectations of an initial Fed rate hike at the December meeting. This reaffirmation of the divergent monetary policy narrative has strengthened the US dollar once again. Ironically, the Fed now finds itself in the same dilemma as back in its September meeting, when the strength in the dollar prompted the Open Market Committee to adopt a more cautious attitude. But in contrast to September, the inflation outlook is now likely to cause market interest rates to rise even if the Fed does not raise key rates. The close of the year could thus prove not to be quite so merry.

Economic calendar

November 17, 2015
US inflation report for October
Headline inflation increased due to subsiding energy price effects.

November 18, 2015
Minutes for the FOMC meeting of October 28-29
Watch out for the assessment of global economic risks and the strength of the US dollar.

December 1, 2015
Manufacturing ISM report for November
If the ISM stays above 50 points worries about the state of the US economy would diminish further.

December 2, 2015
Eurozone inflation report for November
Headline inflation is likely to increase due to subsiding energy price effect.

December 3, 2015
ECB Gorning Council meeting and press conference
Markets expect the ECB to add more stimulus. Will the ECB meet market expectations?

December 4, 2015
US labor market report for November
Another strong labor market report would most likely increase the odds for the Fed lift-off in December.

December 10, 2015
SNB monetary policy assessment and press conference
If the ECB adds more stimulus the SNB might act as well.

December 15, 2015
US inflation report for November
Headline inflation is likely to move closer to core inflation.

December 15-16, 2015
FOMC meeting and press conference
Currently markets price in a 70 percent probability for the Fed lift-off at the December meeting.

Source: Bloomberg, Wellershoff & Partners

FX market talk

«SNB still muscles in on currency markets.»

The SNB remains active in the currency market even after elimination of the minimum exchange rate. There are a number of indicators revealing the extent of SNB currency market intervention. Against a backdrop of potential expansion of the ECB's asset purchase programme, these indicators might become the subject of increasing public attention again.

It was around a year ago that the SNB had to stage serious currency interventions to maintain the minimum exchange rate. It would have been great to have had some sort of gauge to measure the pressure the SNB was under at that time. Perhaps unconventional indicators could have done the job – for example, if somebody had regularly sat out on the Bürkliplatz in Zurich, where the SNB's Department is domiciled which is in charge of currency intervention, to see how late the lights stayed on in the offices.

Focus on intervention level

At that time, the lights were probably burning pretty late at the SNB offices, as just a few weeks later the bank decided to abandon the exchange rate floor. Today, SNB currency intervention activity could soon be the subject of increasing scrutiny again given that many financial market participants expect the ECB to expand its asset purchasing programme. Although SNB representatives only confirm intervention in exceptional cases, various statistics indicate whether and to what extent the SNB is intervening in the currency market. The indicators outlined below are the most frequently employed.

Detailed quarterly report

The SNB balance sheet provides detailed information on currency reserves, which is by far the largest balance sheet item. Currency and asset allocation are reported in addition to the amount of foreign currency holdings. Applying a few assumptions, one can thus adjust for market price changes. In the third quarter, the value of foreign currency holdings increased from CHF 530 to CHF 566 billion. Of this amount, approximately CHF 14 billion represented valuation gains, attributable among other things to the franc's depreciation against the euro, which is the largest currency investment comprising a share of 42 percent. The effect of intervention in the third quarter can therefore be estimated at roughly 20 billion. Availability is one shortcoming of this indicator, as the balance sheet total is only published quarterly and with a one-month time lag.

Monthly IMF data

The SNB publishes data at shorter intervals for monthly reporting to the International Monetary Fund (IMF). Because asset price changes are only adjusted quarterly, filtering out monthly currency changes is all that is required to measure the scope of intervention. In October, foreign currency reserves under IMF standards increased by CHF 548 to CHF 557 billion, due partly to a stronger US dollar. Therefore, the SNB's actual currency purchasing amounted to approximately CHF 6 billion.

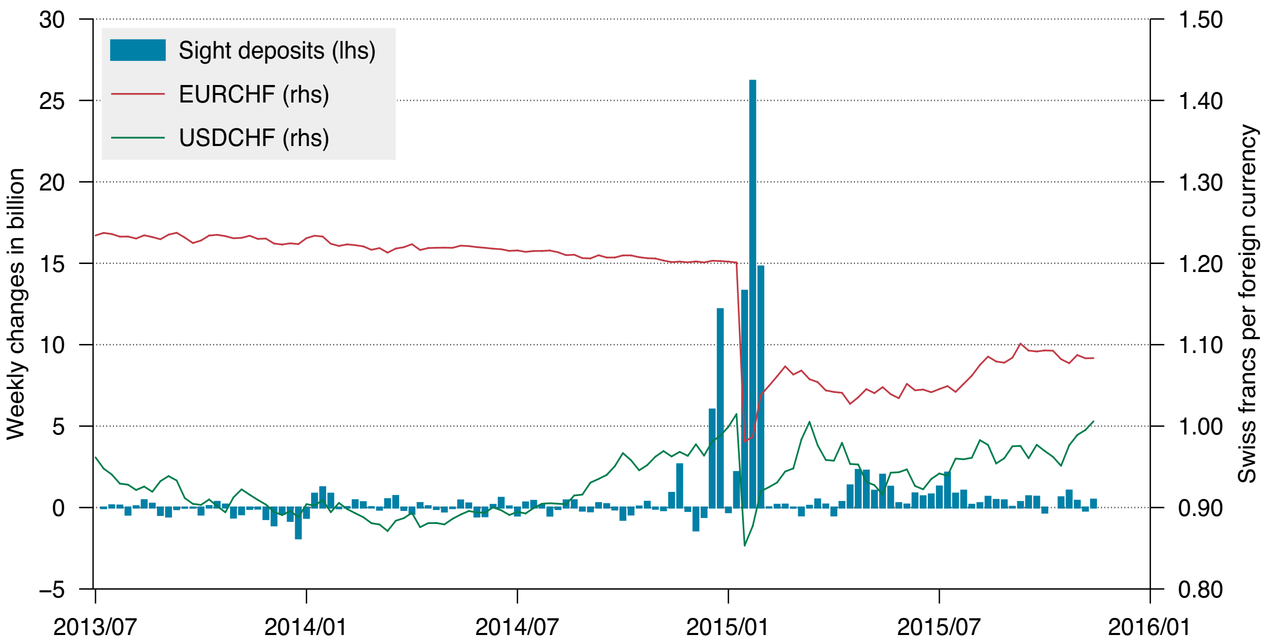
Indicative sight deposits

When the SNB intervenes in currency markets, it finances such activity by increasing sight deposits. Sight deposits represent a debt owed by the National Bank to commercial banks as well as the federal government. Sight deposit volume data is published weekly, and is thus considered the best available short-term indicator of the extent of SNB intervention. At times, one-off effects distort the statistics, such as increased cash withdrawals in the run-up to Christmas. In the first two weeks of November, sight deposits were almost unchanged at approximately CHF 467 billion, which indicates that the SNB has not conducted any major interventions in this most recent period.

Summary

The Swiss franc remains significantly overvalued against the euro on the basis of the estimated purchasing power parity. Yet it could be pushed upwards again, probably precipitating SNB action, if the ECB does decide to extend its asset purchase programme in December. The three indicators discussed would then suggest the extent to which the SNB would be forced to intervene in the currency market – so nobody has to spend a long, cold evening out on Zurich's Bürkliplatz.

Changes of sight deposits at SNB



Source: SNB, Thomson Reuters Datastream, Wellershoff & Partners

Economic activity

The first GDP figures for the third quarter were published in October. Spain has demonstrated particularly noteworthy growth of 3.4 percent, representing another considerable year-on-year gain. Our consumer climate indicator is now showing further growth potential for both Spain and Italy, this leading indicator now being significantly higher than actual GDP growth figures.

We see signs of stabilisation for Russia, but the situation in Brazil remains precarious.

The US economy grew another 2 percent year-on-year in the third quarter, rising above the trend. Additionally, 271 000 new jobs were created in October, much higher than the expected figure of 185 000. Wages also increased faster than at any time since July 2009, up 2.5 percent on the previous year. These key labour market data indicate that the US economy remains solid. The probability of the US Federal Reserve raising interest rates in December has thus increased.

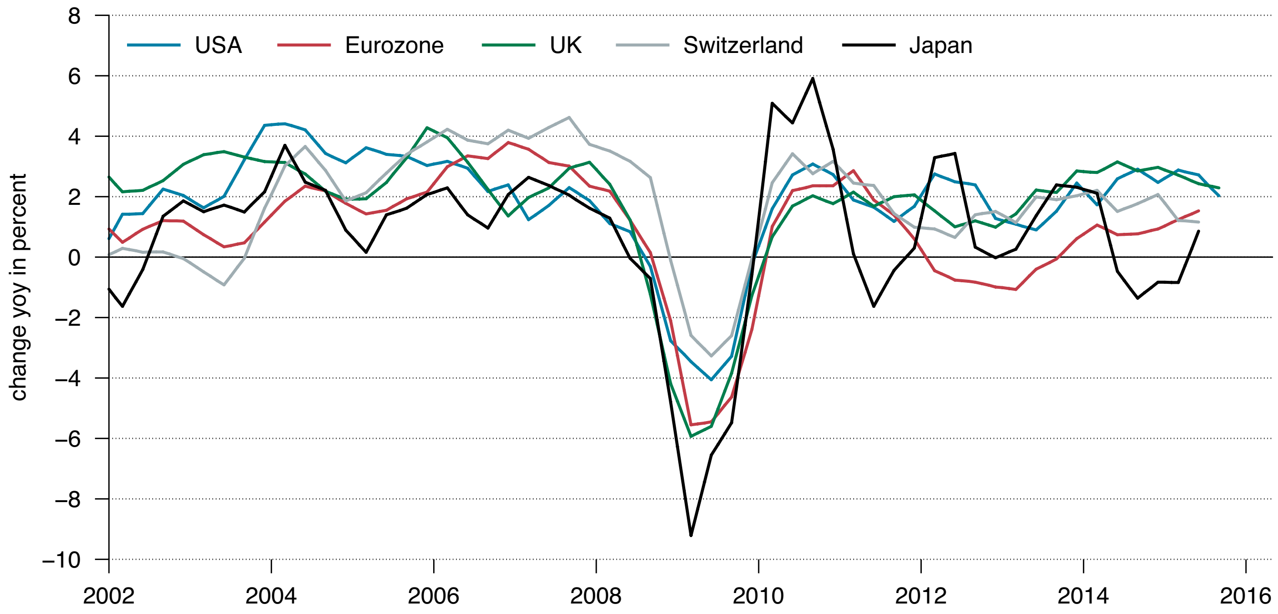
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q4/2014	Q1/2015	Q2/2015	Q3/2015	7/2015	8/2015	9/2015	10/2015
United States	1.7	2.5	2.9	2.7	2.0	3.5	3.2	2.7	3.0
Eurozone	1.0	0.9	1.2	1.5	1.6	2.0	2.0	2.3	2.4
Germany	1.4	1.5	1.1	1.6	1.7	2.5	2.4	2.8	2.7
France	0.7	0.1	0.9	1.1	1.2	1.3	1.4	1.5	1.8
Italy	0.2	-0.4	0.1	0.6	0.9	1.6	1.4	2.2	2.4
Spain	1.6	2.1	2.7	3.1	–	3.9	4.3	4.1	3.9
United Kingdom	1.8	3.0	2.7	2.4	2.3	3.7	3.8	3.4	3.1
Switzerland	1.5	2.1	1.2	1.2	–	0.7	0.7	0.8	0.6
Japan	0.4	-0.8	-0.8	1.0	1.1	2.1	2.2	2.1	2.1
Canada	1.6	2.5	2.0	1.0	–	1.2	1.2	1.3	1.3
Australia	2.4	2.5	2.5	2.0	–	3.2	3.4	3.5	3.5
Brazil	1.4	-0.3	-1.7	-2.4	–	1.0	0.3	0.9	-0.7
Russia	0.1	0.4	-2.2	-4.6	-4.1	-0.2	-0.7	0.8	2.0
India	7.7	6.6	7.5	7.0	–	6.6	6.4	5.8	5.6
China	7.4	7.2	7.0	7.0	6.9	7.3	7.0	6.9	7.6
Advanced economies[4]	1.4	1.6	2.0	2.1	1.8	3.0	2.9	2.7	2.8
Emerging economies[4]	6.0	5.2	4.9	4.6	4.7	4.3	3.9	3.8	4.2
World economy[4]	3.5	3.4	3.4	3.4	3.3	3.3	3.2	3.0	3.2

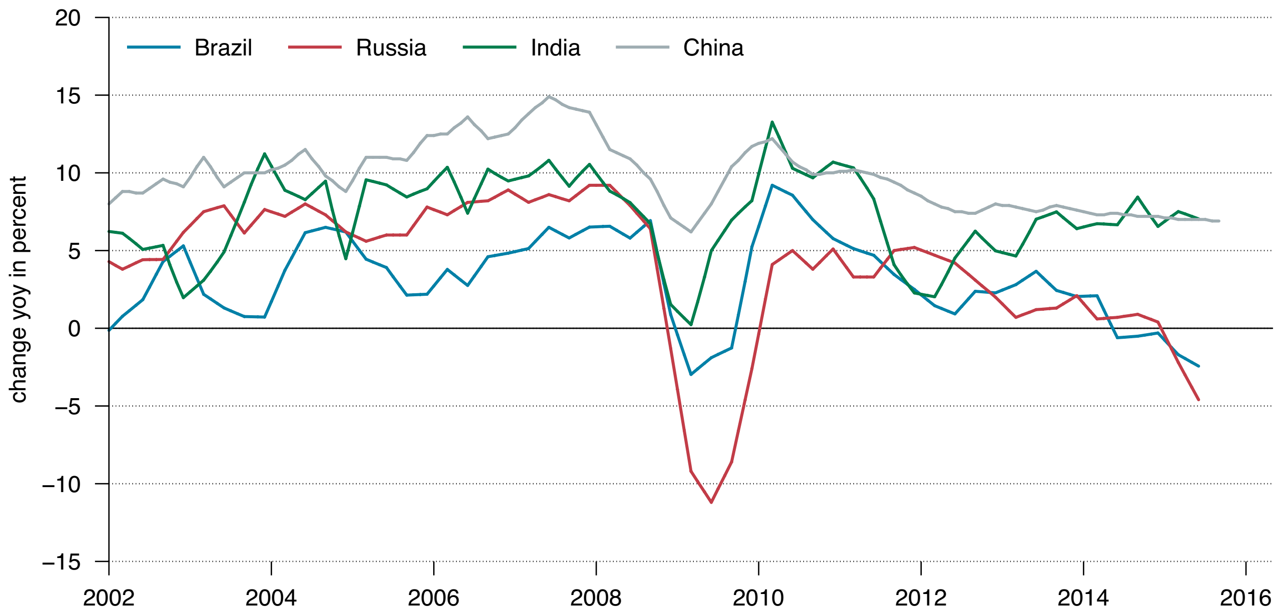
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent..
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to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

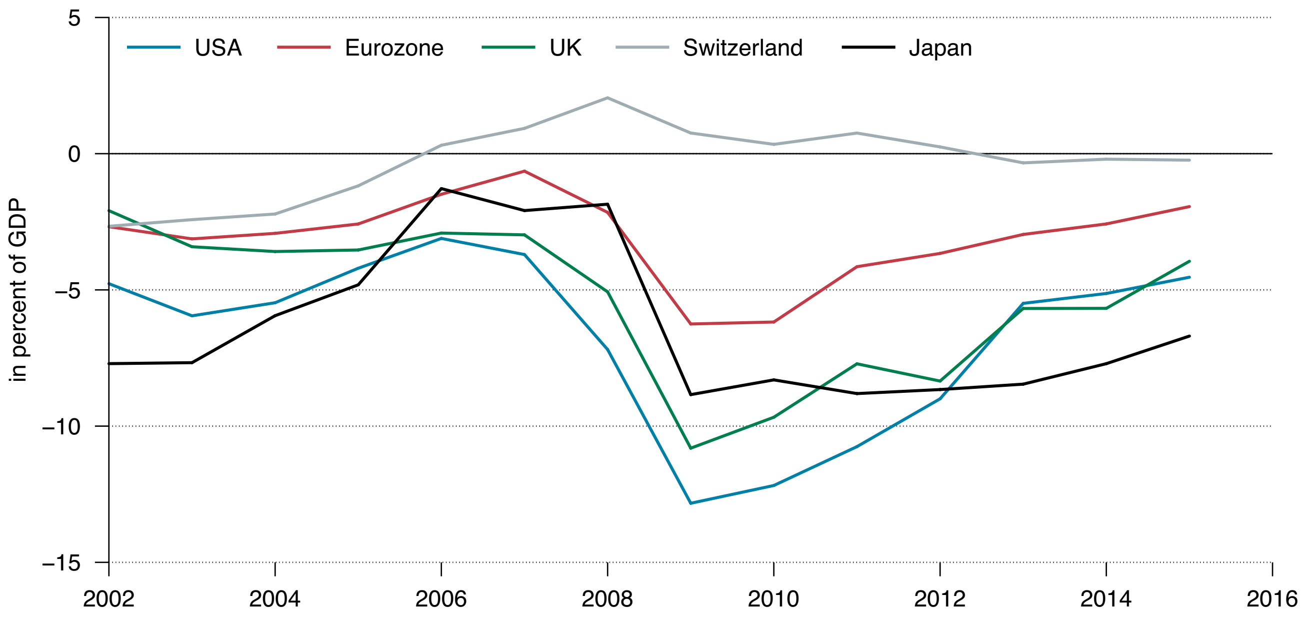
Economic indicators

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	22.2	24.4	-2.6	-2.5	109.1	110.6	-8.5	-4.5	8.0	5.0
Eurozone	18.1	15.7	1.9	3.8	101.3	111.2	-3.9	-1.9	11.1	10.8
Germany	5.0	4.6	6.5	8.3	83.5	78.5	-1.0	0.9	7.0	6.4
France	3.8	3.3	-1.0	0.2	107.5	120.1	-4.9	-3.8	9.4	10.0
Italy	3.0	2.5	-0.8	1.5	137.4	160.7	-3.3	-2.6	10.5	11.9
Spain	2.0	1.7	-1.0	1.5	91.6	118.9	-8.4	-4.2	23.3	21.6
United Kingdom	3.6	3.9	-3.5	-4.0	106.9	116.4	-7.4	-3.9	4.2	2.3
Switzerland	0.9	0.9	10.3	9.8	45.6	46.4	0.2	-0.2	3.1	3.3
Japan	7.4	5.6	1.7	3.3	212.9	229.2	-8.4	-6.7	4.3	3.4
Canada	2.4	2.1	-2.9	-2.9	86.7	90.4	-3.2	-1.7	7.4	7.0
Australia	2.0	1.7	-3.5	-4.0	27.5	36.0	-3.7	-2.4	5.4	5.9
China	11.4	15.5	2.4	3.1	37.8	43.2	-0.6	-1.9	4.1	–
Brazil	3.3	2.4	-3.6	-4.0	63.0	69.9	-3.4	-7.7	5.7	7.6
India	2.6	3.0	-3.0	-1.4	67.0	65.3	-7.7	-7.2	–	–
Russia	2.6	1.7	3.6	5.0	13.5	20.4	-0.8	-5.7	6.0	5.2

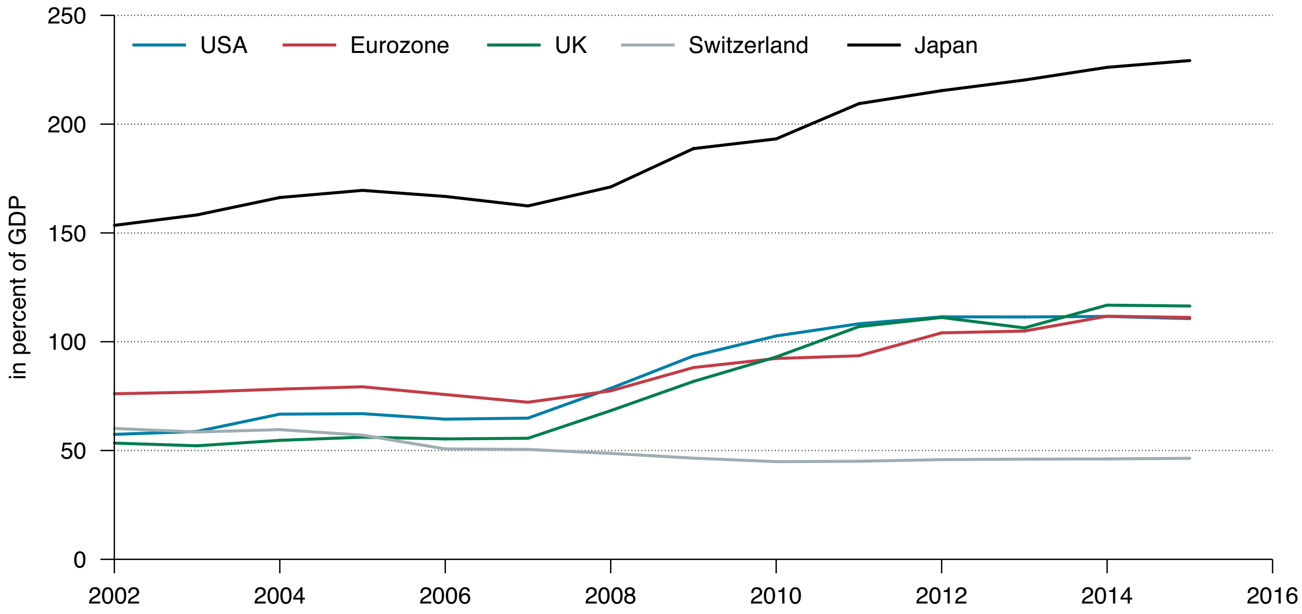
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

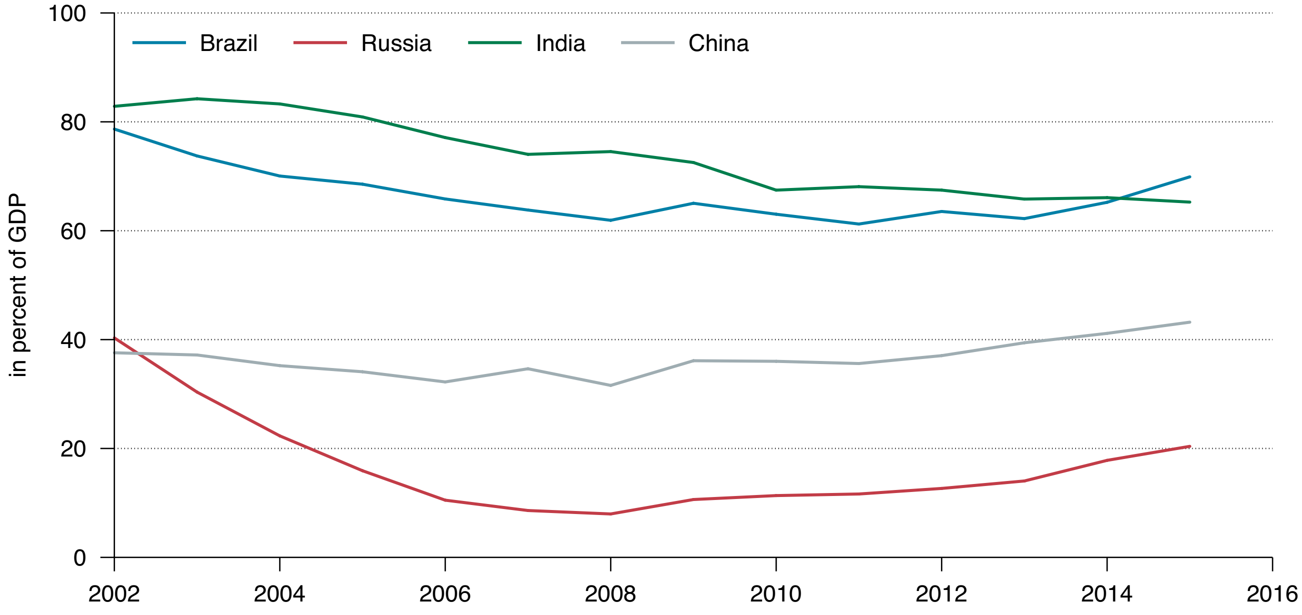


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

Inflation

The eurozone saw a slight increase in both headline and core inflation in October. However, headline inflation remains at a very low level. Nevertheless, our analysis of the baseline effect of energy prices indicates that the counter-inflationary effects of very low oil prices will subside as soon as December, which should lead to a convergence of headline and core inflation.

Core inflation in Switzerland has declined by 0.1 to -0.8 percent, while headline inflation is still at -1.4 percent. Elimination of the euro exchange rate cap caused a sharp appreciation in the Swiss franc. A stronger currency makes imports cheaper, producing an inflation-lowering effect. Since the middle of the year, however, the Swiss franc has declined, which will mute this effect going forwards. The chief factors in favour of headline inflation returning to positive territory in Switzerland are the baseline effect of oil prices and the depreciating franc.

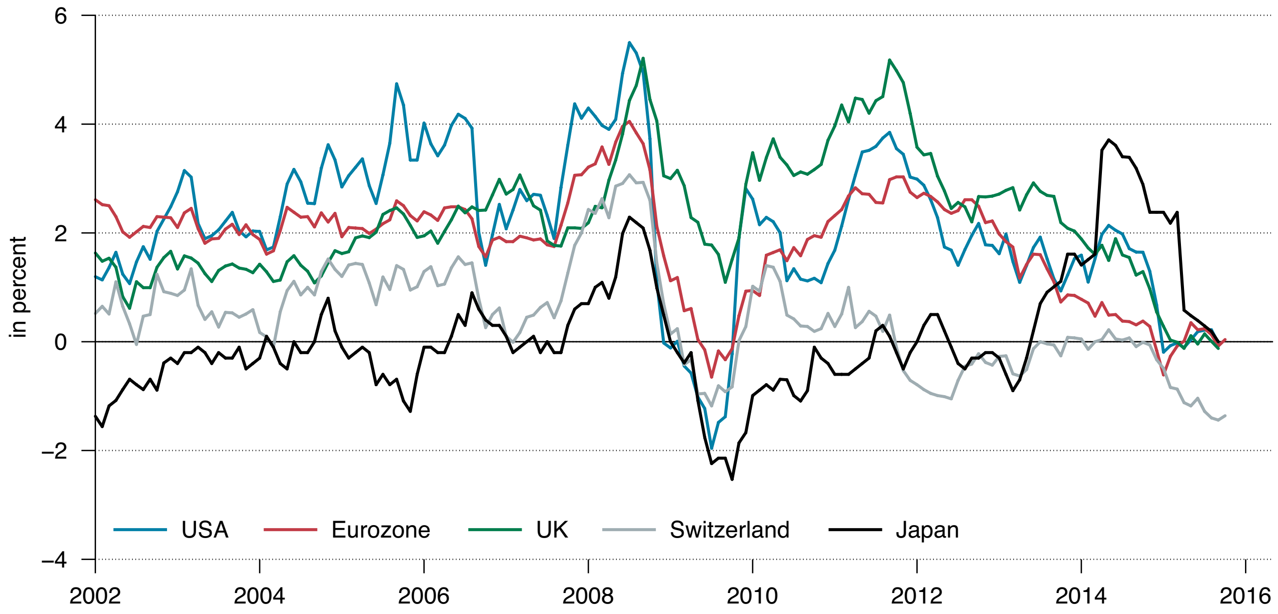
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		7/2015	8/2015	9/2015	10/2015	7/2015	8/2015	9/2015	10/2015
United States	2.0	0.2	0.2	0.0	–	1.8	1.8	1.9	–
Eurozone	1.7	0.2	0.1	-0.1	0.0	0.9	0.9	0.9	1.0
Germany	1.5	0.3	0.1	0.0	0.2	1.1	1.2	1.2	1.3
France	1.3	0.2	0.0	0.0	–	0.7	0.6	0.6	–
Italy	1.7	0.2	0.2	0.2	0.3	0.8	0.8	0.9	0.9
Spain	1.9	0.1	-0.4	-0.9	-0.7	0.8	0.7	0.8	–
United Kingdom	2.6	0.1	0.0	-0.1	–	1.2	1.0	1.0	–
Switzerland	0.3	-1.3	-1.4	-1.4	-1.4	-0.6	-0.7	-0.7	-0.8
Japan	0.3	0.3	0.2	0.0	–	0.6	0.8	0.9	–
Canada	1.7	1.3	1.3	1.0	–	2.4	2.1	2.1	–
Australia	2.7	1.5	1.5	1.5	–	2.0	2.0	2.1	–
Brazil	5.6	9.6	9.5	9.5	9.9	9.2	9.1	9.1	–
Russia	9.5	15.6	15.8	15.7	15.5	16.5	16.6	16.6	16.4
India	8.2	3.7	3.7	4.4	–	–	–	–	–
China	2.9	1.6	2.0	1.6	1.3	1.7	1.7	1.6	1.5
Advanced economies[4]	1.7	0.3	0.2	0.0	0.1	1.4	1.4	1.4	1.4
Emerging economies[4]	5.2	4.2	4.4	4.3	4.3	4.5	4.5	4.4	4.4
World economy[4]	3.2	2.1	2.2	2.0	2.1	2.3	2.3	2.3	2.3

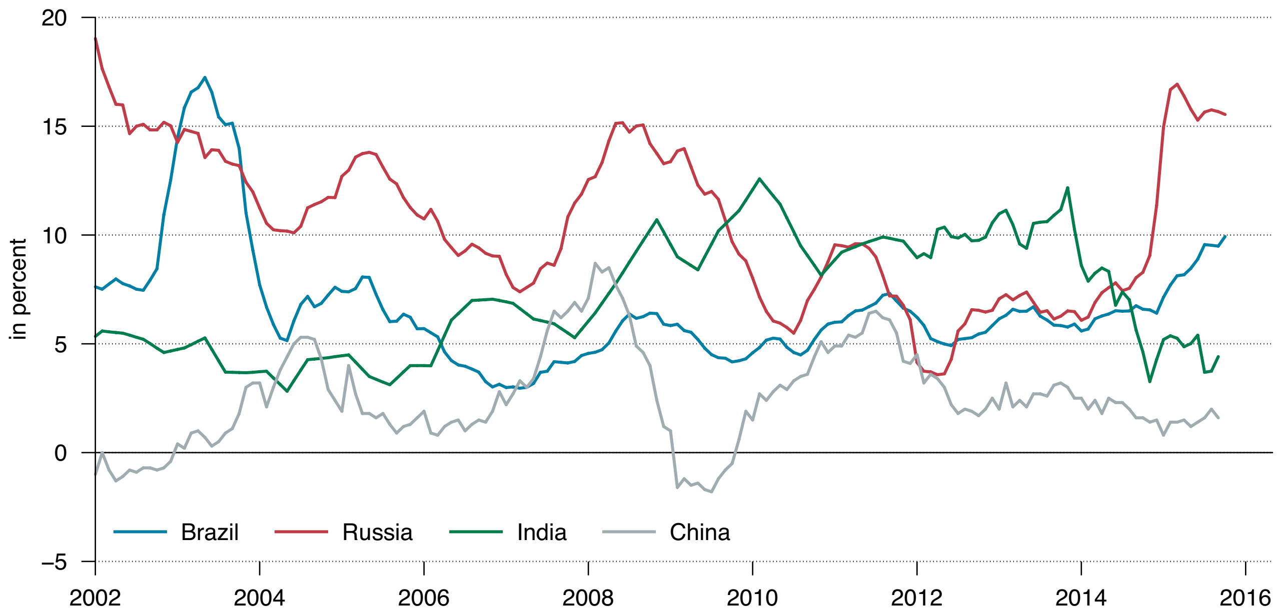
1 Average annual consumer price inflation, in percent.
2 Year-on-year change of the consumer price index (CPI), in percent.
3 Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change of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

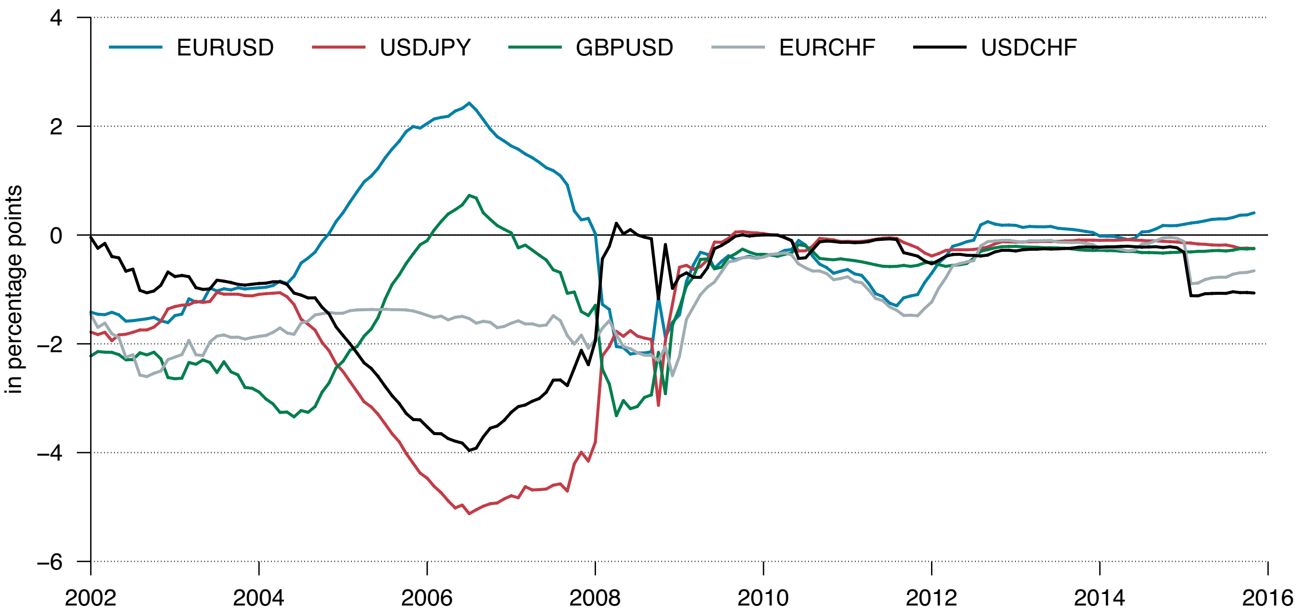
Interest rates

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	1.072	0.44	0.15	-0.13	0.03	0.85	0.28	-0.08	0.04
USDJPY	123.1	-0.29	-0.13	-0.16	-1.30	-0.71	-0.28	-0.34	-1.41
GBPUSD	1.520	-0.21	-0.32	-0.36	-0.56	-0.10	-0.42	-0.46	-0.61
EURCHF	1.079	-0.71	-0.08	-0.52	-0.93	-0.77	-0.13	-0.69	-1.01
USDCHF	1.007	-1.15	-0.23	-0.40	-0.96	-1.61	-0.41	-0.61	-1.05
GBPCHF	1.531	-1.36	-0.55	-0.75	-1.52	-1.72	-0.83	-1.07	-1.66
CHFJPY	122.2	0.86	0.10	0.24	-0.34	0.90	0.13	0.27	-0.37
AUDUSD	0.708	-1.62	-2.26	-2.80	-2.56	-0.97	-1.94	-2.20	-2.20
USDCAD	1.337	0.46	1.05	0.91	0.34	0.02	0.90	0.72	0.19
USDSEK	8.692	-0.66	-0.04	0.87	0.20	-0.98	-0.06	0.74	0.17
USDRUB	66.59	11.13	11.67	7.87	6.43	10.30	11.59	7.67	6.99
USDBRL	3.832	13.98	11.36	10.16	9.56	14.63	11.91	10.03	9.48
USDCNY	6.372	2.67	3.98	4.22	2.44	2.41	4.31	3.82	2.22
USDTRY	2.880	10.66	9.81	8.55	9.82	10.18	9.48	8.47	10.14
USDINR	66.00	7.47	8.41	8.84	6.68	6.16	7.39	6.22	4.18

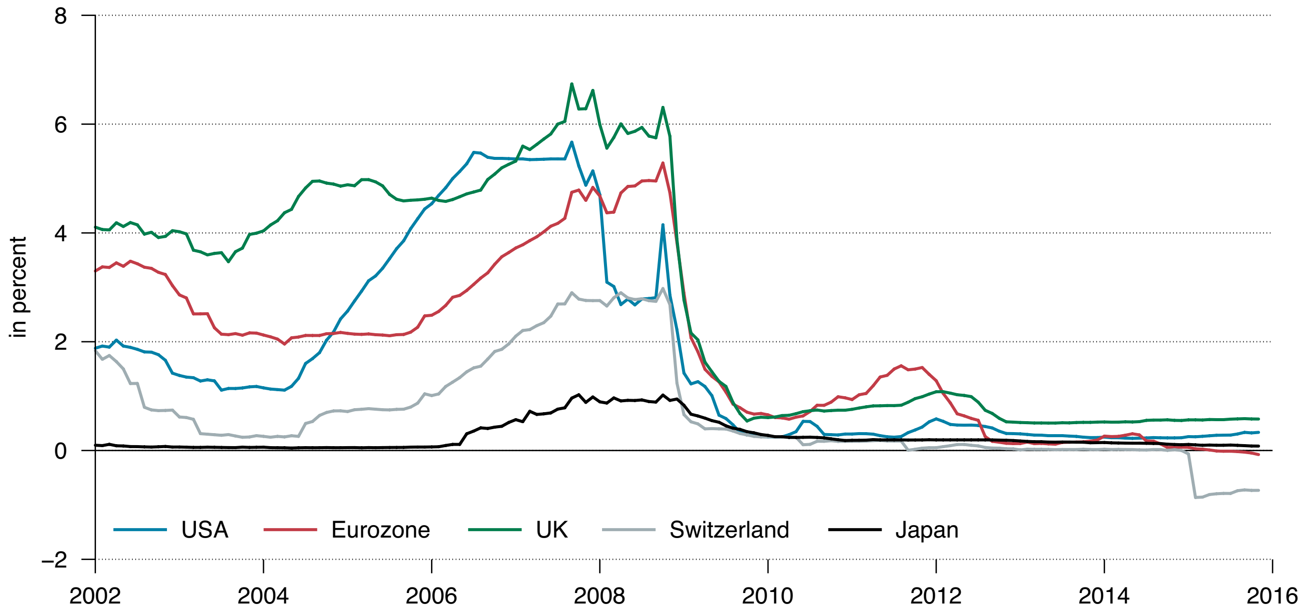
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

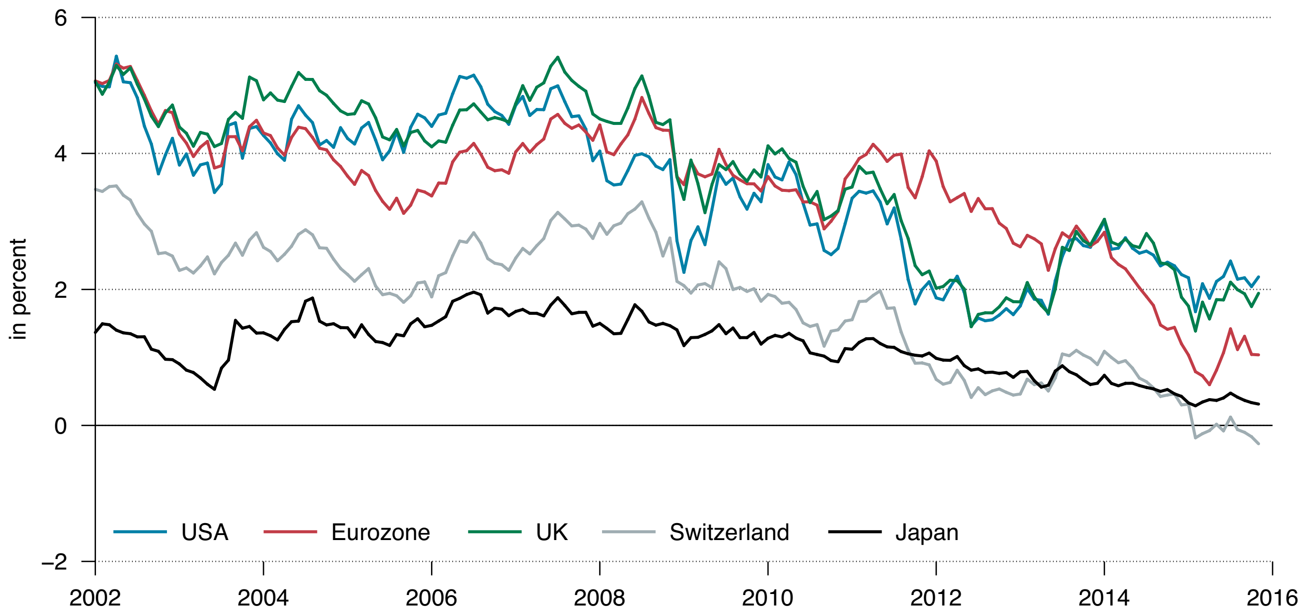


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

FX markets

The US dollar has again risen substantially in recent weeks, making it overvalued from the perspective of purchasing power parity in nine of the twelve cases considered in the table below.

By the end of October, the EURUSD exchange rate had fallen below the 1.10 threshold last touched in early August. Although a long-term link between currency movements and interest rate differentials cannot be empirically established, in the short run currency movements can indeed be influenced by market expectations regarding interest rate moves. This explains why the better-than-expected October US labour market data boosted the dollar.

In recent weeks the dollar has been generally influenced by speculation over a rate change by the US Federal Reserve, the Fed funds futures pricing in a nearly 70-percent probability of a rate hike in December as compared to a previous 30 percent. The USDCHF exchange rate shows the franc down approximately 6 percent, rising above parity for the first time since March 2015. The franc has gained against the euro recently, moving further away from PPP.

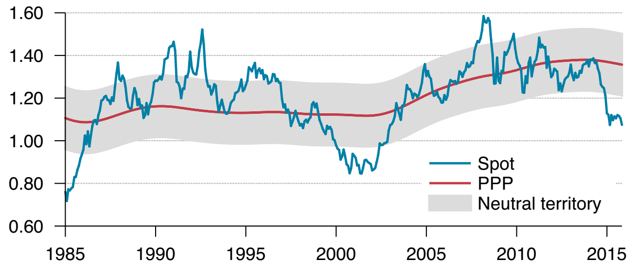
FX overview

	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.072	-11.4	-2.9	-14.1	-20.9	1.36	1.21 - 1.5	-21.03
USDJPY	123.1	2.7	-1.1	5.7	47.7	94.7	74.9 - 114.6	29.93
GBPUSD	1.520	-2.5	-2.9	-2.9	-4.5	1.65	1.49 - 1.81	-7.75
EURCHF	1.079	-10.2	0.1	-10.2	-19.4	1.25	1.15 - 1.35	-13.56
USDCHF	1.007	1.4	3.0	4.6	1.9	0.96	0.76 - 1.15	5.29
GBPCHF	1.531	-1.2	0.0	1.6	-2.7	1.62	1.35 - 1.9	-5.72
CHFJPY	122.2	1.3	-4.0	1.0	45.0	90.8	78.5 - 103.2	34.52
AUDUSD	0.708	-13.4	-3.4	-18.9	-27.5	0.73	0.6 - 0.85	-2.59
USDCAD	1.337	15.4	2.2	18.1	30.7	1.12	1.04 - 1.19	19.60
USDSEK	8.692	11.0	1.7	17.3	25.1	6.71	5.82 - 7.6	29.58
USDRUB	66.59	11.0	1.2	41.2	113.6	35.4	29.6 - 41.3	87.84
USDBRL	3.832	44.2	10.5	46.9	121.6	2.70	2.2 - 3.2	41.97
USDCNY	6.372	2.7	-0.3	3.9	-4.0	6.24	6.03 - 6.45	2.17
USDTRY	2.880	23.2	-0.7	28.7	96.8	2.14	1.89 - 2.38	34.66
USDINR	66.00	4.6	1.1	6.9	45.7	61.8	58.6 - 65	6.79

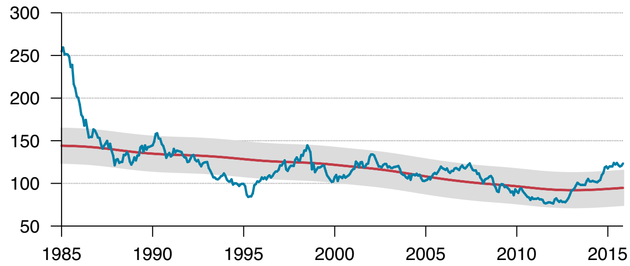
[1] Performance over the respective period of time, in percent.
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.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

Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

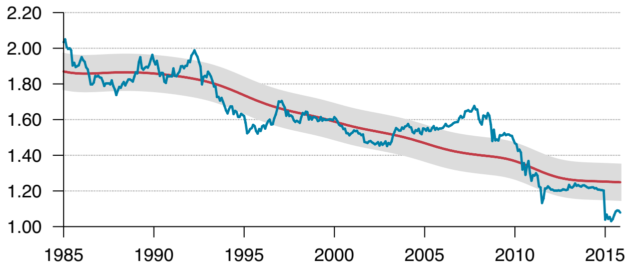
EURUSD



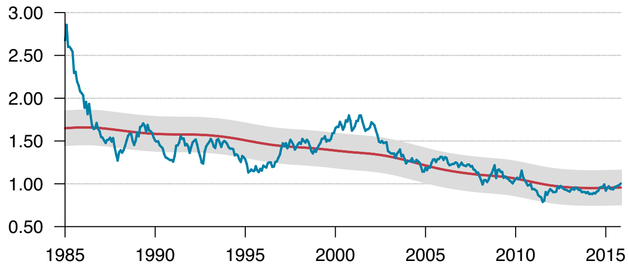
USDJPY



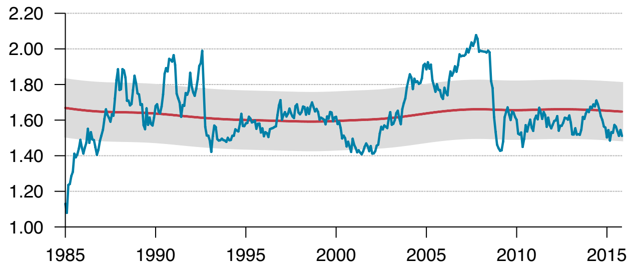
EURCHF



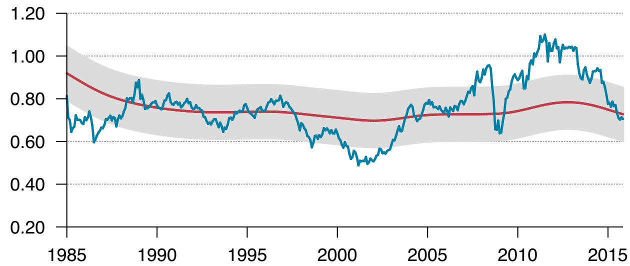
USDCHF



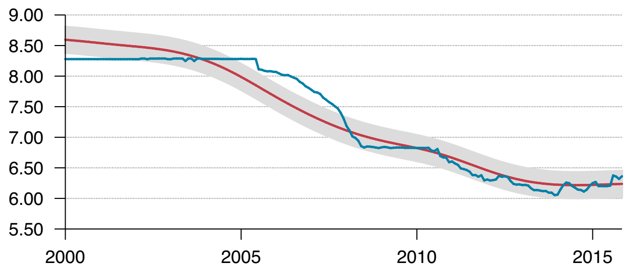
GBPUSD



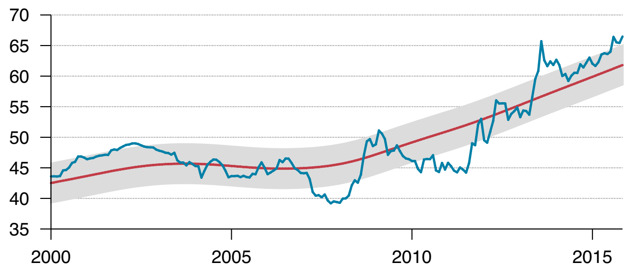
AUDUSD



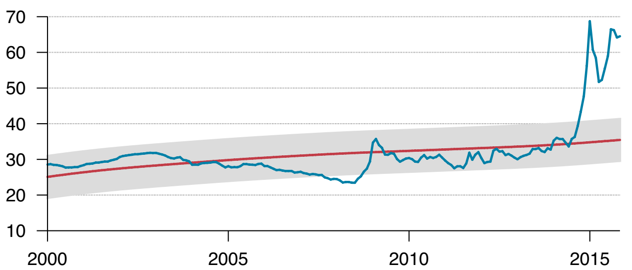
USDCNY



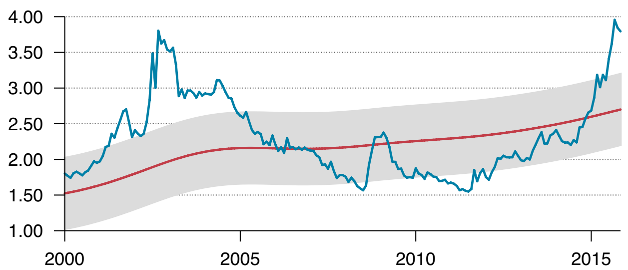
USDINR



USDRUB



USDBRL



Source: Thomson Reuters Datastream, Wellershoff & Partners

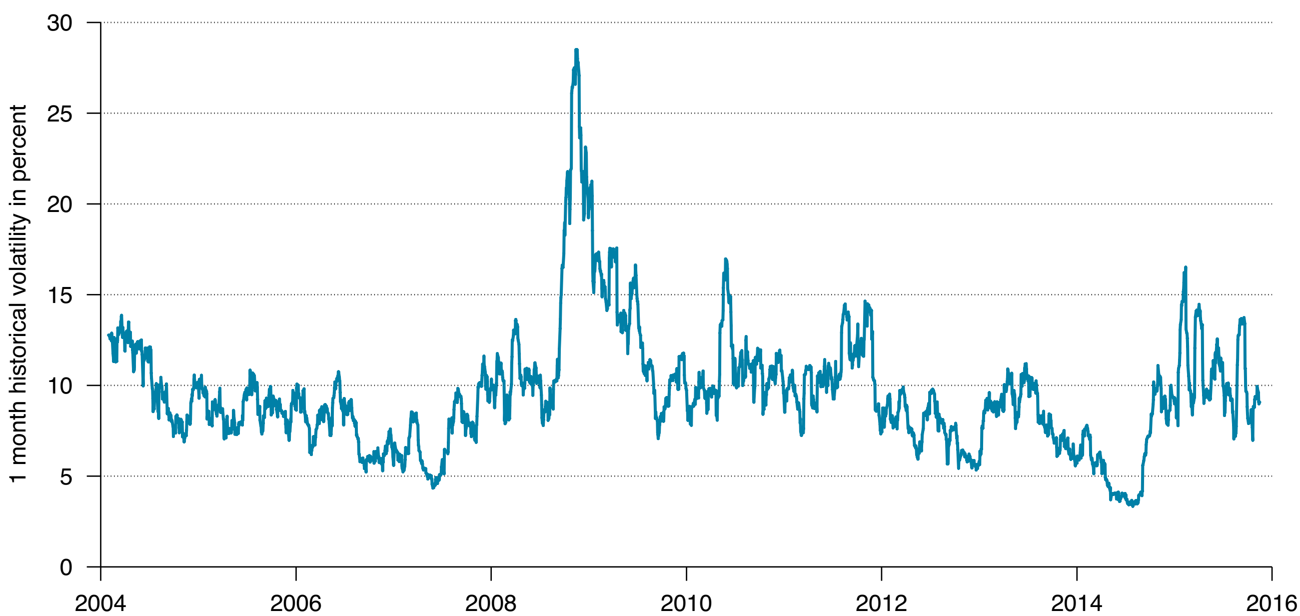
FX volatility

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	1.072	11.0	11.6	9.8	10.3	11.7	10.9	10.4	10.6
USDJPY	123.1	10.2	8.7	9.7	10.6	9.2	9.4	10.8	10.9
GBPUSD	1.520	7.1	7.7	8.1	9.4	8.2	9.2	9.0	9.9
EURCHF	1.079	7.3	7.5	6.5	5.9	19.0	8.1	7.4	6.2
USDCHF	1.007	10.6	11.3	10.3	10.5	20.4	11.2	10.8	10.7
GBPCHF	1.531	10.4	9.9	9.0	9.6	20.0	10.7	9.7	10.0
CHFJPY	122.2	10.3	9.8	11.0	11.2	19.9	10.7	11.9	11.6
AUDUSD	0.708	12.9	11.4	11.0	12.2	13.0	11.9	11.9	12.5
USDCAD	1.337	9.2	8.7	8.1	9.6	9.6	8.8	8.8	10.0
USDSEK	8.692	11.9	12.2	11.7	12.5	13.3	11.9	12.2	12.7
USDRUB	66.59	30.8	21.7	14.4	12.3	43.2	22.0	14.9	13.4
USDBRL	3.832	23.6	20.1	13.8	14.9	19.4	19.9	14.7	15.5
USDCNY	6.372	2.0	4.7	2.3	2.6	3.0	5.7	3.2	4.2
USDTRY	2.880	15.8	13.0	11.7	13.3	14.1	14.1	13.1	14.7
USDINR	66.00	5.4	7.2	9.7	9.5	5.0	8.7	10.7	10.2

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

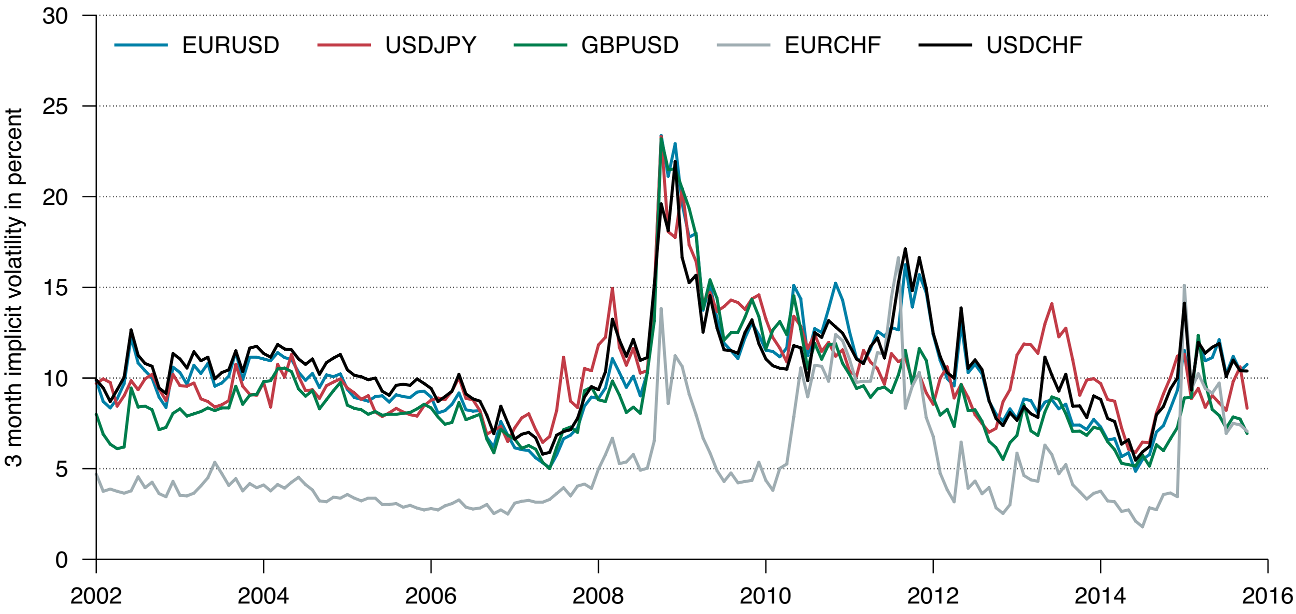
Quaesta Capital volatility indicator[3]



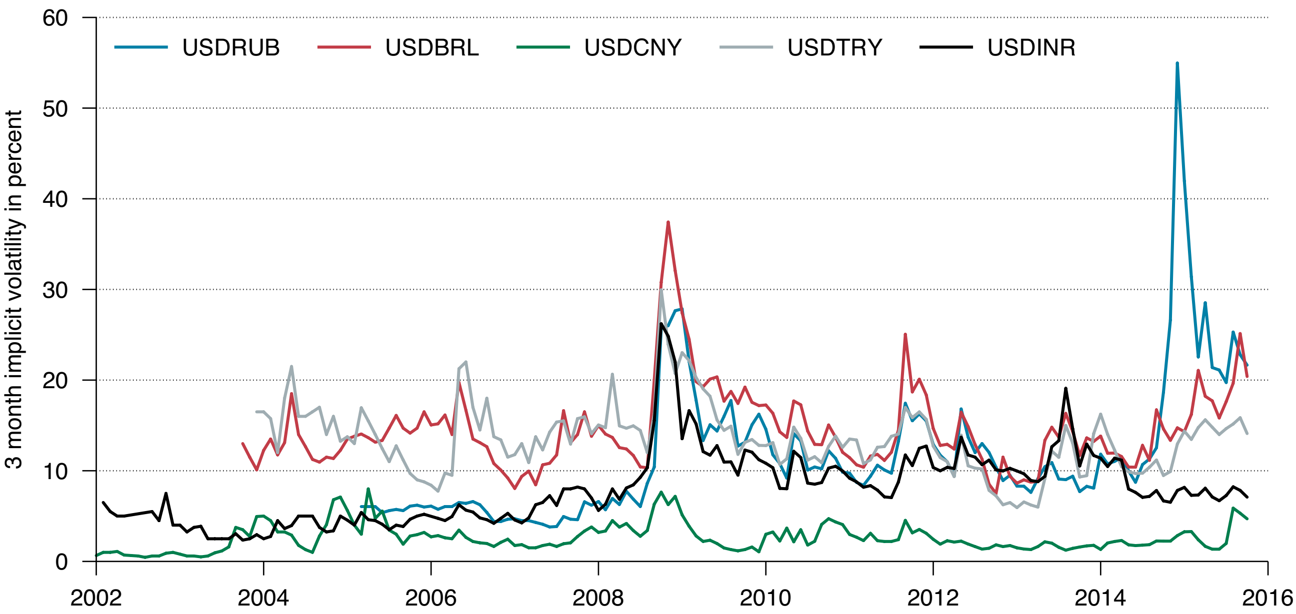
[3] Quaesta Capital's volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

Source: Bloomberg, Quaesta Capital, Thomson Reuters Datastream, Wellershoff & Partners

Implied volatility



Implied volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

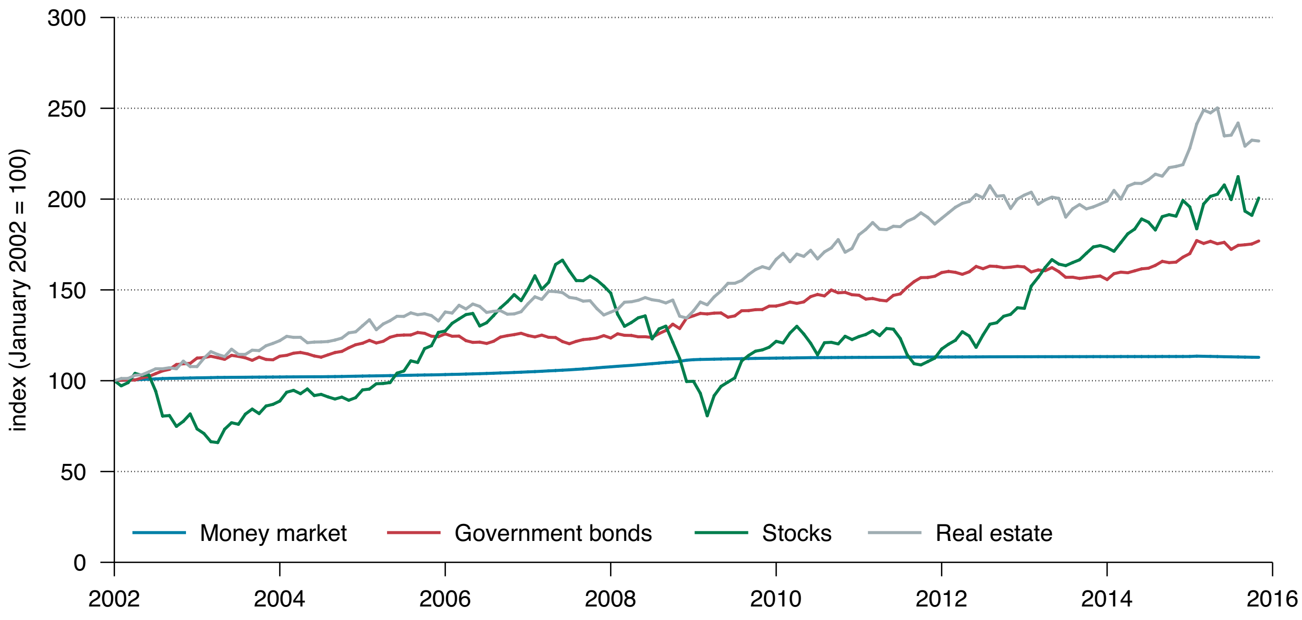
Financial markets

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	-0.4	-0.1	-0.4	0.1	-0.4	-0.1	-0.4	0.1
Swiss government bonds	4.6	0.8	6.7	19.8	4.6	0.8	6.7	19.8
Swiss corporate bonds	3.4	1.0	4.9	18.3	3.4	1.0	4.9	18.3
Swiss equities (SMI)	0.1	-6.9	0.9	57.6	0.1	-6.9	0.9	57.6
Eurozone equities (Stoxx600)	11.4	-4.2	13.9	64.9	0.0	-4.2	2.3	32.4
UK equities (Ftse100)	-3.1	-5.1	-4.2	29.3	-3.9	-5.1	-3.1	24.8
Japanese equities (Topix)	13.6	-5.3	14.4	105.4	12.5	-1.2	13.1	41.0
US equities (S&P 500)	1.6	-1.6	2.8	93.6	3.3	1.5	7.2	95.8
Emerging markets equities	-12.8	-3.6	-15.6	-14.4	-11.3	-0.6	-12.0	-13.5
Global equities (MSCI World)	-0.3	-3.9	-0.5	56.6	1.4	-0.8	3.8	58.3
Swiss real estate	3.9	-0.3	9.6	37.7	3.9	-0.3	9.6	37.7
Global real estate	-2.5	-4.4	-1.2	53.3	-0.8	-1.3	3.0	55.0
Commodities	-21.0	-7.7	-29.4	-42.4	-19.6	-4.7	-26.4	-41.8
Brent oil	-24.6	-12.2	-45.7	-50.0	-23.3	-9.4	-43.3	-49.4
Gold	-8.5	-2.8	-7.5	-19.0	-7.0	0.3	-3.5	-18.1

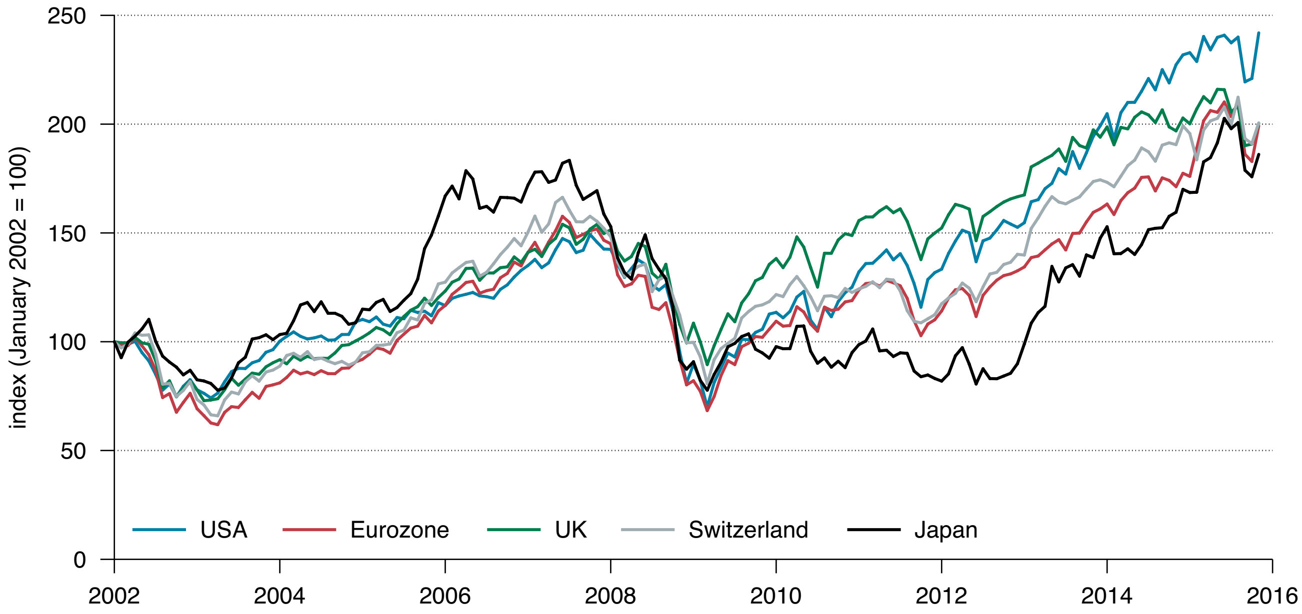
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

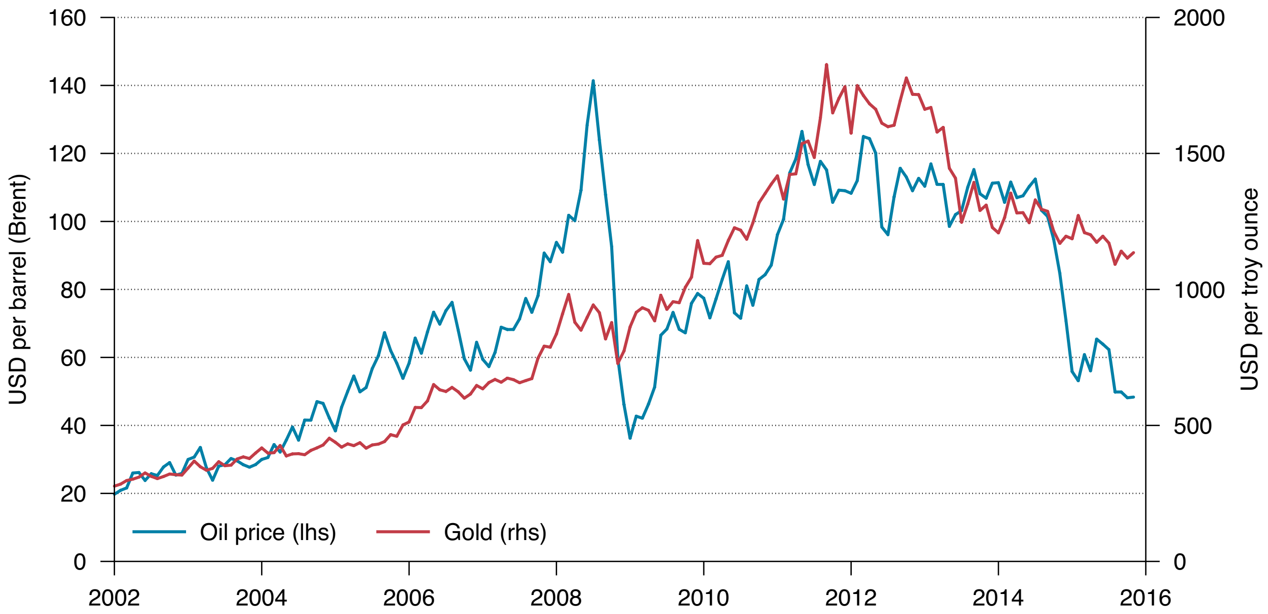


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Number of the month

CHFCNY 6.3413

When closing prices were published at the end of the day on 9 November 2015, one Swiss franc cost exactly 6.3413 Chinese yuans. This was the first day that direct trading between the renminbi and the franc had ever been possible, signalling further efforts by the country's central bank, the People's Bank of China (PBC), to advance the international use of its currency. It is now no longer necessary to bring in a third currency (e.g. the US dollar) to determine the exchange rate, which should reduce transaction costs for market participants. This will allow trade between Switzerland and the world's largest trading nation – which has been supported by a bilateral free trade agreement since July 2014 – to continue to prosper.