March 2016

FX Monthly

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

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Quaesta Capital Insight

Regulators focus on FX transactions

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The financial crisis made the OTC derivatives market the centre of regulatory attention. In 2009, the G-20 countries determined to increase transparency of the OTC derivatives market and directed regulators to implement various measures. In Switzerland, this took form in FinfraG, the financial market infrastructure law, and its associated provisions, FinfraV, in force since January 2016.

Although the OTC derivatives market functions well and is well standardised, the regulators also look at FX dealings. Initially the task is to distinguish between cleared derivatives and those without clearing obligation. Regarding the latter, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions released a revised report on collateral requirements. The basis for Switzerland on this can be found in FinfraG, Article 110. This stipulates that all but the smallest financial counterparties will have to exchange appropriate collateral.

Variation margin already market practice

Now, while currency forwards and currency swaps will be explicitly excluded from the BCBS's report, it also pointed out that to reduce risk and capital costs, the daily counterparty exchange of collateral for the added exposure, called "variation margin", is established market practice today. Thus, already today, it's clear that whoever doesn't settle their variation margins in currency futures and swap trades on a daily basis, will not be able to avoid market pressure for very long and will introduce daily settlements in short order. The basis for the variation margin exchange is found in the Credit Support Annex, the CSA, which has to be negotiated with every single broker. This sets the type of collateral according to the daily replacement value of all kinds of OTC derivatives, including currency forwards and currency swaps.

The effort required to implement these agreements is significant for each counterparty, with the fewest CSAs delivering substantial cost savings. However, reduced CSAs can also lead to increased dependence on existing counterparties and ultimately restrict free trading. And it is precisely the restriction of free trading that contradicts the fundamental thinking of many market participants.

Lack of transparency in the foreign exchange market means that hedging transactions are not always made at optimal market rates for the customer. For this reason, institutional market participants are particularly reluctant to see freedom of trade constrained in favour of operational improvements. An FX Prime Brokerage solution is an alternative that offers both benefits.

FX Prime Brokerage

The FX Prime Brokerage service enables clients to participate in currency transactions with numerous dealers (Executing Brokers), with the FX Prime Broker executing the transaction, acting as intermediating central counterparty and taking over the counterparty risks for both the dealers and the client. While the Executing Broker's role is that of a (temporary) trade counterparty, the FX Prime Broker enters the transaction and takes over that role from the Executing Broker. Clearly, choosing the right FX Prime Broker is vital. Because in the end the FX Prime Broker is not merely the sole point of contact, but from a risk point of view also the client's sole counterparty.

Executing an FX Prime Brokerage trade

An example: an institutional client completes a transaction through a multi-dealer platform with an Executing Broker. The trade is verified by the FX Prime Broker who uses a matching platform to on the one hand confirm its legality and on the other hand check the correspondence (match) between customer's and brokers' sides of the transaction. This involves confirming the specifics of the transaction – assuring the right product, currency pair, term, and limits involved – with no discrepancies among the parties. When this examination is successfully completed, the transaction is confirmed by the FX Prime Broker and accepted for processing. Two independent transactions are thus generated from the original deal: one between the institutional client and the FX Prime Broker and an offsetting one between the FX Prime Broker and the respective Executing Broker.

FX Prime Brokerage advantages

The client must carry neither trade nor credit limits with the Executing Brokers because the client receives the authorization to act on behalf of the FX Prime Broker. Thus it's no longer necessary for the client to conclude individual collateral agreements (CSAs) with each Executing Broker. With an FX Prime Broker involved, all collateral obligations between the client and the Executing Broker are excluded. Thus the client's only collateral obligation is to the FX Prime Brokerage. Thanks to the FX Prime Brokerage service, the institutional client retains ample trading flexibility, without overdependence on any individual Executing Broker.

Bottom line

FX Prime Brokerage trading can markedly reduce the effort to maintain and complete OTC framework agreements. In addition, the administration and costs related to collateral obligations can be cut to a minimum without making the process more complex or increasing operational risks. And FX Prime Brokerage in no way limits the trading freedom of participants while it continues to offer more efficient FX transaction execution at the best possible price for the client.

The macro perspective

Easy come, easy go

Several important monetary policy decisions were due in March. While the ECB gave in to expectations for more monetary policy support, the SNB, the Fed and the BoJ opted for inaction. Any impact on currency markets was thus short-lived. The markets seem to be waiting for clearer signals.

It doesn't happen often that all the major central banks meet within a few days of each other to render their monetary policy assessments. And when the possibility exists that their monetary policy settings might meaningfully diverge, the tension builds during the run-up. But any anticipatory tingles were misplaced, it turns out. Let's look at what happened, one central bank at a time.

ECB surprise fades quickly

We begin on March 10, with the European Central Bank. The expectations facing the ECB were substantial. The memory of December's meeting was still fresh — when additional monetary policy measures fell short of the market's more expansive expectations. Leaving nothing to chance this time, the ECB didn't wait until the press conference to announce its new measures, beyond another cut in negative interest rates.

The ECB's plan made a good entrance. The financial markets liked it. Share prices soared, interest rates declined and dollar bulls were well rewarded. But very soon thereafter ECB President Mario Draghi was issuing party-killing rejections of any further interest rate cuts. The punch bowl was gone and markets dropped with equal haste.

The euro not only recovered its most recent losses against the US dollar; at one point it appreciated fully 2 percent against the greenback. So, after December's botched decision, this is now the second meeting in succession where the ECB has sent its currency on a rollercoaster ride. Textbooks entries on forward guidance will one day discuss these episodes in cautionary terms. What's more, they underscore the view we've long expressed that a further significant drop in the euro is unlikely. In terms of purchasing power parity, the euro's depreciation is already too steep and the old line about divergent monetary policies no longer quite suffices.

Forward guidance in Japanese

With the introduction of negative rates in late January, the Bank of Japan opened a new chapter in its monetary policy chronicles. There's still no sign of the wished-for weakening of the yen, however. We think that shows once again how little real influence the much-discussed interest rate differential has over the exchange rate.

Since the yen was already strongly undervalued thanks to previous BoJ policy moves, its plight was

only aggravated. At its March 15 meeting the BoJ refrained from further action, only to let fly a contrary test balloon the very next day. President Kuroda remarked in a speech that negative interest rates of up to -0.5 percent were possible in Japan. Clearly this channel of communication represents another new form of forward guidance. The effect so far on the yen: nothing visible.

Split image

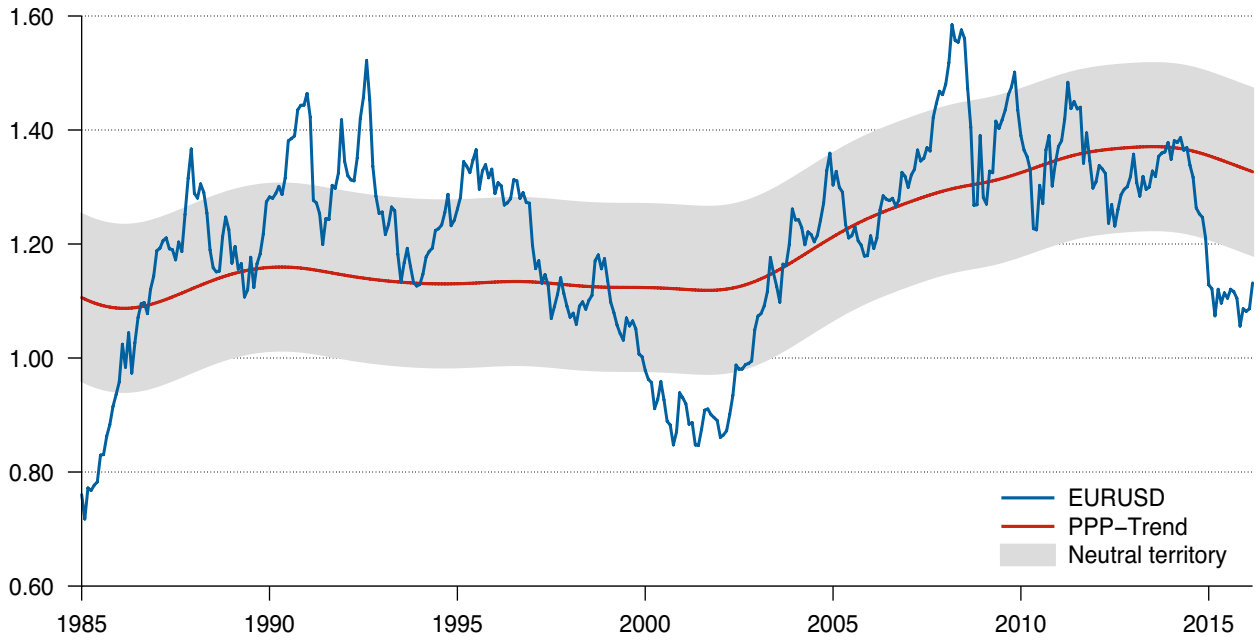
One day after the BoJ, it was the Fed's turn to leave rates where they were, while at the same time issuing confident-sounding statements. After the rate hike in December, there really was no alternative to handling the mixed message the Fed wants to send. Until the economic data strengthens considerably, concerns about a possible US recession will not dissipate.

Meanwhile core inflation is on the rise. In February it was already at 2.3 percent. That could make the Fed's explanatory stretch a bit longer. In any case, nothing here offers any support to the dollar.

Sunny side up

The Bank of England and the Swiss National Bank came next. They followed the main script and left interest rates where they were. The SNB seemed particularly at ease with its course of inaction and quite unconcerned with the ECB's recent moves. The Swiss central bank issued a communiqué blandly rejecting any need for action. But behind closed doors we suspect the mood is rather less sanguine at the SNB. In any case we note that since the beginning of the year the SNB has resumed intervening vigorously on currency markets.

A further significant drop in the euro is unlikely



Source: Thomson Reuters Datastream, Wellershoff & Partners

FX market talk

Brexit cannot be dismissed lightly

Will Britain leave the EU? The possibility can no longer simply be dismissed as fantasy. What's already clear is the surge in words and worry that we will all experience until the June 23 vote is counted. We see some interesting investment possibilities emerging for the pound.

The financial and economic crises of recent years already forced Prime Minister David Cameron to announce his intention to hold a referendum on Britain's EU membership three years ago. Voting takes place on June 23 and until then lovers of spectacle and suspense are in for quite a ride. British voters are fairly evenly split on the issue, according to the latest polls.

Exposed nerves

Recent weeks have seen pro-Brexit "leavers" make substantial gains versus "remainers". This sentiment trend already shifted last fall, pushed by the refugee crisis rippling across Europe. It's hardly surprising that sympathies towards the EU have waned in Britain as the perceived inability of European institutions to cope with the refugee crisis has grown. Then came Britain's attempt to set its relationship with the EU on a new footing, with only very modest results, which in turn played into the hands of the EU-leavers. No wonder they enjoy an advantage in the media at the moment. And London's breezy mayor, Boris Johnson, has added his strong voice to the leavers' side. Right now we'd have to conclude that the EU sceptics appear to have the upper hand.

Raging euroscepticism

In addition to these rather short-term developments, other factors argue for Brexit's appeal to British voters. No other European nation's population is as deeply sceptical of Europe as Britain's. The European Commission regularly surveys its citizens, asking whether they find the EU a "good thing" or a "bad thing." Advocates of the latter view comprise over 30 percent in Britain. To compare, that figure averages around 10 percent in Germany and a mere 7 percent in Italy. And remember, Britain doesn't participate in the Schengen Convention, nor has it adopted the EU's common currency. In sum, then, and especially given recent newsflow, we are forced to acknowledge Britain's potential exit from the European Union as a distinct possibility.

The pound takes a pounding

So, momentum appears to favour Britain's EU sceptics right now and worries about Brexit are justified. That state of affairs is evident on the currency markets. The graph tracks the over-and undervaluations of the pound over the past years versus purchasing

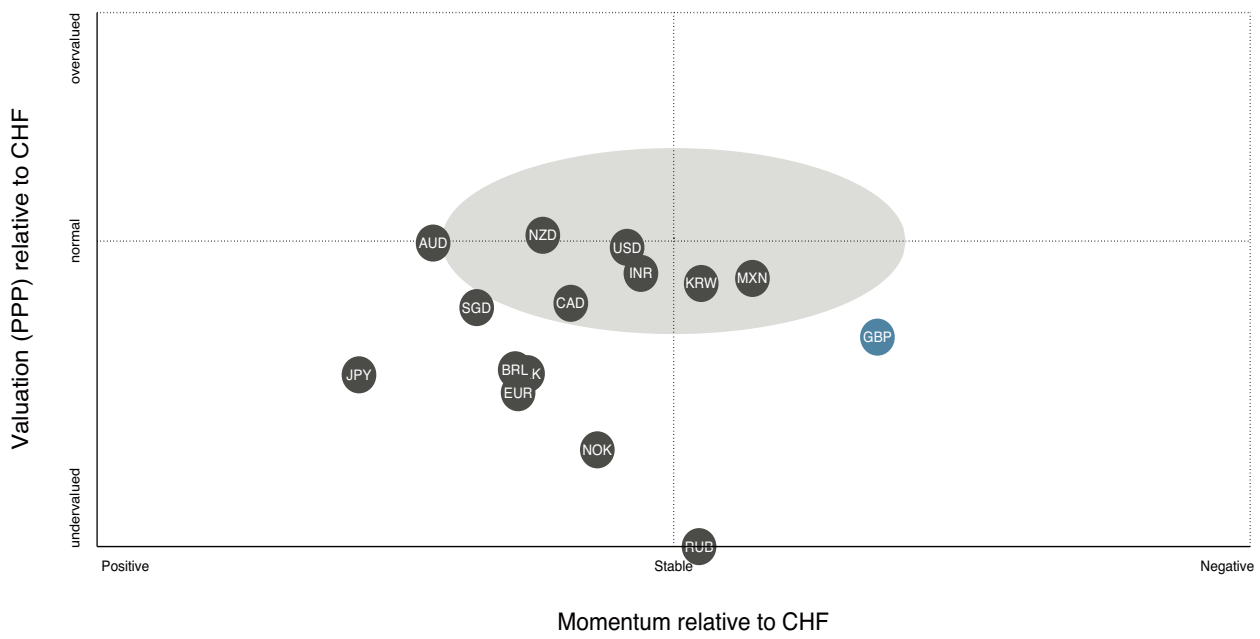
power parity. And the pound not only looks excessively weak from a long-term PPP perspective; it also exhibits a decided tendency toward weakness when compared to the 200-day moving averages («momentum») of the two currencies, as the chart also shows. We currently calculate that the pound is about 13 percent undervalued against the Swiss franc.

Interesting entry points

Despite all the current noise, we're presuming that in the end Britain will remain in the EU. The daunting list of economic and political uncertainties that Brexit would unleash speaks for this view, and we note that studies show that such concerns loom larger for voters as the referendum date grows nearer. Voters tend to think again when the time for a decision has finally arrived, and they tend to weigh the risks of their decisions much more earnestly.

For investors, the scenario unfolding around the pound makes for some interesting opportunities. The pound is already clearly undervalued and with the battle of the ballot box likely to intensify in the coming weeks, we see no relief ahead for the pound. If, as we expect, the outcome sees Britain remaining in the EU, a number of interesting pound opportunities are emerging.

The pound is steeply undervalued versus the Swiss franc



Source: Thomson Reuters Datastream, Wellershoff & Partners

Economic activity

The Swiss economy grew 0.4 percent in the fourth quarter of 2015 compared to a year earlier. Looking at the previous quarters, the recent deceleration in inflation-adjusted growth is obvious. And the situation with individual GDP components is likewise worrisome, with inventories the only factor with a significant positive growth contribution. In this context, the weak private consumption and shrinking plant and equipment investment that we observe are rather unsurprising.

In the US, consumer sentiment freshened a bit, according to our consumer-climate leading indicator. Here, healthy labour market data surely helped, with 242 000 new jobs added. And things were looking up a bit in the industrial sector as well, as the uptick in the ISM Manufacturing Index – from 48.2 to 49.5 points – shows. But emerging markets remain distressed. Brazil's drastic GDP shrinkage continued, going from -4.4 percent in the third quarter of 2015 to -5.9 percent in the fourth quarter.

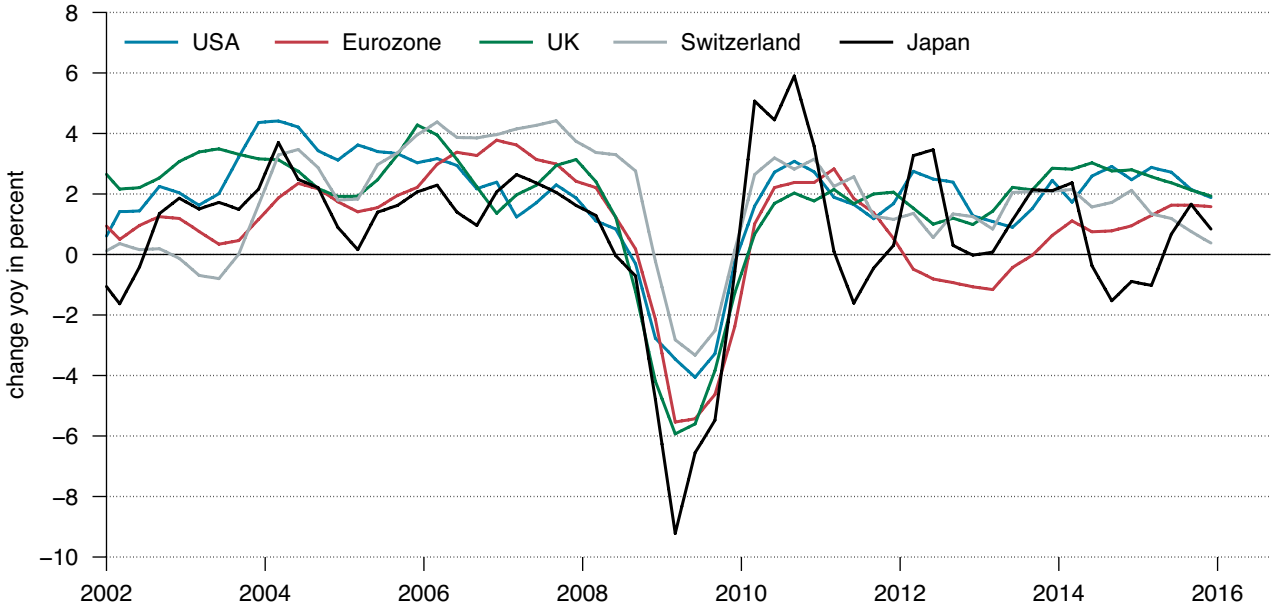
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q1/2015	Q2/2015	Q3/2015	Q4/2015	11/2015	12/2015	1/2016	2/2016
United States	1.7	2.9	2.7	2.2	1.9	2.4	2.3	2.0	2.1
Eurozone	1.0	1.3	1.6	1.6	1.5	2.4	2.5	2.2	2.0
Germany	1.4	1.1	1.6	1.7	1.4	2.6	2.6	2.2	2.1
France	0.7	0.9	1.1	1.1	1.4	1.7	1.7	1.8	1.8
Italy	0.2	0.1	0.5	0.8	1.0	2.2	2.2	1.9	1.6
Spain	1.6	2.7	3.2	3.4	3.5	3.9	4.7	3.7	3.6
United Kingdom	1.8	2.6	2.4	2.1	1.9	2.9	3.3	2.8	2.6
Switzerland	1.5	1.3	1.2	0.8	0.4	0.5	0.7	0.7	0.6
Japan	0.4	-1.0	0.7	1.6	0.7	2.2	2.2	2.2	2.2
Canada	1.6	2.1	1.0	1.1	0.5	1.0	0.7	0.3	0.1
Australia	2.4	2.2	2.0	2.7	3.0	3.3	3.2	3.2	3.2
Brazil	1.4	-2.1	-2.9	-4.4	-5.9	-1.0	0.0	1.0	-0.6
Russia	0.1	-2.2	-4.6	-4.1	–	1.9	0.3	1.6	1.0
India	7.7	6.7	7.6	7.7	7.3	5.8	5.3	6.2	6.2
China	7.4	7.0	7.0	6.9	6.8	7.8	7.5	7.6	7.4
Advanced economies[4]	1.4	1.9	2.1	2.0	1.8	2.5	2.6	2.3	2.2
Emerging economies[4]	6.0	4.7	4.6	4.6	4.5	4.3	4.0	4.4	4.2
World economy[4]	3.5	3.3	3.4	3.3	3.2	3.2	3.1	3.1	3.0

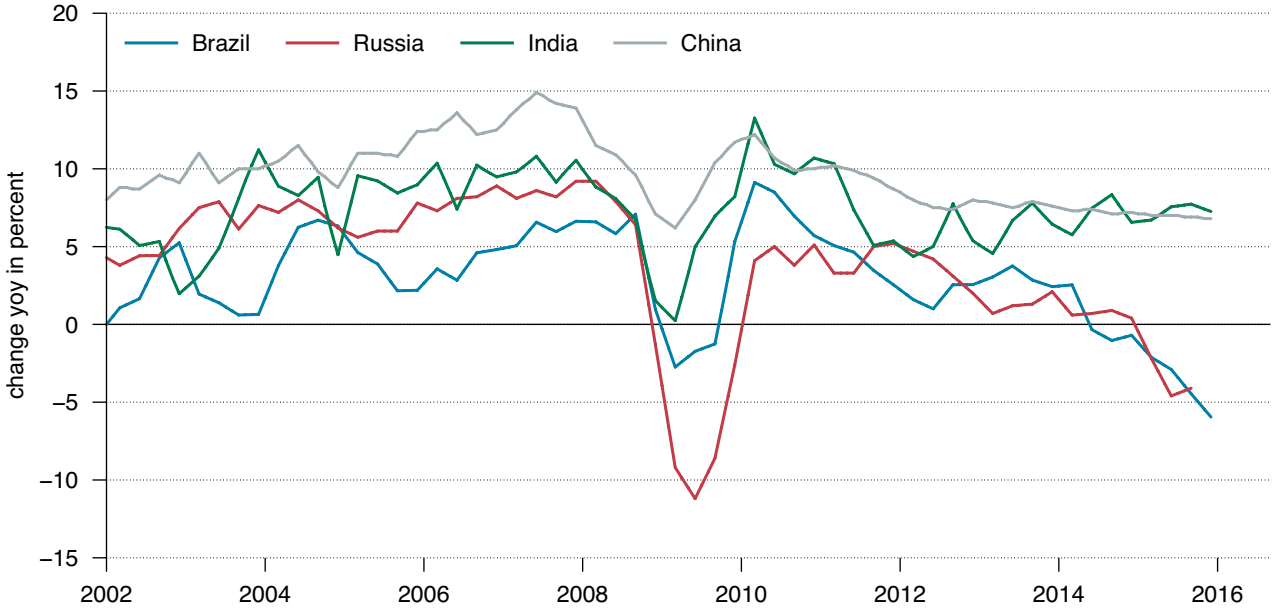
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent.
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6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

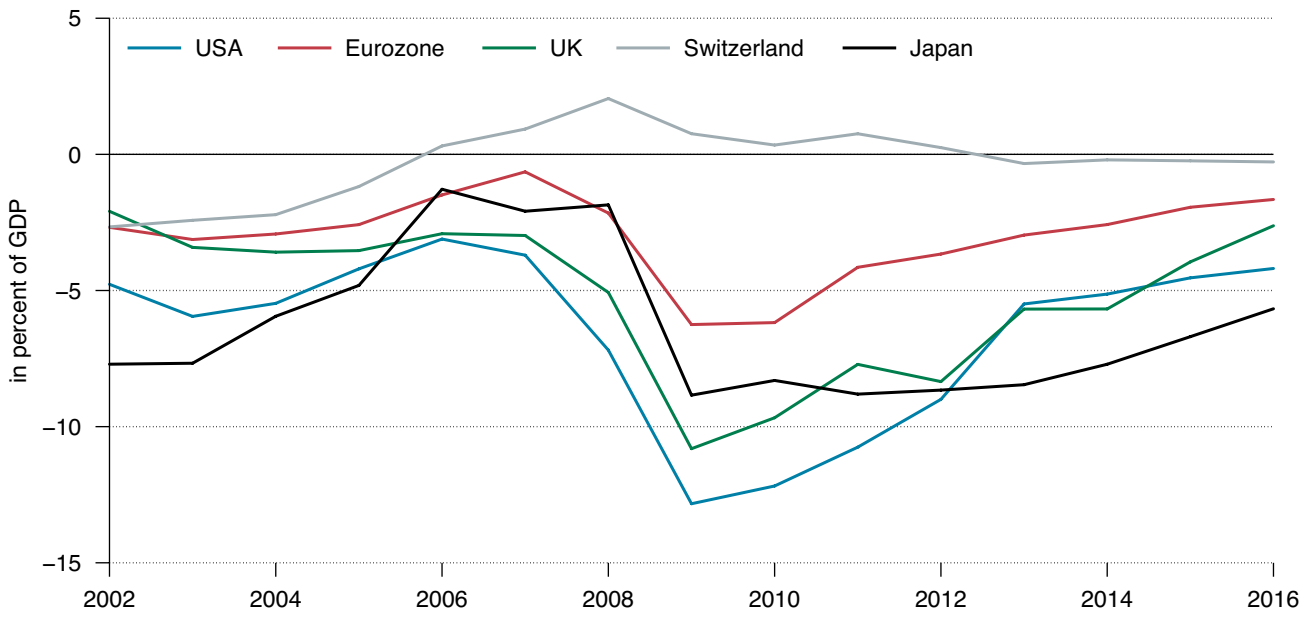
Economic indicators

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	22.5	24.5	-2.6	-2.8	110.7	111.4	-7.0	-4.2	7.2	4.9
Eurozone	17.3	15.6	2.6	3.7	105.1	110.2	-3.1	-1.7	11.2	10.3
Germany	4.9	4.5	7.0	8.0	82.4	75.0	0.0	0.6	6.8	6.2
France	3.7	3.3	-0.7	0.2	112.1	121.3	-4.3	-3.4	9.6	10.0
Italy	2.8	2.4	0.2	1.3	144.4	159.9	-3.0	-2.2	11.1	11.5
Spain	1.8	1.7	0.1	1.3	102.0	118.7	-7.4	-2.9	23.8	20.5
United Kingdom	3.7	4.0	-3.7	-3.4	111.5	115.5	-6.3	-2.6	3.8	2.1
Switzerland	0.9	0.9	9.2	9.9	45.9	46.6	0.0	-0.3	3.1	3.7
Japan	6.9	5.5	1.6	2.9	220.1	232.4	-8.1	-5.7	4.0	3.2
Canada	2.4	2.1	-2.8	-2.3	87.9	89.4	-2.6	-1.3	7.1	7.3
Australia	1.9	1.6	-3.5	-4.1	30.6	37.3	-3.2	-1.8	5.6	5.8
China	12.7	16.1	2.2	2.8	39.3	46.0	-0.7	-2.3	4.1	–
Brazil	3.1	2.2	-3.7	-3.8	64.4	74.5	-4.4	-7.2	5.7	7.6
India	2.6	3.1	-2.7	-1.6	66.5	63.9	-7.5	-7.0	–	–
Russia	2.4	1.5	3.7	5.4	15.3	21.0	-1.2	-3.9	5.7	5.8

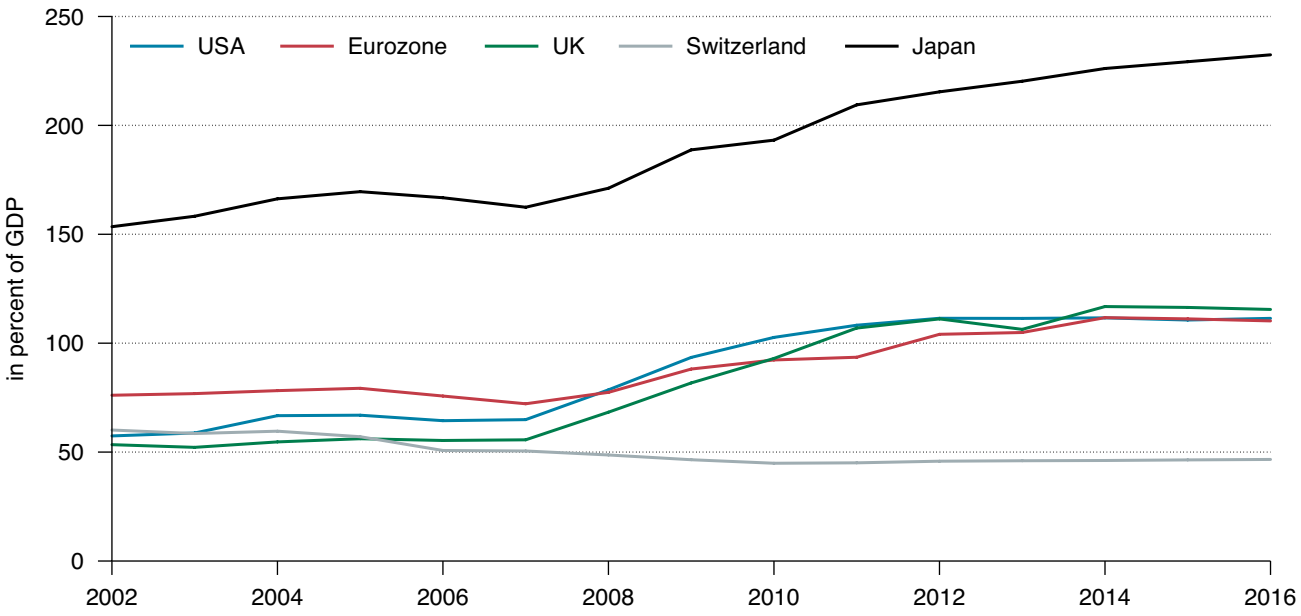
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

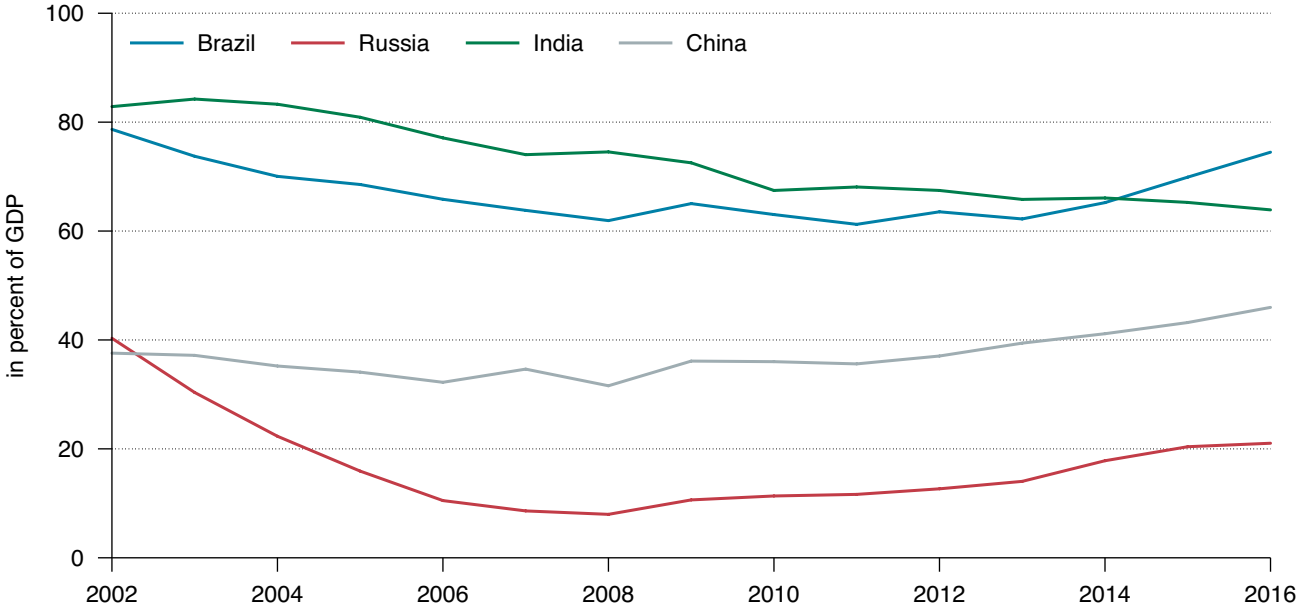


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

Inflation

Overall annual inflation in the US fell from 1.4 percent to 1.0 percent in February, once again thanks to the low oil price. But lately the benchmark WTI (West Texas Intermediate) price has risen from 26 US dollars a barrel to over 40 dollars since mid-February. However, having also had an oil price increase a year ago, the latest price upswing won't be immediately reflected in the data.

We look for overall US inflation to increase in the second half of this year. Meanwhile, core inflation, which excludes volatile energy prices, suggests a meaningful rise in US inflation is credible, already reaching 2.3 percent in February.

In the Eurozone both core and overall inflation rates retreated in February. The lower rates were broadly evident throughout the currency union. That was the first time in a while that core inflation rates broke with their rising trend. In Switzerland, prices were able to normalise a bit in February, with the annualised inflation rate rising to -0.8 percent from -1.3 percent a month earlier.

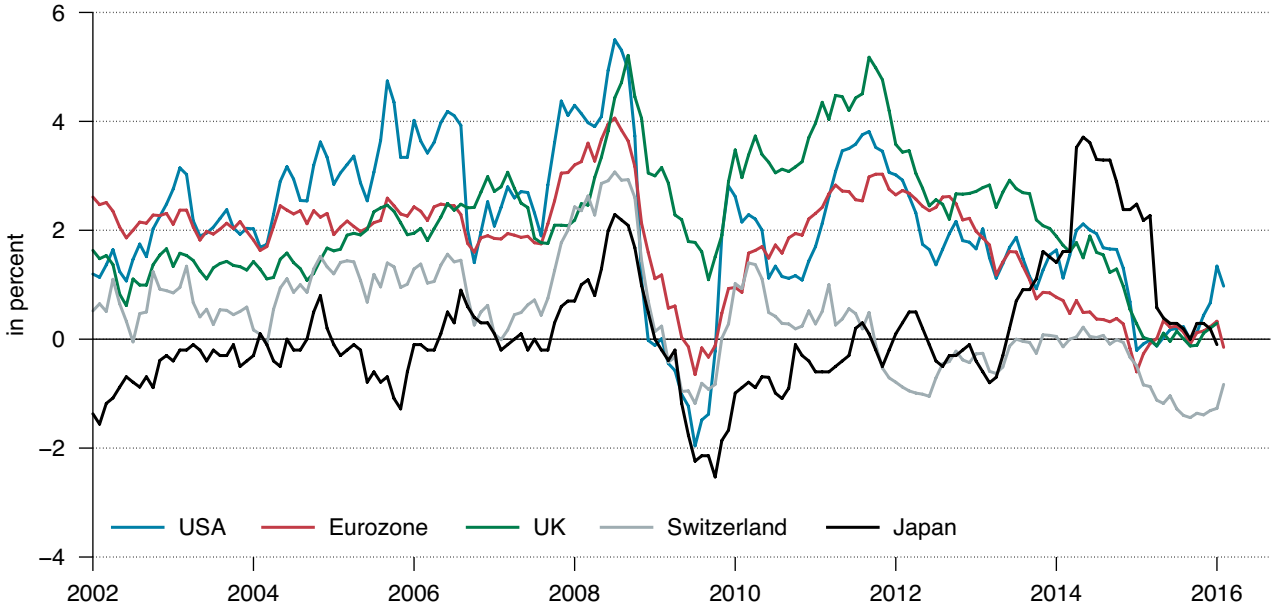
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		11/2015	12/2015	1/2016	2/2016	11/2015	12/2015	1/2016	2/2016
United States	1.9	0.4	0.7	1.3	1.0	2.0	2.1	2.2	2.3
Eurozone	1.6	0.2	0.2	0.3	-0.2	0.9	0.9	1.0	0.8
Germany	1.4	0.3	0.4	0.6	-0.1	1.3	1.2	1.3	0.9
France	1.3	0.1	0.2	0.2	-0.2	0.7	0.8	–	–
Italy	1.7	0.1	0.1	0.3	-0.3	0.6	0.6	0.7	0.5
Spain	1.8	-0.3	0.0	-0.3	-0.8	1.0	0.9	0.9	1.0
United Kingdom	2.5	0.1	0.2	0.3	–	1.2	1.4	1.2	–
Switzerland	0.2	-1.4	-1.3	-1.3	-0.8	-1.0	-0.9	-0.9	-0.5
Japan	0.3	0.3	0.2	-0.1	–	0.8	0.8	0.7	–
Canada	1.7	1.4	1.6	2.0	1.4	2.0	1.9	2.0	1.9
Australia	2.7	1.6	1.7	–	–	2.1	2.2	–	–
Brazil	5.8	10.5	10.7	10.7	10.4	9.4	9.4	9.2	9.2
Russia	9.5	15.0	12.9	9.8	8.0	15.9	13.7	10.7	8.9
India	8.1	5.4	5.6	5.7	5.2	–	–	–	–
China	2.9	1.5	1.6	1.8	2.3	1.5	1.5	1.5	1.3
Advanced economies[4]	1.7	0.4	0.5	0.8	0.7	1.5	1.5	1.6	1.5
Emerging economies[4]	5.2	4.6	4.5	4.3	4.1	4.3	4.0	3.6	3.4
World economy[4]	3.2	2.3	2.4	2.5	2.3	2.3	2.3	2.1	2.0

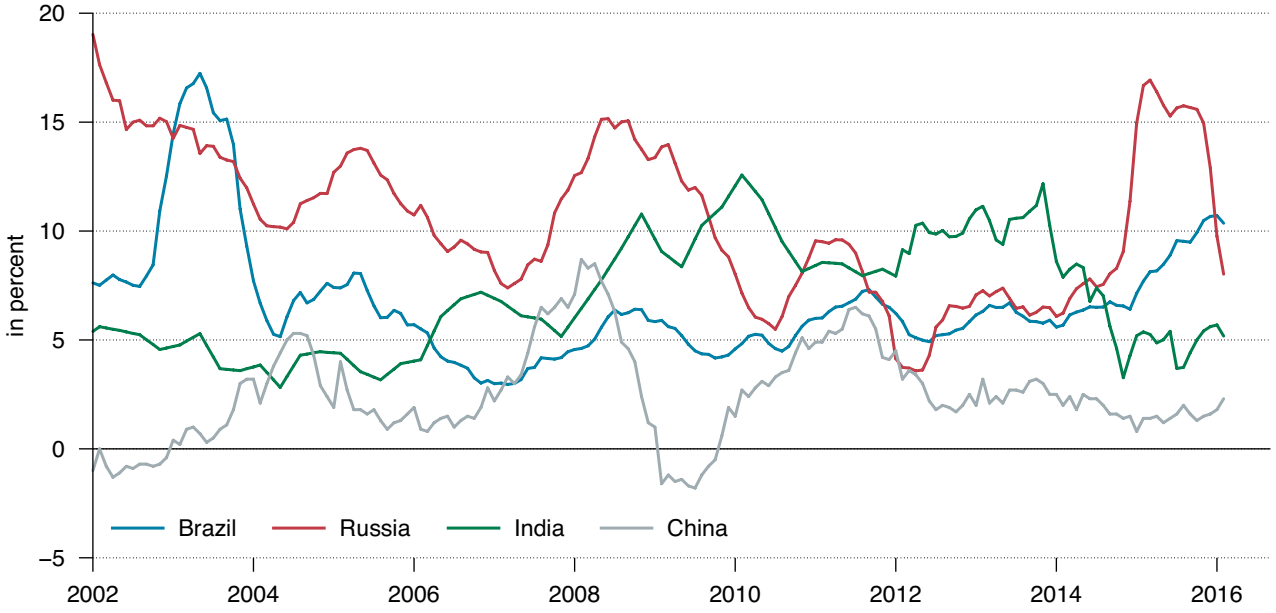
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change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

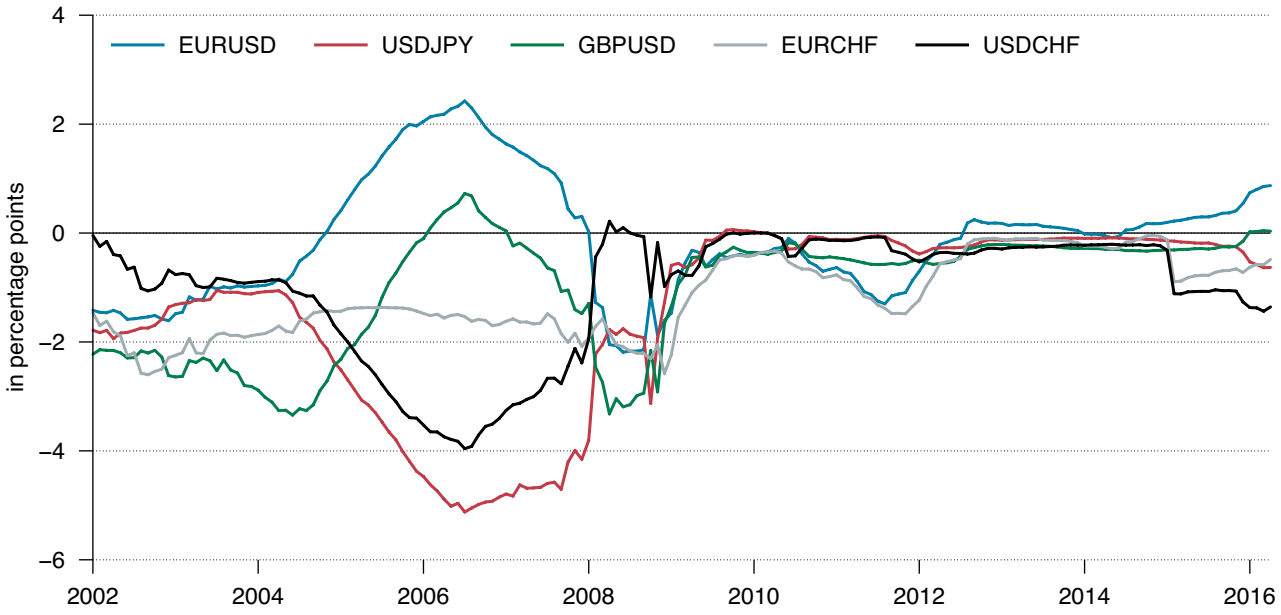
Interest rates

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	1.132	0.85	0.29	-0.03	-0.02	1.22	0.53	0.05	0.01
USDJPY	111.3	-0.63	-0.17	-0.18	-1.17	-1.09	-0.43	-0.39	-1.29
GBPUSD	1.449	0.03	-0.30	-0.33	-0.56	0.18	-0.28	-0.40	-0.61
EURCHF	1.095	-0.50	-0.76	-0.51	-0.90	-0.52	-0.75	-0.66	-0.99
USDCHF	0.968	-1.36	-1.06	-0.48	-0.89	-1.75	-1.28	-0.71	-0.99
GBPCHF	1.402	-1.32	-1.36	-0.81	-1.45	-1.56	-1.57	-1.12	-1.61
CHFJPY	115.0	0.73	0.89	0.29	-0.28	0.66	0.86	0.32	-0.29
AUDUSD	0.764	-1.32	-1.84	-2.59	-2.58	-0.62	-1.21	-1.97	-2.20
USDCAD	1.298	0.26	0.73	0.86	0.38	-0.15	0.31	0.64	0.22
USDSEK	8.188	-1.17	-0.35	0.69	0.25	-1.39	-0.54	0.55	0.22
USDRUB	68.10	9.63	15.64	8.33	6.78	8.85	13.91	8.04	7.21
USDBRL	3.623	13.46	12.76	10.35	9.61	12.42	13.10	10.19	9.58
USDCNY	6.493	2.17	4.64	4.11	2.44	1.88	4.09	3.76	2.21
USDTRY	2.847	10.93	9.78	8.80	9.85	10.37	8.94	8.68	10.16
USDINR	66.69	7.47	8.36	8.84	6.82	6.15	7.16	6.27	4.33

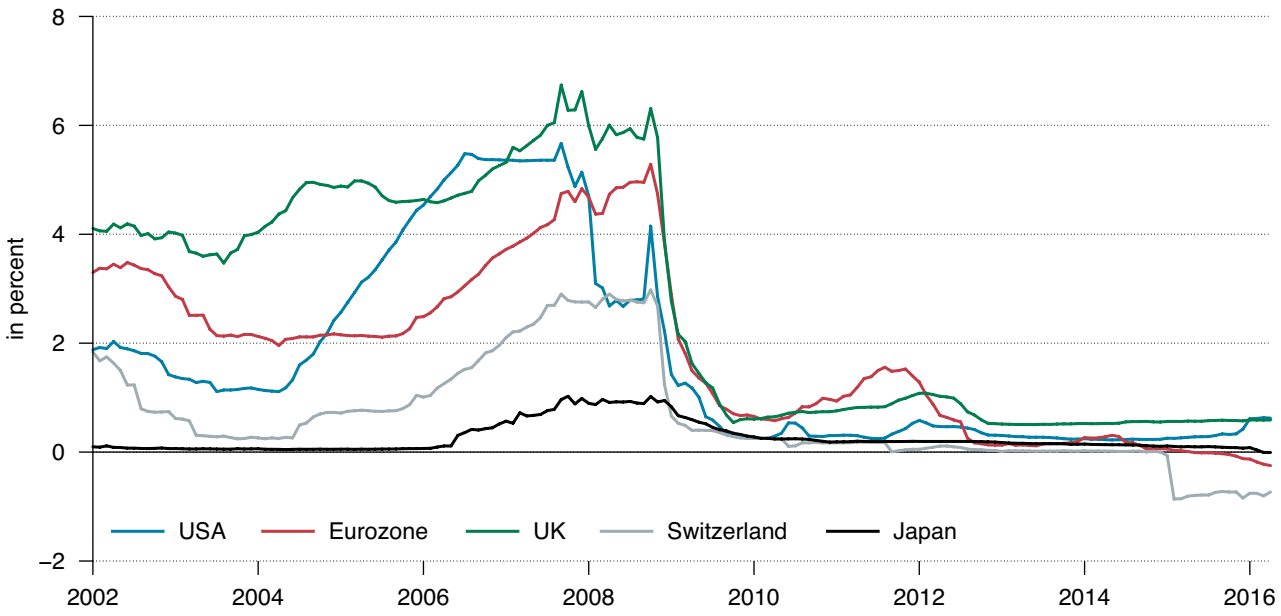
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

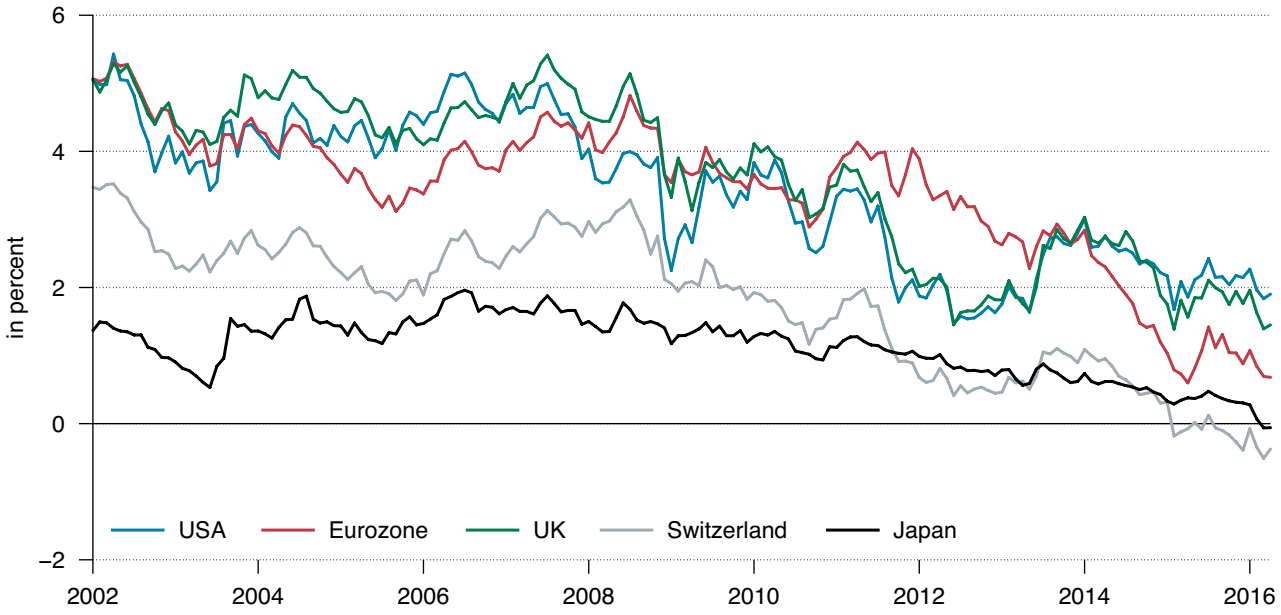


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

FX markets

March saw no fewer than five central banks report their policy assessments. The European Central Bank's announcements were especially anticipated. And on March 10 the ECB delivered a set of new policy measures, as the markets had expected. It again lowered its already negative interest rate and expanded its asset purchasing programme by 20 billion euro per month, also laying the groundwork for asset purchases beyond the public sector. The ECB also announced a new round of measures aimed at sharply boosting lending activity in Europe's banking sector. At the same time, ECB President Mario Draghi let it be known that no more rate cuts could be expected anytime soon.

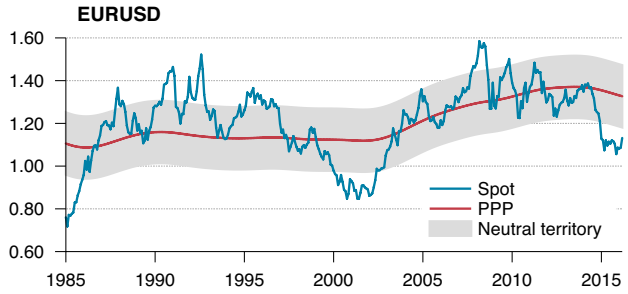
The package of measures was enough to set the euro soaring. It gained 2 percent *during* the ECB's meeting. But hours later it had depreciated almost 4 percent. This cannot be called successfully executed forward guidance. In the meantime, we calculate that the euro remains roughly 12 percent undervalued versus the Swiss franc. The Japanese yen also appeals, appreciating around 1.5 percent, trade-weighted, in the past four weeks.

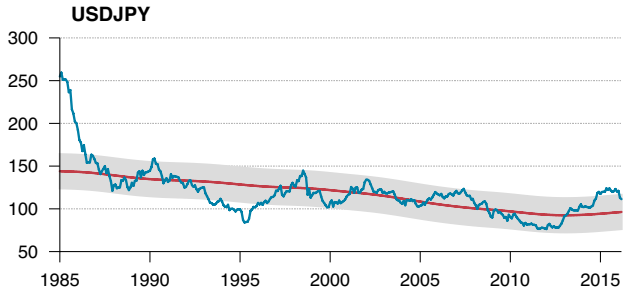
FX overview

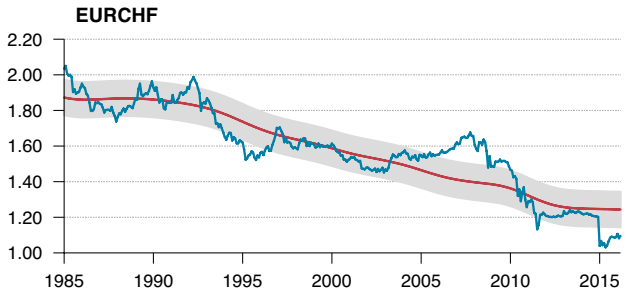
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.132	4.2	4.4	6.3	-20.0	1.33	1.18 - 1.47	-14.7
USDJPY	111.3	-7.5	-8.4	-7.9	37.2	96.3	76.5 - 116.2	15.6
GBPUSD	1.449	-1.7	-2.7	-1.3	-10.5	1.64	1.48 - 1.80	-11.6
EURCHF	1.095	0.7	1.6	3.4	-14.2	1.24	1.14 - 1.34	-11.9
USDCHF	0.968	-3.3	-2.7	-2.7	7.2	0.97	0.78 - 1.16	-0.3
GBPCHF	1.402	-4.9	-5.3	-4.0	-4.0	1.61	1.33 - 1.89	-12.9
CHFJPY	115.0	-4.3	-5.9	-5.4	28.0	91.0	78.5 - 103.5	26.4
AUDUSD	0.764	4.9	6.4	-0.2	-23.3	0.71	0.59 - 0.83	7.5
USDCAD	1.298	-6.5	-6.6	1.7	31.9	1.17	1.09 - 1.24	11.4
USDSEK	8.188	-2.9	-4.4	-6.4	29.8	6.94	6.05 - 7.83	18.0
USDRUB	68.10	-6.8	-3.7	11.7	139.0	37.6	30.7 - 44.6	81.0
USDBRL	3.623	-8.4	-7.0	10.6	116.6	2.85	2.34 - 3.36	27.3
USDCNY	6.493	0.0	0.2	4.2	-1.2	6.32	6.11 - 6.53	2.8
USDTRY	2.847	-2.5	-2.3	8.7	80.2	2.24	1.98 - 2.50	27.1
USDINR	66.69	0.8	0.4	6.3	47.8	63.2	60.0 - 66.4	5.5

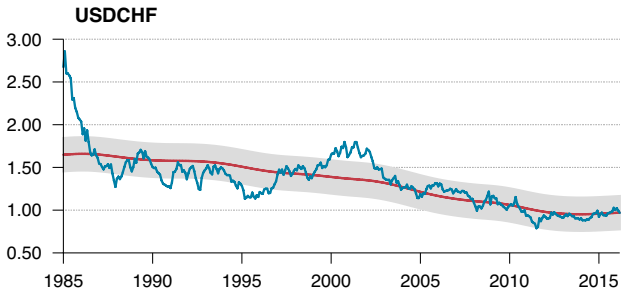
[1] Performance over the respective period of time, in percent.
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.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

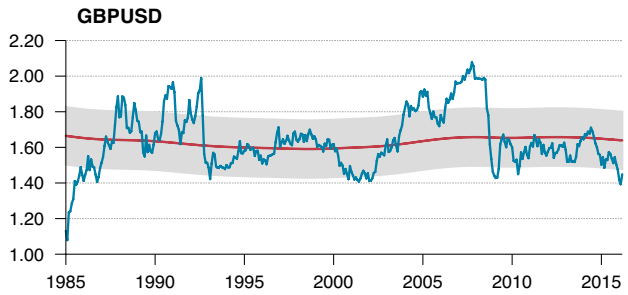
Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

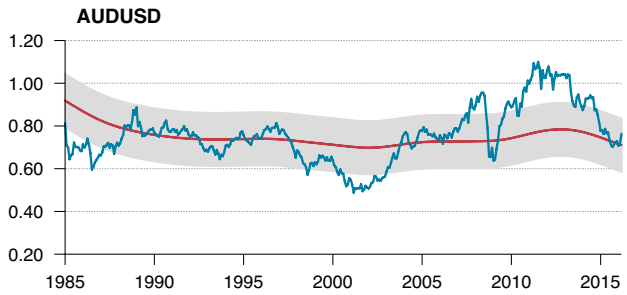


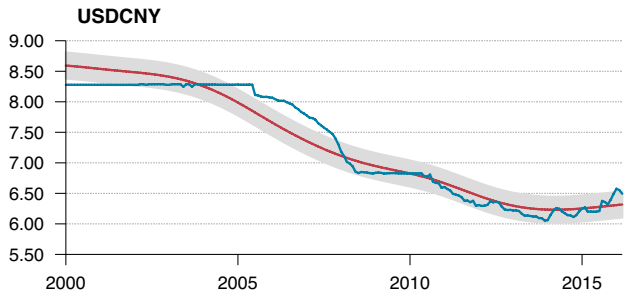


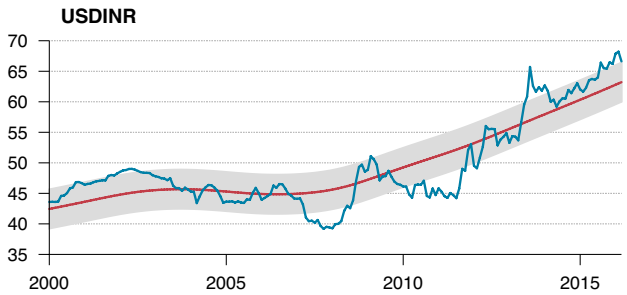


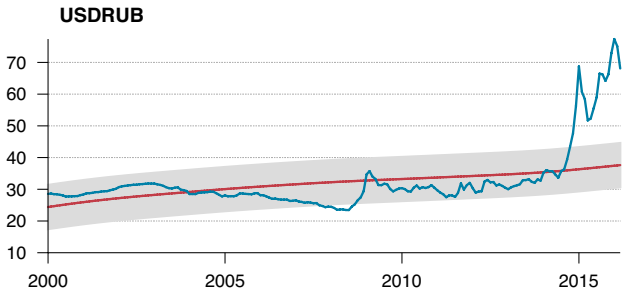


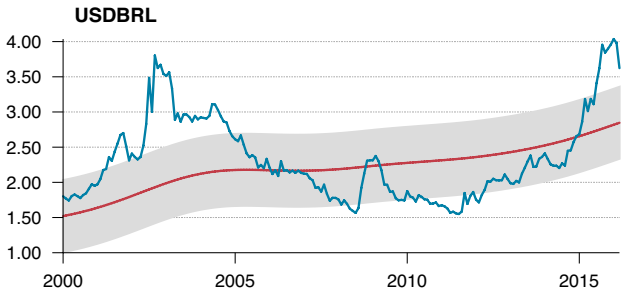












Source: Thomson Reuters Datastream, Wellershoff & Partners

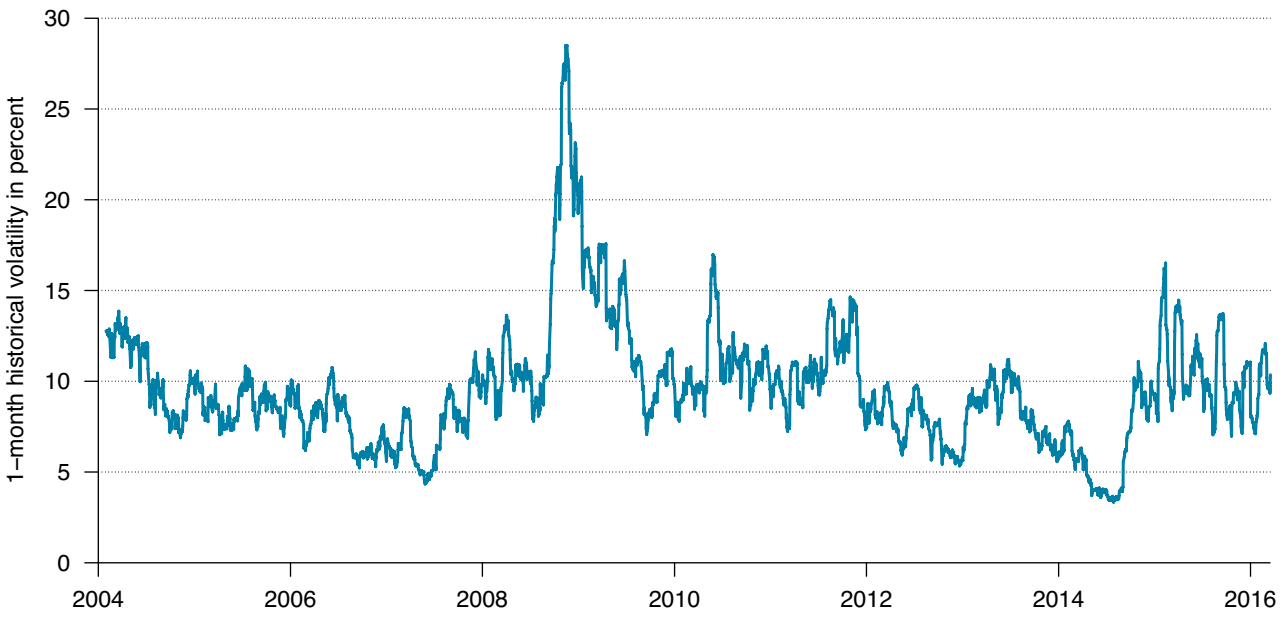
FX volatility

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	1.132	10.1	9.5	9.7	10.3	11.6	9.9	10.2	10.7
USDJPY	111.3	11.2	10.2	9.6	10.6	9.2	10.2	10.6	11.0
GBPUSD	1.449	9.4	10.7	8.0	9.4	8.6	12.1	8.9	10.0
EURCHF	1.095	5.8	7.0	6.3	6.0	7.3	8.5	7.2	6.3
USDCHF	0.968	9.9	9.2	10.2	10.5	11.0	10.1	10.7	10.8
GBPCHF	1.402	11.2	11.4	8.8	9.7	10.5	12.8	9.6	10.2
CHFJPY	115.0	10.6	10.1	11.0	11.3	10.6	11.3	11.8	11.7
AUDUSD	0.764	12.6	12.2	11.0	12.3	12.7	12.4	11.7	12.6
USDCAD	1.298	10.8	10.1	8.1	9.7	9.6	10.1	8.7	10.0
USDSEK	8.188	10.2	9.7	11.5	12.5	12.2	10.6	12.0	12.7
USDRUB	68.10	24.6	24.3	15.3	12.9	27.4	24.7	15.7	13.9
USDBRL	3.623	18.9	21.6	14.4	15.1	19.4	20.2	15.1	15.6
USDCNY	6.493	3.1	6.0	2.6	2.8	3.2	7.1	3.5	4.3
USDTRY	2.847	9.5	12.5	11.8	13.5	13.0	14.6	13.1	14.8
USDINR	66.69	4.5	6.9	9.5	9.5	4.8	8.4	10.5	10.3

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

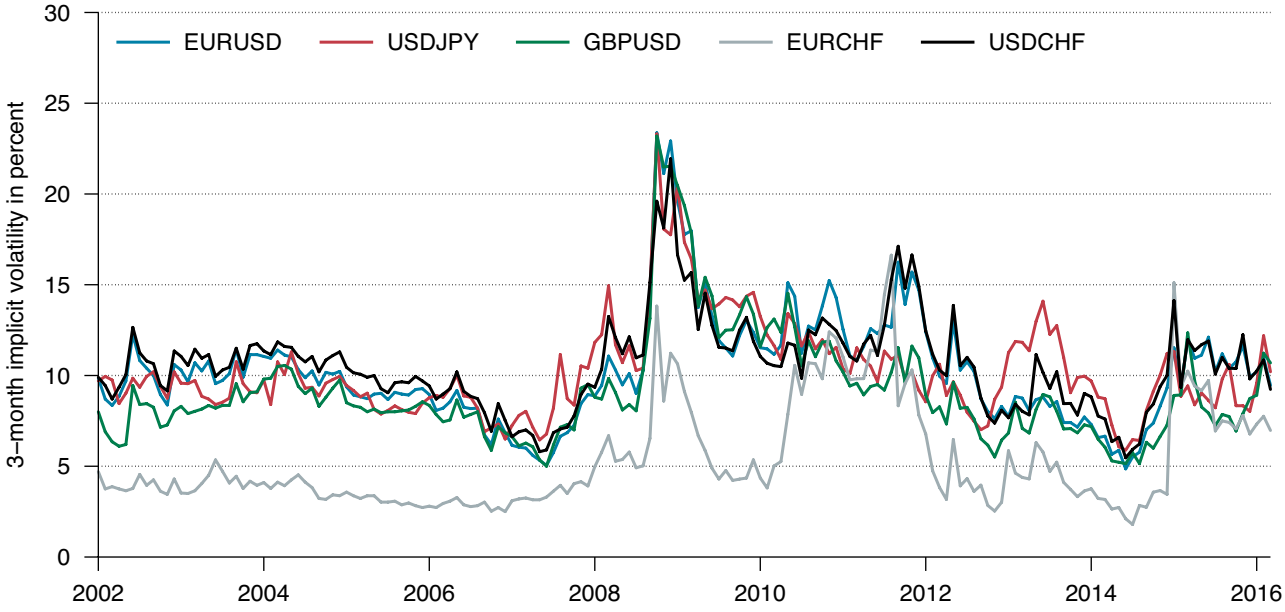
Quaesta Capital volatility indicator[3]



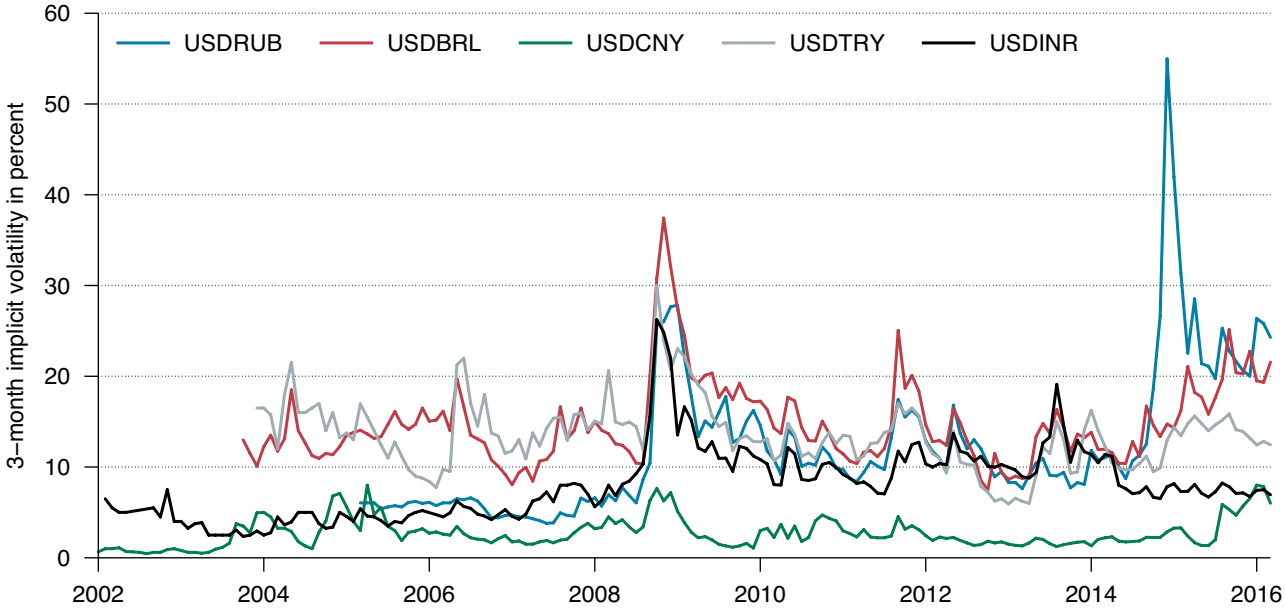
[3] Quaesta Capital's volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implied volatility



Implied volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

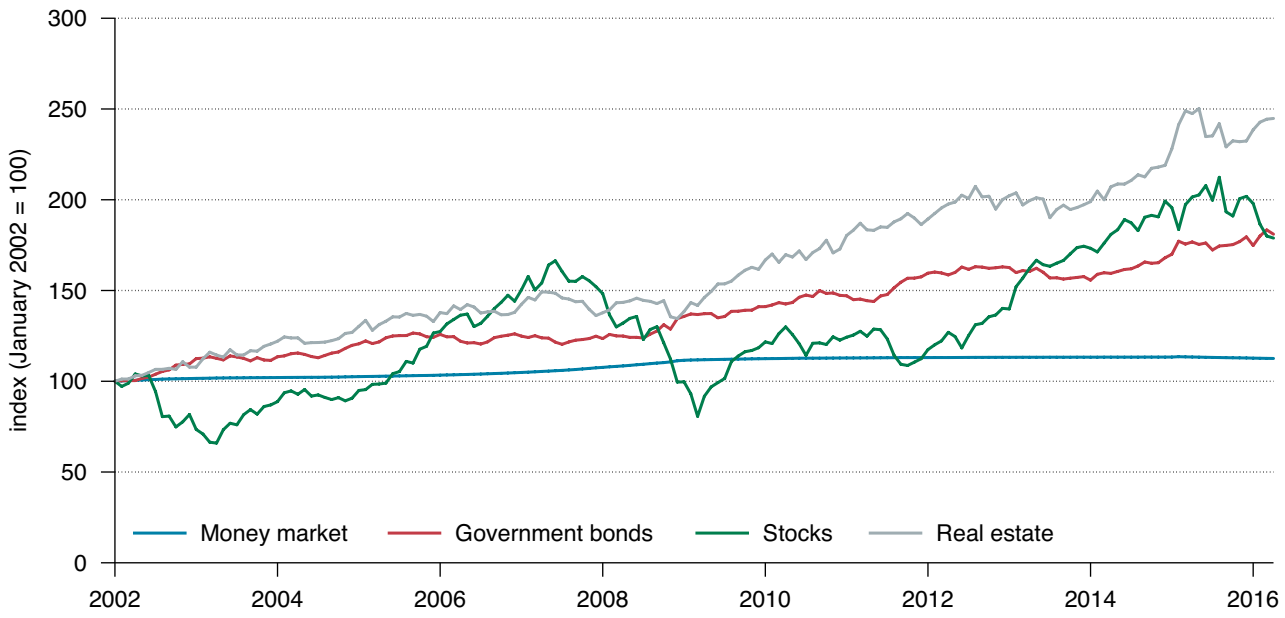
Financial markets

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	-0.2	-0.2	-0.7	-0.3	-0.2	-0.2	-0.7	-0.3
Swiss government bonds	3.6	2.7	2.5	23.8	3.6	2.7	2.5	23.8
Swiss corporate bonds	2.1	1.5	2.0	19.7	2.1	1.5	2.0	19.7
Swiss equities (SMI)	-9.6	-7.4	-12.3	51.3	-9.6	-7.4	-12.3	51.3
Eurozone equities (Stoxx600)	-6.3	-5.1	-11.8	51.6	-4.9	-3.3	-8.9	31.3
UK equities (Ftse100)	0.4	3.6	-7.1	30.4	-4.9	-3.1	-12.3	24.9
Japanese equities (Topix)	-12.1	-11.4	-12.5	82.0	-6.8	-5.8	-7.7	43.1
US equities (S&P 500)	0.4	2.3	-0.7	77.6	-1.5	-0.2	-3.8	91.2
Emerging markets equities	3.1	4.0	-12.2	-14.3	1.2	1.4	-15.0	-7.7
Global equities (MSCI World)	-0.7	1.2	-3.9	45.8	-2.5	-1.3	-7.0	57.0
Swiss real estate	2.6	3.1	-0.5	33.6	2.6	3.1	-0.5	33.6
Global real estate	4.9	6.5	2.1	56.8	2.9	3.9	-1.2	68.8
Commodities	3.5	5.0	-17.2	-50.7	1.5	2.4	-19.8	-46.9
Brent oil	16.6	12.1	-22.0	-63.5	14.4	9.4	-24.5	-60.7
Gold	18.9	18.7	9.6	-11.0	16.7	15.8	6.1	-4.1

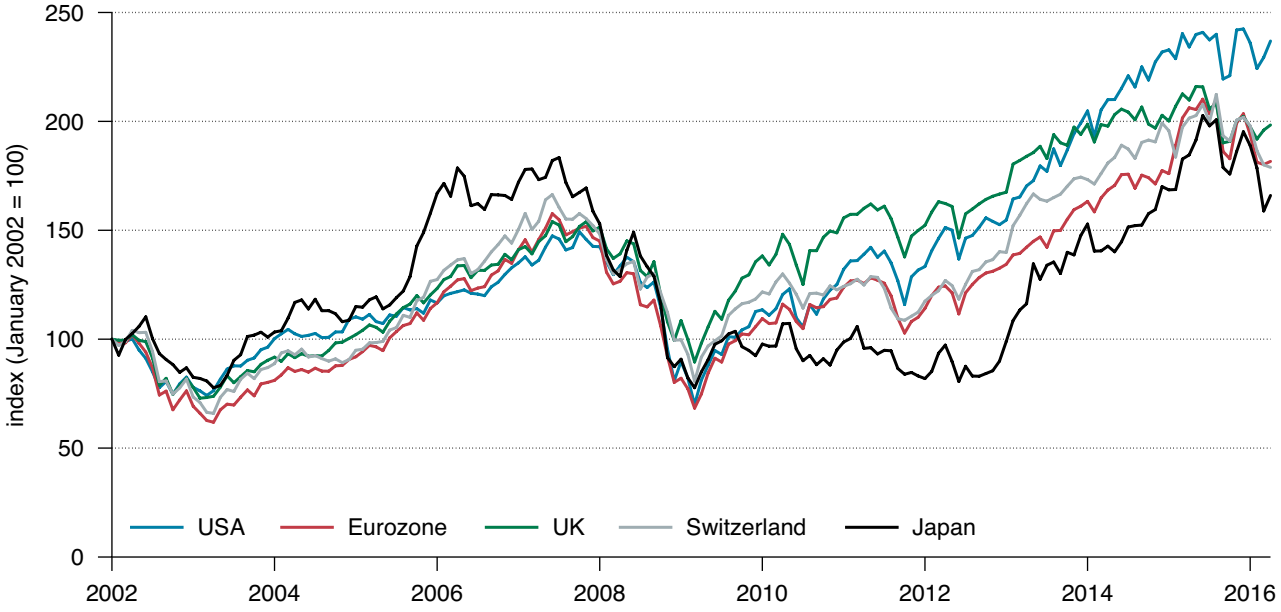
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

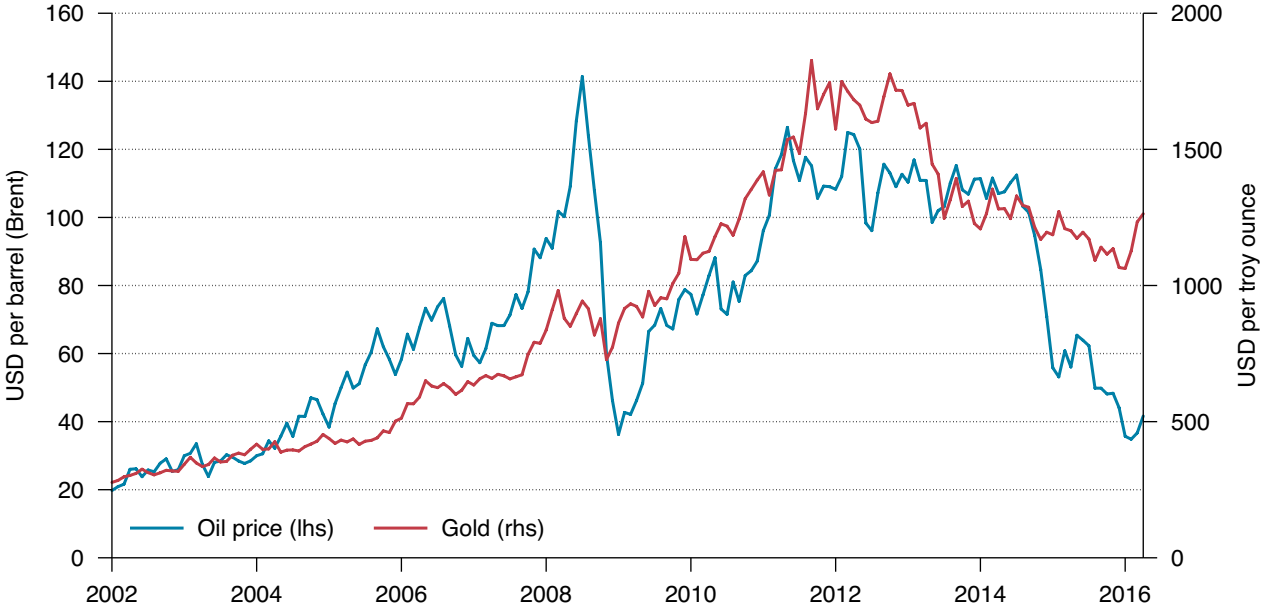


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Number of the month

100+ percent

When it officially abandoned its minimum exchange rate policy for the franc versus the euro in January 2015, the Swiss National Bank argued that continued intervention would hamper its capacity to act in the future. Since then, the SNB has nevertheless intervened repeatedly on currency markets. At the end of 2015, the SNB's total assets exceeded the country's annual gross domestic product for the first time in history. No other central bank's assets are as large in proportion to its economy. Will the SNB ever cease its interventions? Given low inflation expectations at home and abroad, as well as persistent Euroscepticism in Switzerland, such a prospect looks more than questionable today.