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MAY 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: May 7, 2019
FX Monthly is published monthly in English and German.

FX Monthly
May 2019

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QCAM Insight

A new glow for gold?

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

Gold's recent upgrade to Tier 1 asset status under Basel III and last year's record-setting gold purchases by central banks have set the gold bugs buzzing. But so far the gold price has failed to budge. For central banks, gold is a last-resort store of value. For most other investors, gold remains a rather speculative asset class.

Since March 29, gold is considered a Tier 1 asset under the Basel III Accords. That boost in status has triggered speculation that banks will be buying more gold, hoping that a rising gold price will increase their equity base. In fact, some conspiracists have even seen this as a move to reintroduce the gold standard through the back door. In parallel, central banks bought record amounts of gold in 2018 and the buying spree seems to be continuing in 2019.

Little inflation and little stress

But despite the good news, the gold price has failed to move higher. There have been some notable ups and downs, but looking beyond the volatility, the gold price was flat last year and remains flat so far this year. In fact, gold's performance has been disappointing since the peak of the Eurozone debt crisis, in 2011.

The main reason for gold's price inertia is undoubtedly the very tame behavior of inflation. In addition, central banks have not hesitated to extinguish any spark of serious financial trouble by extending their stimulus programs or pausing their policy normalization efforts. Low inflation and the central bank "put" are conditions that are unlikely to last forever, although both certainly got another extension this year. For now, neither Basel III's nod to gold nor the continuing purchases by central banks may be enough to remove these restraints on the price of gold.

Gold is risky for Banks

Gold is not a perfect capital base for banks because its valuation depends on volatile market prices and the exchange rate if the bank is not USD based. Banks would be required to inject more capital if the local currency price of gold goes down. Second, even under Basel III, gold is only valued at 85 percent of its market value, not 100 percent. Third, gold earns no interest but does entail significant storage costs. All told, gold is a costly and risky source of bank equity.

For central banks, gold is primarily seen as an asset of last resort rather than an investment that's expected to generate a return. Emerging market central banks in par-

ticular are buying more gold, given the growth of their monetary systems and reserves. In addition, gold is regarded as one way to diversify reserves away from the USD. This was certainly the case for Russia, which was the largest sovereign buyer of gold last year.

However, while the net purchase of 651 tons of gold by central banks last year set a record in absolute terms, in relative terms it was modest. It accounted for about 20 percent of the new minted supply of gold, a mere 1.9 percent of the total gold holdings of central banks, and only 0.3 percent of the global above-ground gold stock. Indeed, there is no significant positive correlation between central bank gold purchases and the gold price (see chart).

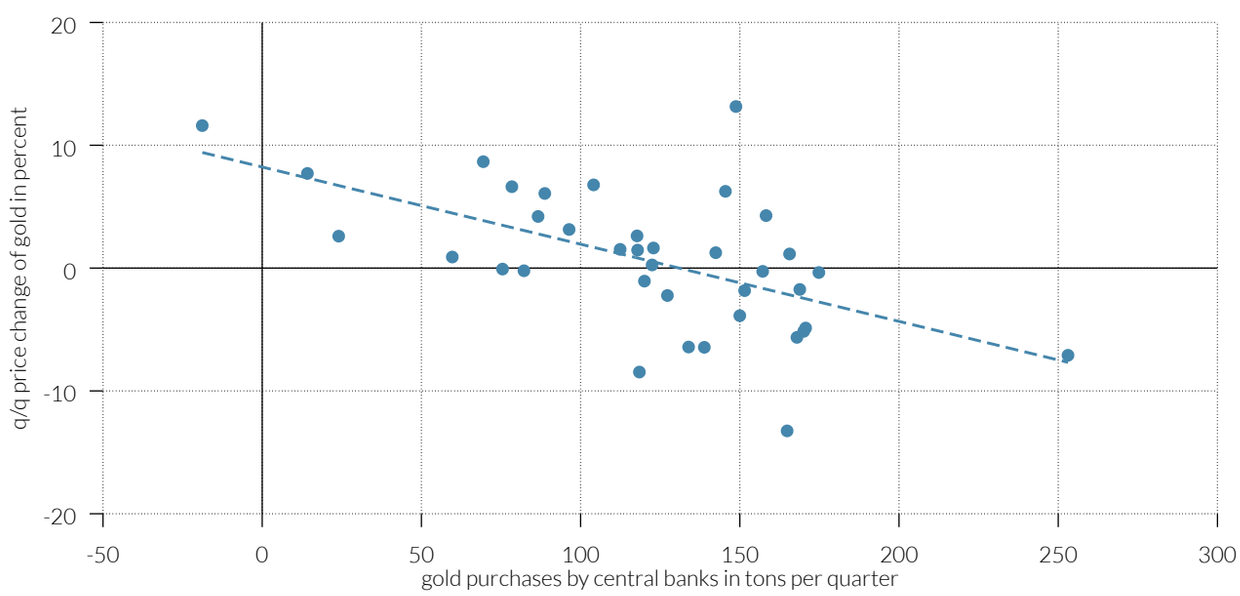
A speculative asset class

As with central banks, investors who seek a safe asset of last resort and who are willing to bear market volatility and the storage costs may find gold appealing. Investors who trust governments and central banks to safeguard the functioning of the monetary systems may find gold less attractive.

First, holding gold is costly. Even gold-related ETFs include some implicit price for storage. Second, the price of gold is volatile. Indeed, one could argue gold is a speculative asset class. It yields no dividend or interest and its price largely depends on the changing preferences of the holders of the of above-ground gold stock, and much less so on new supply. Moreover, new supply tends to catch up as soon as the price of gold moves higher for a longer period of time.

Thus, while gold has a negative correlation with other risky assets, its own volatile and costly nature makes it an imperfect hedge. We think most investors are probably better off diversifying their portfolios with stocks, bonds, cash, currencies and alternative assets like property than by buying gold as a risk protection.

Central bank gold purchases and the gold price



Source: World Gold Council, IBA, QCAM Currency Asset Management

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The macro perspective

A good start, albeit one with reservations

The slackening pace of economic momentum over the past several months seems to have had the effect of limiting the scope for a sharper downturn. But can the slowing trend be stopped? Positive news has indeed arrived, from several regions, but unanswered questions remain.

The US economy got off to a good start in the new year, showing more dynamism than many expected. However, we think the growth picture in the first quarter was not entirely convincing. Consumer spending, long a cornerstone of the US economy, was in the doldrums. This weakness can be traced back to anemic consumption at the turn of the year, which disappointed despite the buoyant sentiment of consumers and the healthy labor market. Still, the latest figures on retail sales and consumer spending suggest that US consumers are reviving.

In addition to private consumption, the important metric of capital investments also remained subdued in the first quarter. And housing investment continued to struggle. The situation on the US housing market has been clouded for months now. Leading indicators, such as construction starts and building permits, have recently disappointed. Taking the housing market alone as a harbinger of US recessions, a downturn in the next year or two seems likely.

Meanwhile, stepping into the breach to support the US economy came such volatile items as government spending and foreign trade. The latter alone contributed about one percentage point to overall growth. And a good deal of growth was attributable to stockpiling . The large contribution to growth made by these volatile components raises questions about how sustainable the recent growth acceleration really is, especially since companies' sentiment is continuing to decline. Without more sustainable growth drivers, we think the US economy is unlikely to be able to sustain its fast pace of growth later in the year.

China's industrial sector surprised positively

China was also able to regain its economic footing in the first quarter. In particular, industrial production numbers surprised positively. The government's stimulus package, which has meanwhile kicked in, seems to have given a boost to several sectors. Cement production, for example, which is largely driven by infrastructure demand and the real estate sector, increased significantly. This surge is explained by the fact that the government has applied proven methods in its latest stimulus package. State-owned enterprises and local governments are the agents that fuel growth through new infrastructure and real estate developments. Corresponding developments can be seen in investments in fixed assets; in particular, state-owned enterprises have booted up their investment activities.

Despite the recent improved data, we feel China's economy is still shaky. The environment is still challenging for the private sector. The growth rate of capital investments by private companies has recently declined further. And the latest figures on medium- and long-term loans to private companies also show no acceleration. Both these data points indicate that the government's efforts to increase credit availability in the private sector have not yet borne fruit.

Despite various measures taken by China's central bank, the country's banks seem reluctant to assume greater risks when lending to private companies. A weak private sector ultimately threatens private consumption, since private companies are the main drivers in creating new jobs. The latest data suggests that the weakness in private consumption evident in the first quarter has at least not worsened. It remains to be seen whether the recent tax cuts for private individuals will trigger a lasting turnaround in private consumption.

Industry remains the Eurozone's headache

The economic engine in the Eurozone accelerated a bit at the beginning of the year. From January to March, according to the first flash estimate, quarterly growth of 0.4 percent was achieved. First-quarter data available on individual GDP components at the Eurozone aggregate level is not yet available. However, figures from individual countries indicate that the construction sector was an important growth driver. Due to the good weather, construction activities expanded briskly, especially in Germany. Industry, on the other hand, remains the Eurozone's problematic sector. The sentiment barometer for industrial companies points persistently downward. It seems that the growth weakness produced by various special factors has finally affected corporate sentiment.

The global economy gains a bit of steam

Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

The renminbi finds its way into benchmarks

Renminbi bonds from the world's second largest debt market are gradually being added to global portfolio benchmarks. A similar development began unfolding a year ago with renminbi-denominated Chinese equities. As portfolios are adjusted, their currency mixes will inevitably change.

A world in which both the Number 1 and Number 2 economies are running current account deficits is a new paradigm. China's once vaunted current account surplus – almost 10 percent of GDP in 2008 – shrank to a mere 0.4 percent in 2018. The basic arithmetic behind this decline in the current account is that China's purchases of foreign goods and services has been rising far faster than the rest of the world's purchases of Chinese goods and services. China's miniscule current account surplus also masks a large and growing deficit on the services account. For example, the Chinese spent USD 277 billion on trips abroad last year, an almost eightfold increase from a decade ago. If current trends were to continue for a while, which seems a reasonable assumption, then China will eventually run a current account deficit. The declining surplus on the goods account (around +USD 395 billion last year) will not be enough to offset the growing deficit on the services account (-USD 346 billion).

Current account deficits need to be financed. The logic behind opening up China's domestic asset market to foreign investors reflects this reality. The alternative to running current account deficits is to try to prevent them from forming in the first place by means of draconian capital controls and a weak currency. The latter, for example, would make foreign travel prohibitively expensive for most people. But China's stated policy aims are the opposite of what such measures would promote. China says it wants to open its economy to foreign investors and to expand the internationalization of the renminbi.

More renminbi bonds available to non-residents

It is in this context, then, that renminbi bonds issued by the Chinese government and its three state policy banks are being added to the Bloomberg Barclays Global Aggregate Index from April 2019 to December 2020. A year ago, the MSCI Emerging Markets Index began including Chinese A-shares, which are domestically-listed Chinese equities denominated in renminbi.

In both cases, the Chinese authorities had to undertake changes to satisfy the index providers' criteria for granting foreign investors easier access to trade, settle and hold the underlying assets. Thus, the Chinese government continues to open the doors wider to foreign investment, while always maintaining the fallback position that it could intervene to restrict capital outflows when it deems that doing so is appropriate.

The impact of index inclusion on FX

We can see the effects of the increased weight for Chinese assets in benchmarks relevant for portfolios by comparing the performance of the currencies of two emerging market benchmarks, one for equities, where China's share has been growing, and one for bonds, where China has so far not been included.

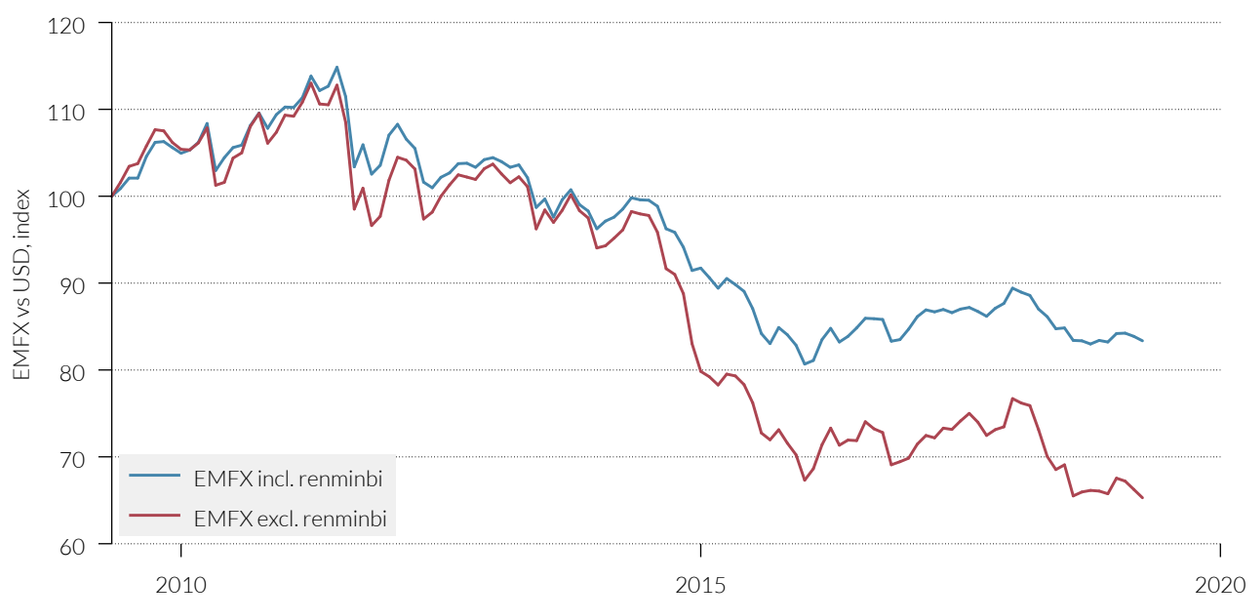
The chart shows the performance of the currencies that constitute the MSCI Emerging Markets Index for equities, which includes China (33 percent), South Korea (13 percent), Taiwan (11 percent), India and Brazil (7 percent each) among the heavyweights, as per the end of March 2019. We compare this index with the JPMorgan GBI-EM Index, a local currency emerging market government bond index, where Chinese government bonds were not included because the renminbi-denominated bonds did not meet the index provider's criteria for accessibility. Here, the heavyweights at the end of March were Mexico, Indonesia, Brazil, South Africa and Poland, with around 10 percent each, Thailand (8.5 percent), Russia (7 percent), Colombia (6 percent), Malaysia (5 percent), and Hungary, Czech Republic, Turkey, Peru and Chile (around 4 percent each).

It is evident from the chart that, starting in 2013, following market concerns about the "tapering" of quantitative easing, which boosted the US dollar, several of these emerging market currencies depreciated. This group of EM currencies was also affected by the fall in the price of oil (Brazil, Russia), slower growth, and some idiosyncratic developments – a deep recession in Brazil and sanctions against Russia. The gap between these two sets of currencies has remained wide for half a decade now, also suggesting that the latter group suffered from relatively higher inflation, which essentially precludes a return to their previous nominal values.

The takeaway

From this comparison, we can conclude that a diversified index of emerging market bonds that includes issuers with historically stronger currencies, such as the renminbi, is likely to hold up better against the US dollar than an index consisting of only historically weaker currencies.

What a difference the renminbi makes in emerging market currency baskets



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Economic activity

The growth figures for the first quarter of 2019 have surprised positively. The US economy expanded robustly, with an annualized quarterly growth of 3.2 percent. The economies of the Eurozone and China also accelerated at the beginning of 2019. However, recent sentiment indicators failed to echo the good growth data. In the US, the ISM Manufacturing survey recently corrected to 52.8 points. In the Eurozone, the decline in sentiment continued in April, with industry in particular losing significant ground yet again. In China, both the Caixin and the official PMIs have recently signaled declining momentum in the industrial sector.

We are still waiting for Japan's growth figures for the first quarter. The data published so far suggests that economic growth will be negative. The sticking point for Japan's economy is the sluggish foreign demand, which has led to losses especially in the industrial sector. Concretely, the industrial sector saw negative growth of 1.1 percent in the first quarter. Exports paint a similar picture, with a hefty minus of 3.9 percent. The weakening economic momentum arrives at an inopportune time for the government. The authorities plan to increase the consumption tax in October. The opposition party has already spoken out in favor of a delay.

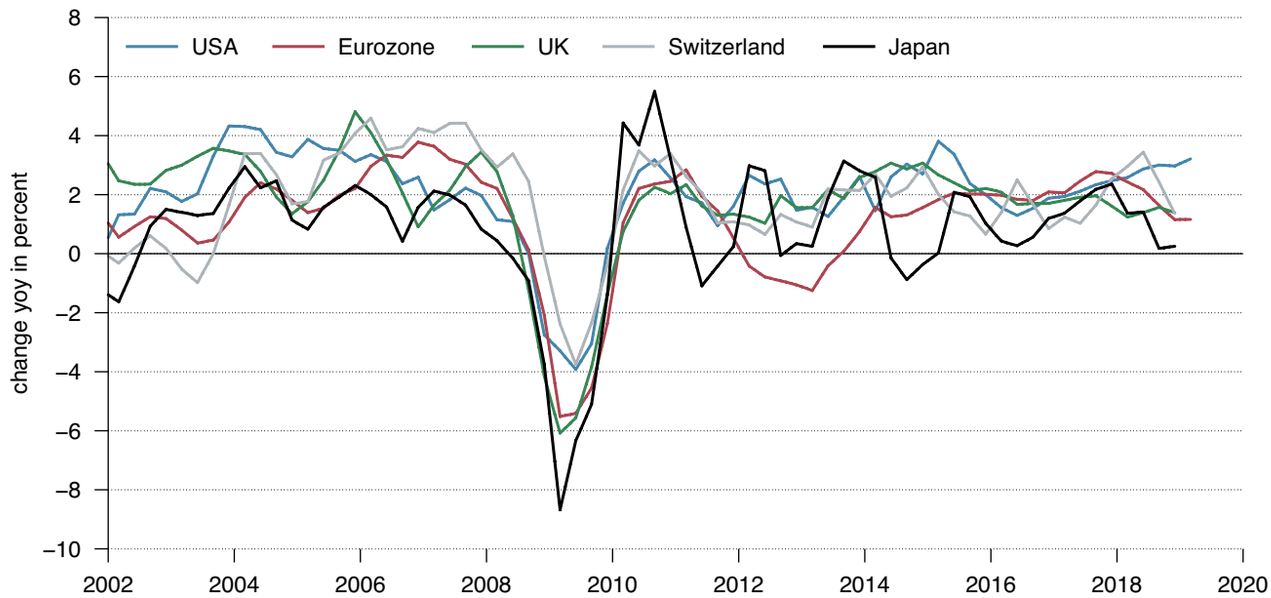
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q2/2018	Q3/2018	Q4/2018	Q1/2019	1/2019	2/2019	3/2019	4/2019
United States	1.7	2.9	3.0	3.0	3.2	3.1	3.2	3.1	2.7
Eurozone	1.0	2.2	1.6	1.1	1.2	2.3	2.3	2.2	1.9
Germany	1.4	2.0	1.2	0.6	–	2.8	2.8	2.5	2.2
France	0.7	1.7	1.4	1.0	1.1	1.5	1.5	1.6	1.5
Italy	0.2	1.0	0.5	0.0	0.1	0.8	0.6	0.6	0.4
Spain	1.6	2.6	2.5	2.3	2.4	2.3	2.3	2.7	2.3
United Kingdom	1.8	1.4	1.6	1.4	–	2.1	1.6	1.8	1.6
Switzerland	1.5	3.4	2.4	1.4	–	2.1	2.1	2.0	1.8
Japan	0.4	1.4	0.2	0.3	–	2.3	2.2	2.0	2.0
Canada	1.6	1.7	1.9	1.6	–	0.9	1.0	1.3	0.7
Australia	2.4	3.1	2.7	2.3	–	2.7	2.7	2.6	2.6
Brazil	1.4	0.9	1.3	1.1	–	3.1	2.3	1.4	–
Russia	0.1	2.2	2.2	2.7	–	1.0	0.3	2.8	1.9
India	7.7	8.0	7.0	6.6	–	7.0	7.0	6.8	6.8
China	7.4	6.7	6.5	6.4	6.4	5.5	6.3	6.7	6.4
Advanced economies[4]	1.4	2.5	2.2	2.0	2.1	2.8	2.7	2.6	2.4
Emerging economies[4]	6.0	5.6	5.2	4.9	4.9	4.5	5.1	5.1	4.7
World economy[4]	3.5	4.1	3.8	3.5	3.6	3.6	4.0	3.9	3.6

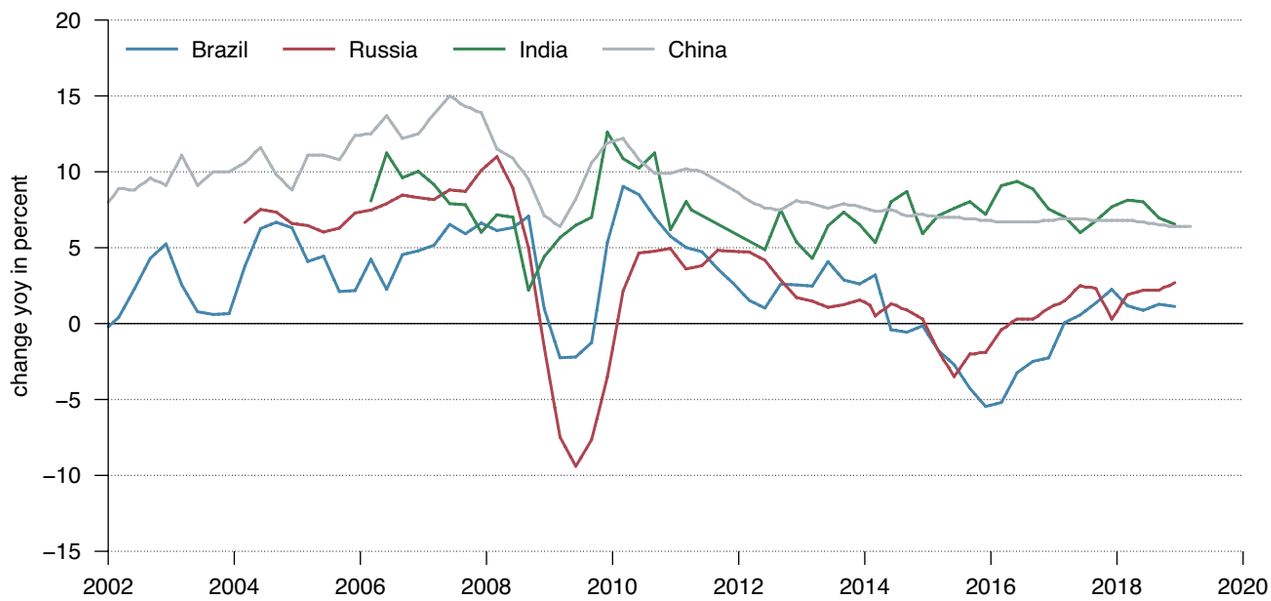
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent.
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6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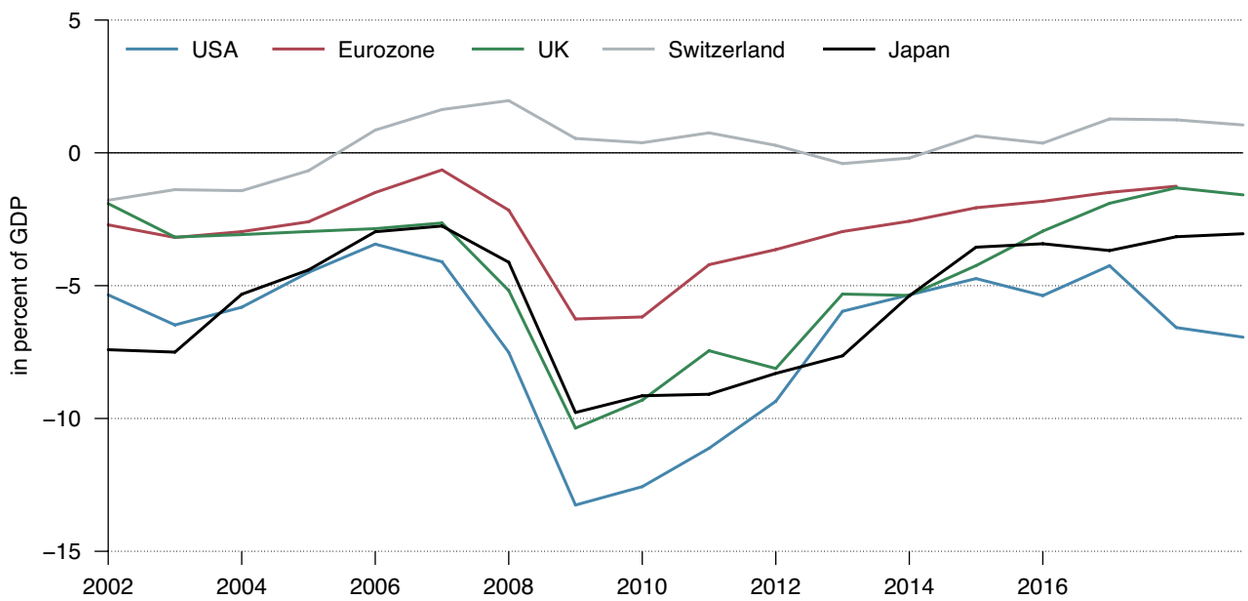
Economic indicators

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	24.5	-2.3	-2.9	105.4	109.9	-5.3	-6.9	4.9	3.6
Eurozone	16.1	15.6	3.8	–	109.2	–	-1.8	–	10.0	7.7
Germany	4.7	4.5	8.1	7.2	75.6	65.8	1.0	1.1	6.0	4.9
France	3.3	3.2	-0.6	-0.2	123.2	125.5	-3.3	-2.9	9.5	8.5
Italy	2.5	2.3	2.3	2.5	156.6	152.7	-2.5	-2.5	11.6	10.4
Spain	1.7	1.6	1.5	1.0	116.1	113.1	-4.3	-1.8	19.7	14.0
United Kingdom	3.6	3.2	-4.4	-3.3	114.3	114.6	-3.2	-1.6	4.7	3.0
Switzerland	0.9	0.8	10.0	10.7	42.0	39.0	0.7	1.0	3.1	2.5
Japan	6.1	5.9	3.0	2.6	221.6	227.9	-3.8	-3.0	3.1	2.5
Canada	2.1	2.0	-2.9	-3.1	89.9	88.0	-0.2	-0.6	6.6	5.8
Australia	1.7	1.6	-3.1	-2.1	38.7	41.1	-2.2	-1.5	5.7	5.0
China	14.8	16.3	1.7	0.4	44.5	55.4	-3.2	-6.1	4.0	–
Brazil	2.5	2.2	-1.9	-1.7	77.0	90.4	-7.9	-7.3	10.3	12.7
India	3.0	3.4	-1.5	-2.5	69.3	69.0	-7.0	-6.9	–	–
Russia	2.0	1.8	3.8	5.7	15.6	13.8	-1.4	1.0	5.3	4.7

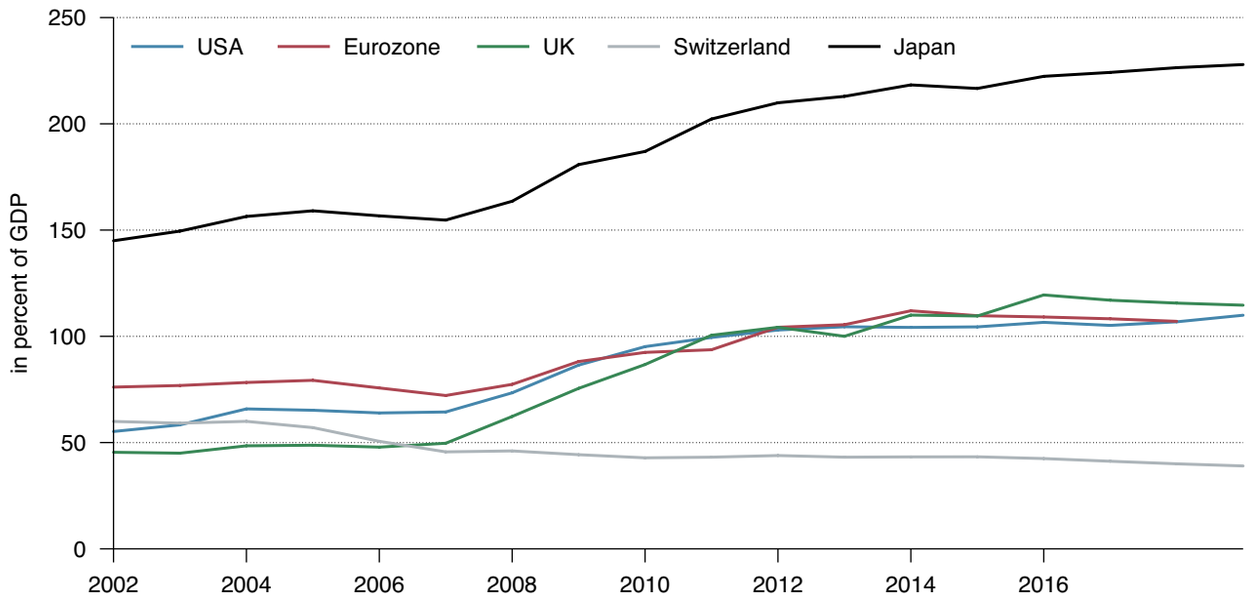
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

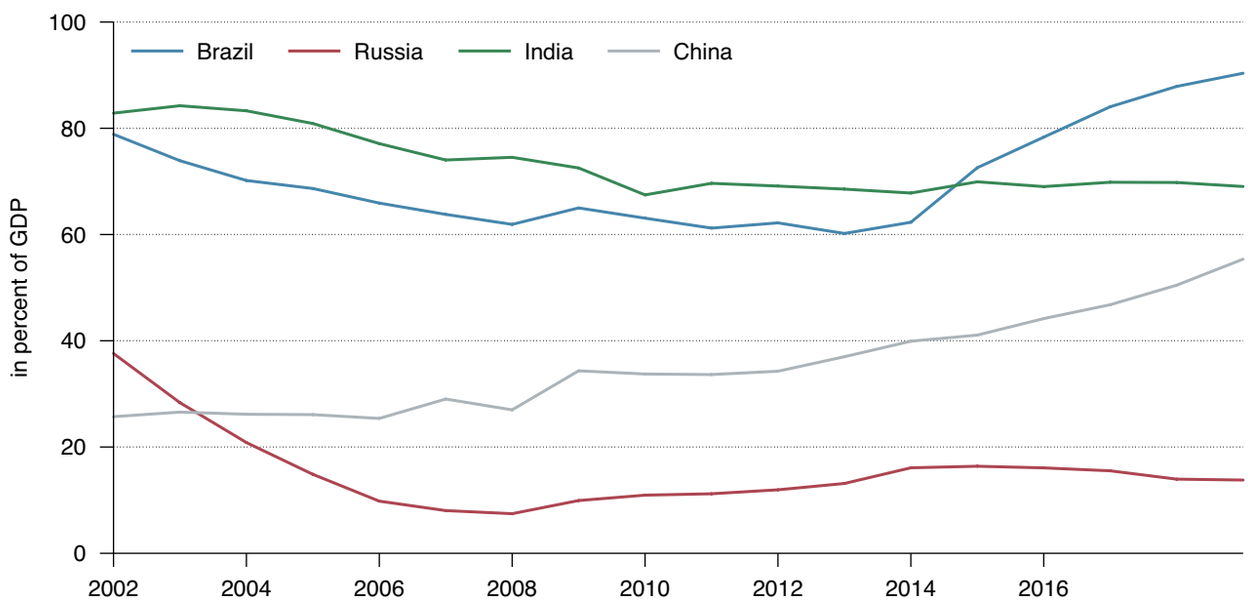


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

Inflation

There is little to report on the inflation front. Inflation in Switzerland remained at 0.7 percent in April. By contrast, prices in the Eurozone again moved higher. Inflation accelerated from 1.4 percent to 1.7 percent at the start of the second quarter. Core inflation also rose surprisingly strongly, by 1.2 percent. In the United States, the Federal Reserve's preferred inflation metric of personal consumption came in at 1.6 percent in March. The Fed sees the waning price pressure of recent months as only a temporary development, favored by special factors. In the coming months, the monetary authorities expect increased inflation momentum.

The Bank of England has recently adjusted its inflation assessment. It now expects a demand overhang in the United Kingdom's economy in the medium term, which will raise inflation above the target level. At their May meeting the monetary authorities therefore signaled that they want to raise interest rates by more than what the financial markets currently expect over the next few years. However, the BoE's statements are based on the assumption of a smooth Brexit and therefore are by no means certain.

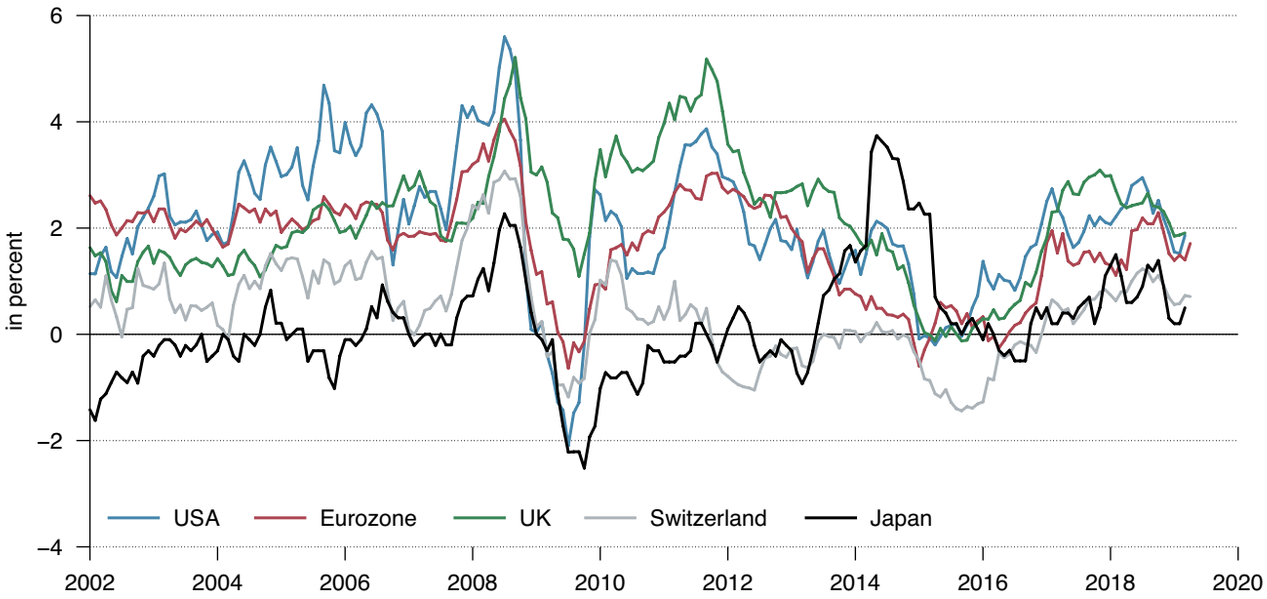
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		1/2019	2/2019	3/2019	4/2019	1/2019	2/2019	3/2019	4/2019
United States	1.6	1.6	1.5	1.9	–	2.2	2.1	2.0	–
Eurozone	1.3	1.4	1.5	1.4	1.7	1.1	1.0	0.8	1.2
Germany	1.2	1.4	1.5	1.3	–	1.3	1.4	1.3	–
France	1.0	1.2	1.3	1.1	1.2	0.7	0.7	0.5	–
Italy	1.2	0.9	1.0	1.0	1.1	0.5	0.4	0.4	0.6
Spain	1.2	1.0	1.1	1.3	1.5	0.8	0.7	0.7	–
United Kingdom	2.2	1.8	1.9	1.9	–	1.9	1.8	1.8	–
Switzerland	0.0	0.6	0.6	0.7	0.7	0.5	0.4	0.5	0.5
Japan	0.3	0.2	0.2	0.5	–	0.4	0.4	0.5	–
Canada	1.6	1.4	1.5	1.9	–	1.5	1.5	1.6	–
Australia	2.1	1.6	1.5	1.3	–	1.5	1.4	1.3	–
Brazil	5.9	3.8	3.9	4.6	–	3.7	3.6	3.8	–
Russia	7.3	5.0	5.2	5.3	–	4.1	4.4	4.6	–
India	7.1	2.0	2.6	2.9	–	–	–	–	–
China	2.3	1.7	1.5	2.3	1.5	1.9	1.8	1.8	–
Advanced economies[4]	1.4	1.3	1.4	1.5	1.6	1.6	1.5	1.4	1.6
Emerging economies[4]	4.3	2.2	2.3	2.9	2.9	2.4	2.3	2.4	2.3
World economy[4]	2.7	1.8	1.8	2.2	2.3	1.7	1.6	1.6	1.7

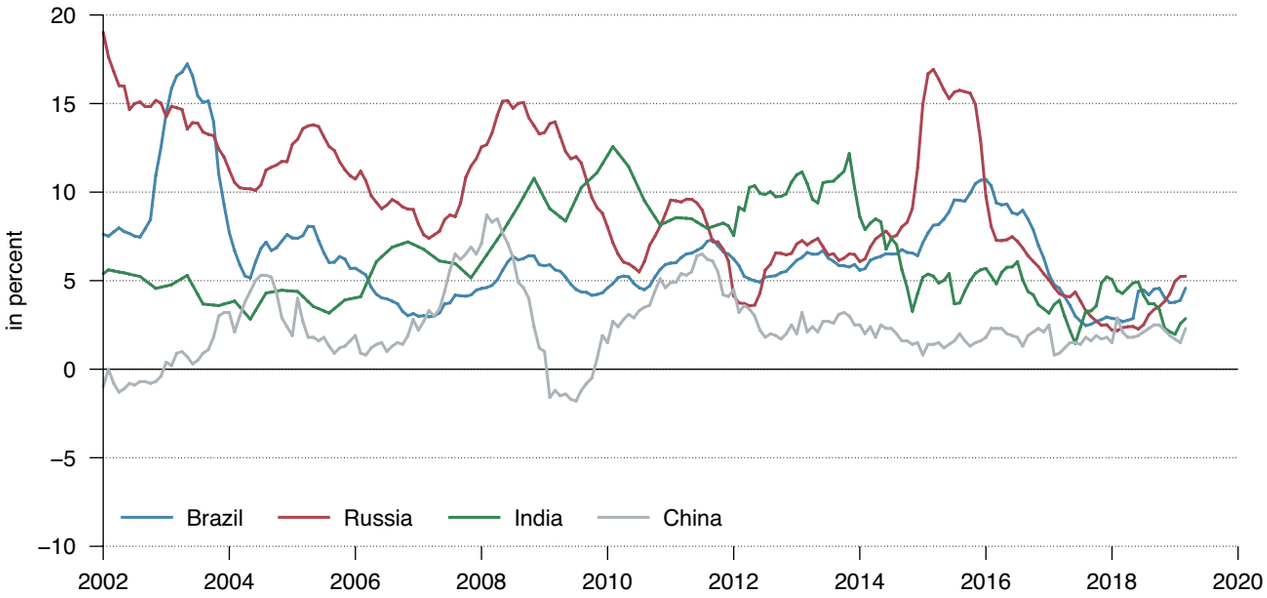
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change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

Source: Thomson Reuters Datastream, Wellershoff & Partners

Consumer price inflation in advanced economies



Consumer price inflation in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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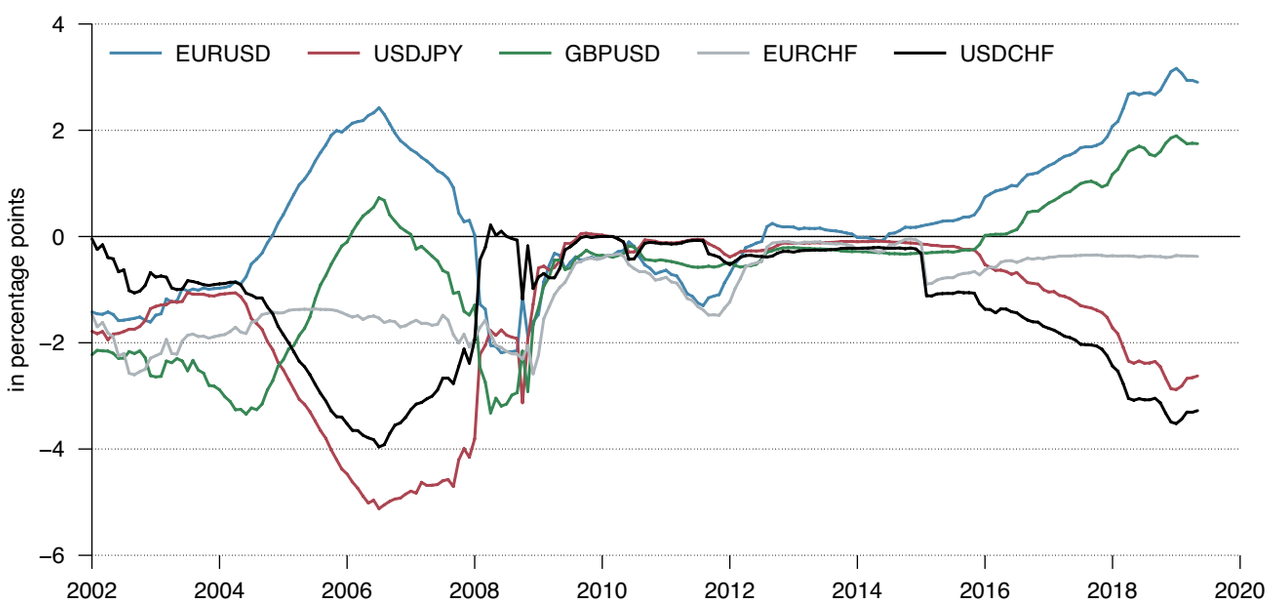
Interest rates

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	1.120	2.89	2.74	1.35	0.52	2.90	3.02	1.64	0.68
USDJPY	110.9	-2.62	-2.40	-1.13	-0.63	-2.65	-2.66	-1.45	-0.89
GBPUSD	1.309	1.75	1.70	0.58	0.10	1.66	1.83	0.68	0.12
EURCHF	1.140	-0.38	-0.35	-0.43	-0.48	-0.37	-0.28	-0.42	-0.58
USDCHF	1.018	-3.28	-3.09	-1.78	-1.00	-3.26	-3.29	-2.06	-1.27
GBPCHF	1.333	-1.53	-1.40	-1.20	-0.90	-1.60	-1.47	-1.38	-1.15
CHFJPY	108.9	0.65	0.69	0.65	0.37	0.61	0.64	0.61	0.37
AUDUSD	0.700	1.23	0.87	-0.62	-1.96	1.63	1.22	-0.11	-1.42
USDCAD	1.345	-0.54	-0.63	0.14	0.45	-0.51	-0.63	-0.09	0.23
USDSEK	9.565	-2.68	-2.77	-1.44	-0.21	-2.60	-3.01	-1.63	-0.38
USDRUB	65.3	5.39	4.53	8.70	7.56	5.15	4.30	8.18	7.21
USDBRL	3.958	13.54	13.54	12.04	9.83	3.79	3.57	9.00	9.11
USDCNY	6.766	0.35	1.62	2.62	3.07	0.44	1.58	2.33	2.69
USDTRY	6.010	23.75	12.63	12.68	10.34	24.67	13.58	12.60	10.40
USDINR	69.40	7.47	7.47	8.25	7.91	3.88	4.47	5.88	6.03

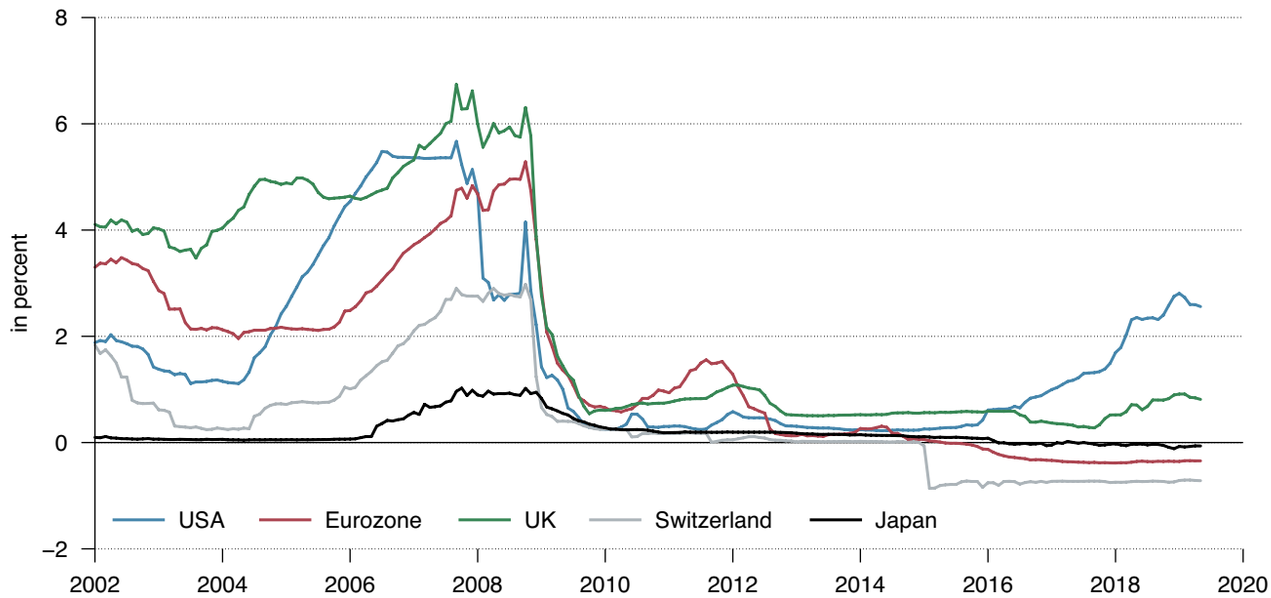
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

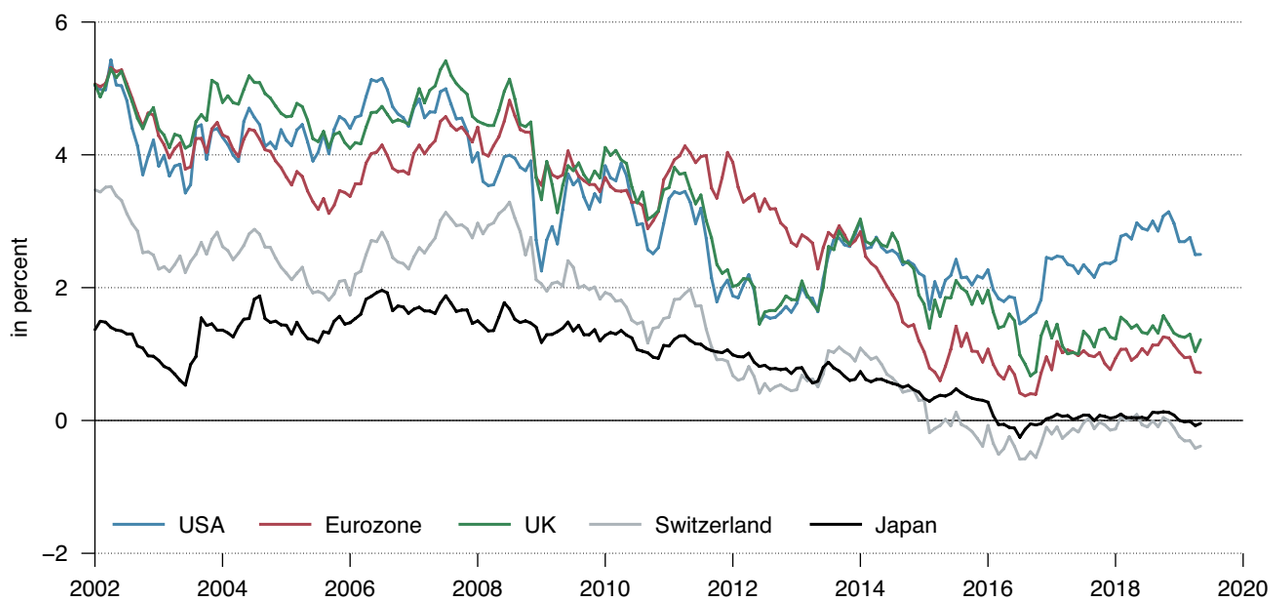


Source: Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX markets

The Swiss franc was one of the weaker currencies in April, falling around 2 percent against the euro, the dollar and the yen. Based on our purchasing power parity estimates, and also on a trade-weighted basis, the franc is currently still around 2 percent overvalued.

A turning point for the US dollar, which in the meantime is heavily overvalued, has still not arrived. The greenback gained against almost all major currencies last month. Recently, the dollar has been buoyed by improving economic data, which has somewhat insulated the US economy from the slowing global economic momentum. According to our purchasing power parity estimates, the dollar is currently significantly overvalued, especially against some emerging market currencies. We also reckon that the greenback is clearly overvalued against the Canadian dollar, the pound and the yen.

However, the dollar remains stable versus the Chinese renminbi. The USDCNY exchange rate has been moving sideways since the end of February, after months marked by high volatility. China's economy has recently revived, largely due to the government's stimulus package that has now gained traction, delivering a boost to investments.

FX overview

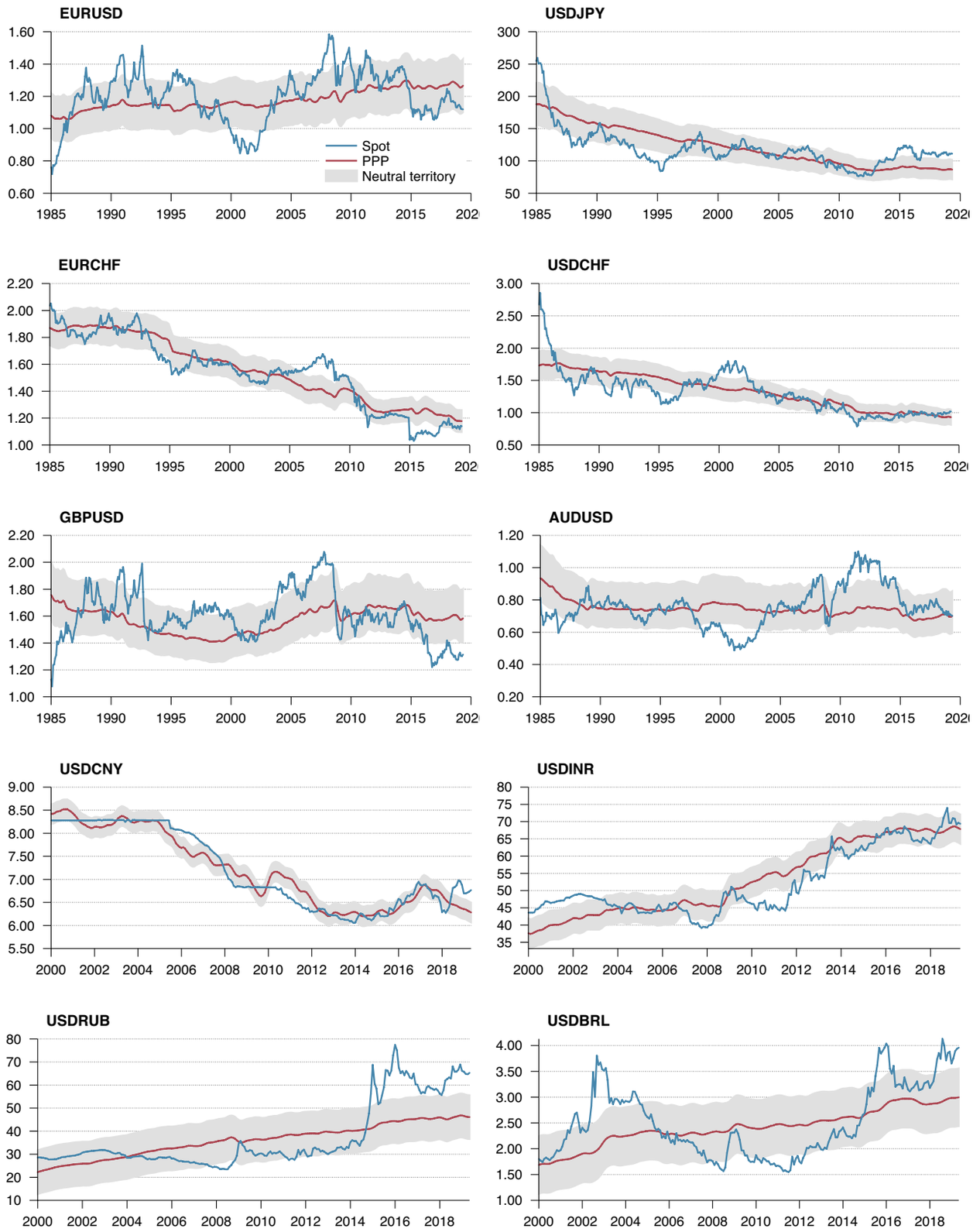
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.120	-2.1	-1.9	-6.2	-19.7	1.27	1.1 - 1.43	-11.6
USDJPY	110.9	1.1	0.9	1.6	9.2	86.6	71.4 - 101.8	28.0
GBPUSD	1.309	2.8	1.2	-3.1	-23.0	1.58	1.41 - 1.8	-17.3
EURCHF	1.140	1.1	-0.1	-4.6	-6.3	1.18	1.1 - 1.26	-3.2
USDCHF	1.018	3.3	1.8	1.7	16.6	0.93	0.81 - 1.05	9.4
GBPCHF	1.333	6.2	3.0	-1.5	-10.2	1.47	1.27 - 1.68	-9.5
CHFJPY	108.9	-2.2	-0.9	-0.1	-6.3	93.1	78.7 - 107.4	17.0
AUDUSD	0.700	-0.6	-3.3	-7.0	-25.2	0.70	0.59 - 0.85	-0.1
USDCAD	1.345	-1.5	2.5	4.6	23.5	1.21	1.11 - 1.31	11.4
USDSEK	9.565	7.9	5.0	8.4	47.1	7.60	6.55 - 8.64	25.9
USDRUB	65.3	-5.9	-0.4	3.7	84.3	46.1	36.6 - 55.6	41.6
USDBRL	3.958	2.1	7.6	12.2	77.1	3.00	2.44 - 3.56	32.1
USDCNY	6.766	-1.5	0.4	6.4	8.7	6.28	6.07 - 6.5	7.7
USDTRY	6.010	13.0	15.5	41.4	187.2	4.04	3.65 - 4.44	48.7
USDINR	69.40	-0.6	-3.0	3.7	15.5	67.8	63.6 - 72.1	2.3

[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



Source: Thomson Reuters Datastream, Wellershoff & Partners

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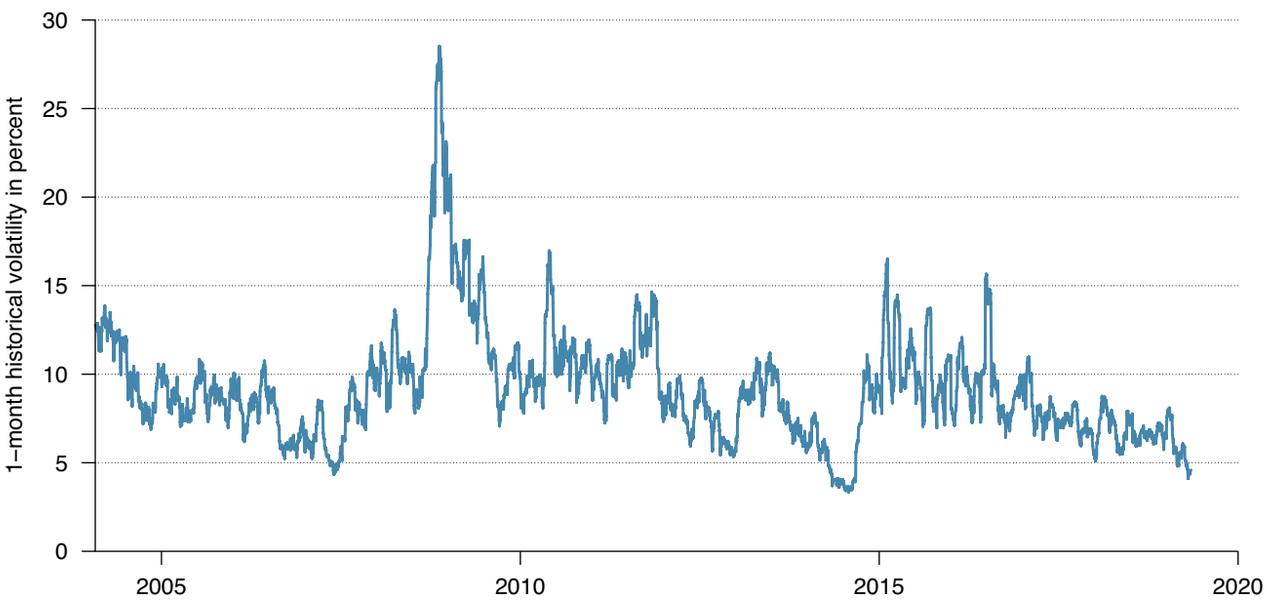
FX volatility

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	1.120	5.2	5.4	8.4	9.6	6.6	6.3	8.6	10.2
USDJPY	110.9	5.0	6.0	9.0	10.0	6.2	6.8	9.4	10.8
GBPUSD	1.309	8.6	7.3	9.0	9.4	8.4	8.4	9.3	10.0
EURCHF	1.140	3.9	4.3	6.0	6.2	5.0	4.9	6.6	6.9
USDCHF	1.018	5.0	5.1	8.3	9.6	5.8	6.2	8.8	10.2
GBPCHF	1.333	8.3	6.6	9.1	9.5	7.9	7.8	9.4	10.1
CHFJPY	108.9	5.3	5.9	8.9	10.7	6.5	6.7	9.6	11.5
AUDUSD	0.700	7.7	8.0	9.7	11.2	8.4	8.5	10.3	11.9
USDCAD	1.345	5.6	5.5	7.9	8.8	6.5	6.3	8.2	9.3
USDSEK	9.565	8.6	7.9	9.7	11.5	9.3	8.6	10.0	12.0
USDRUB	65.3	8.3	10.5	17.0	14.3	11.1	11.8	17.2	15.2
USDBRL	3.958	12.9	13.6	15.7	14.8	15.5	13.9	15.9	15.6
USDCNY	6.766	3.3	4.4	4.4	3.4	4.2	4.9	5.3	4.4
USDTRY	6.010	17.6	24.7	14.6	13.3	28.9	25.9	15.5	14.5
USDINR	69.40	5.4	7.6	6.7	8.7	6.5	7.1	7.9	9.7

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

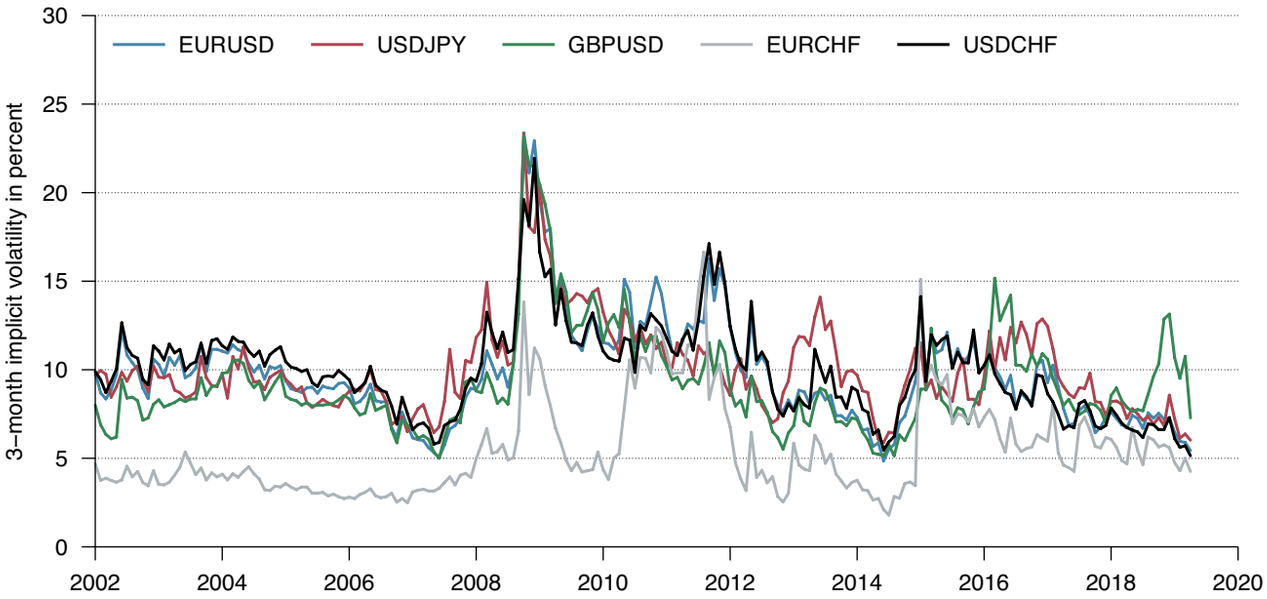
QCAM volatility indicator[3]



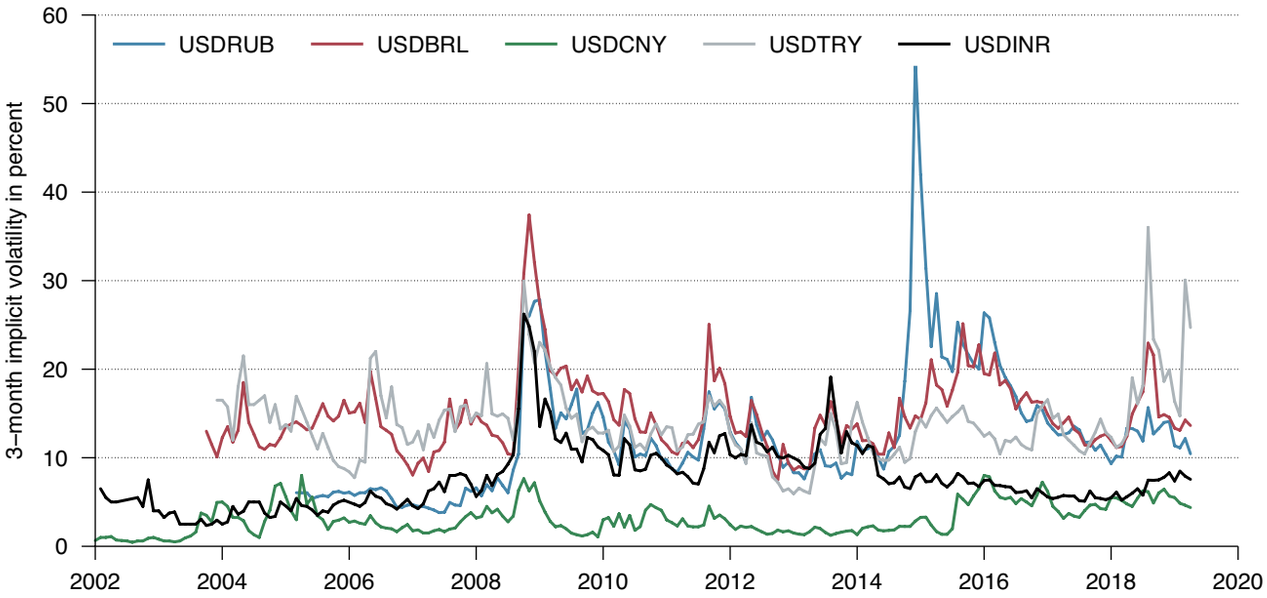
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implicit volatility



Implicit volatility



Source: Thomson Reuters Datastream, Wellershoff & Partners

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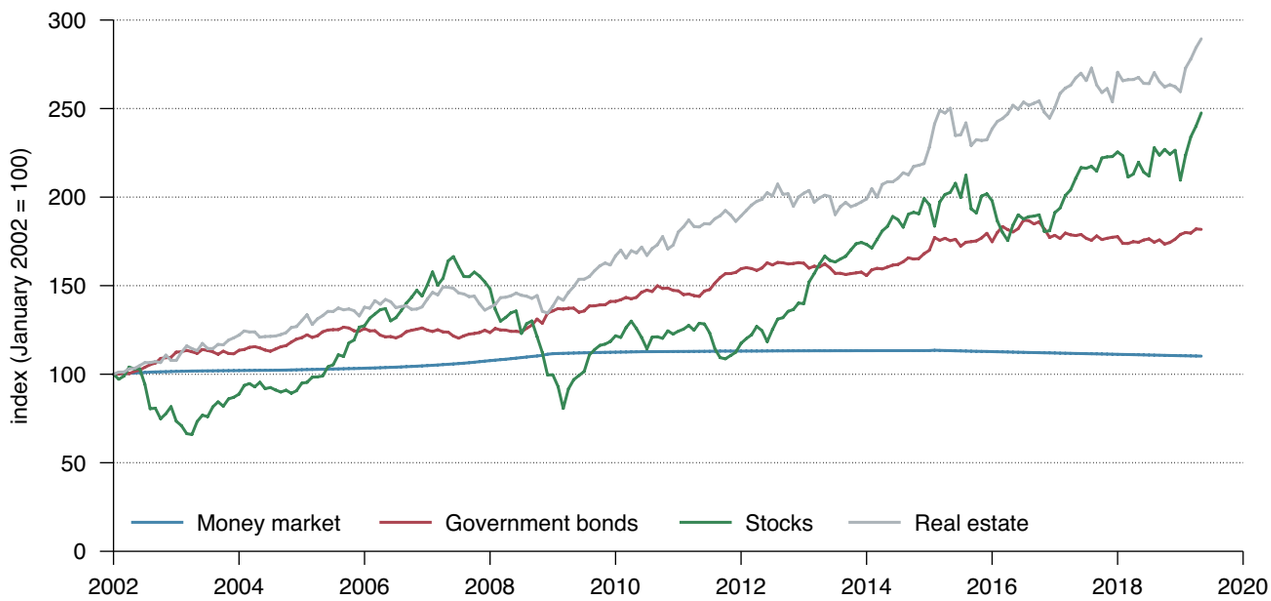
Financial markets

Performance overview

	Performance in either local curreny or USD[1]				Performance in CHF[1]			
	YTD	3 months	1 year	5 years	YTD	3 months	1 year	5 years
Swiss money market	-0.2	-0.2	-0.7	-2.7	-0.2	-0.2	-0.7	-2.7
Swiss government bonds	1.6	1.1	3.8	13.3	1.6	1.1	3.8	13.3
Swiss corporate bonds	1.8	1.3	2.7	10.0	1.8	1.3	2.7	10.0
Swiss equities (SMI)	18.1	8.8	12.4	35.4	18.1	8.8	12.4	35.4
European equities (Stoxx600)	16.5	7.7	3.6	36.0	17.9	7.6	-1.2	27.2
UK equities (Ftse100)	11.5	4.5	1.9	32.1	18.4	7.7	0.3	18.5
Japanese equities (Topix)	9.5	3.4	-6.5	56.1	11.9	4.3	-6.4	66.6
US equities (S&P 500)	17.7	7.7	12.3	73.0	14.0	5.7	10.4	48.8
Emerging markets equities	10.6	1.5	-3.8	21.1	7.1	-0.3	-5.4	4.1
Global equities (MSCI World)	16.1	6.5	6.3	45.8	12.4	4.6	4.6	25.3
Swiss real estate	11.5	5.2	6.0	38.2	11.5	5.2	6.0	38.2
Global real estate	13.4	2.2	11.0	35.0	9.8	0.4	9.2	16.0
Commodities	3.6	-1.7	-11.7	-41.8	0.3	-3.5	-13.2	-50.0
Brent oil	34.5	14.9	-3.9	-33.7	30.2	12.9	-5.5	-43.0
Gold	-0.2	-2.6	-2.4	-1.4	-3.4	-4.4	-4.1	-15.2

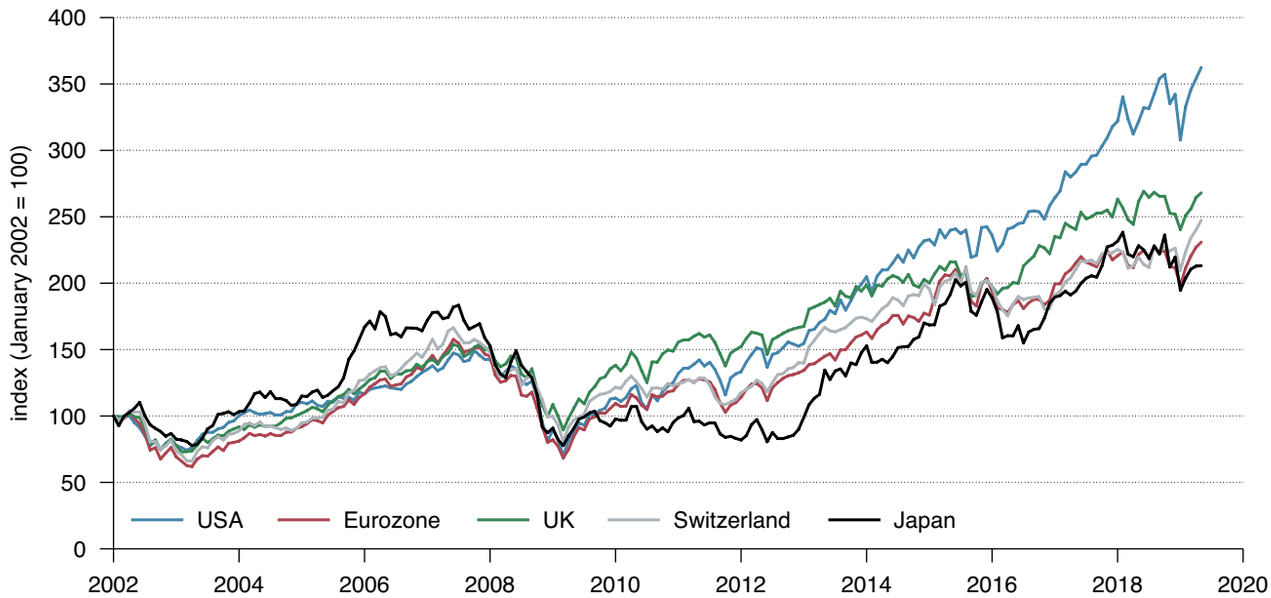
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

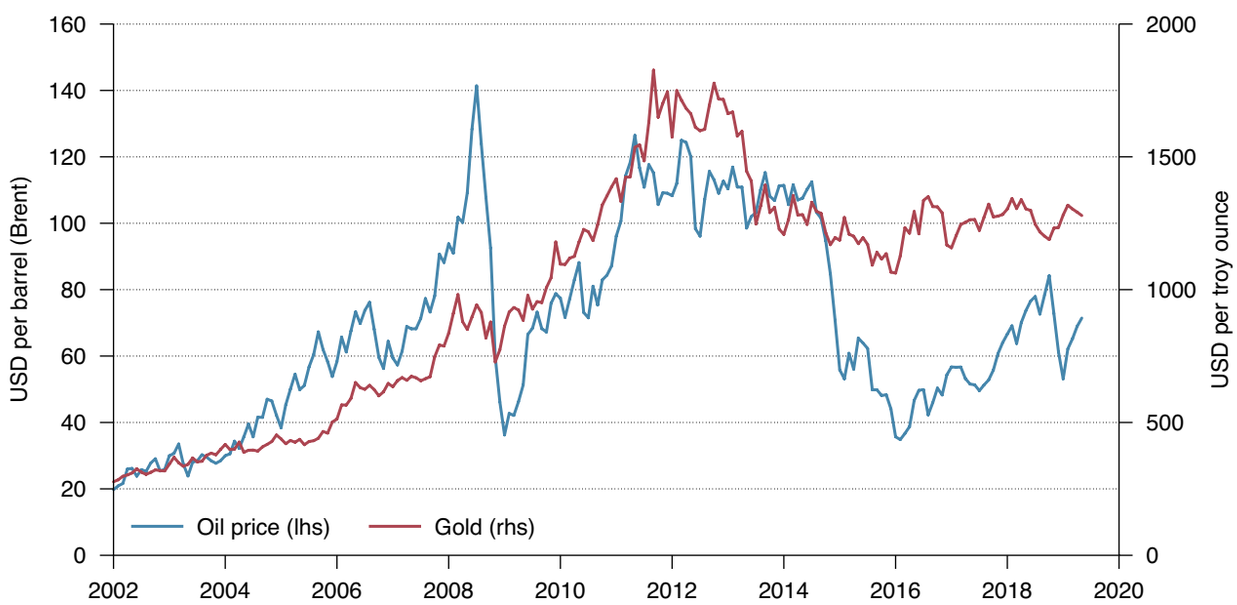


Source: Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Thomson Reuters Datastream, Wellershoff & Partners

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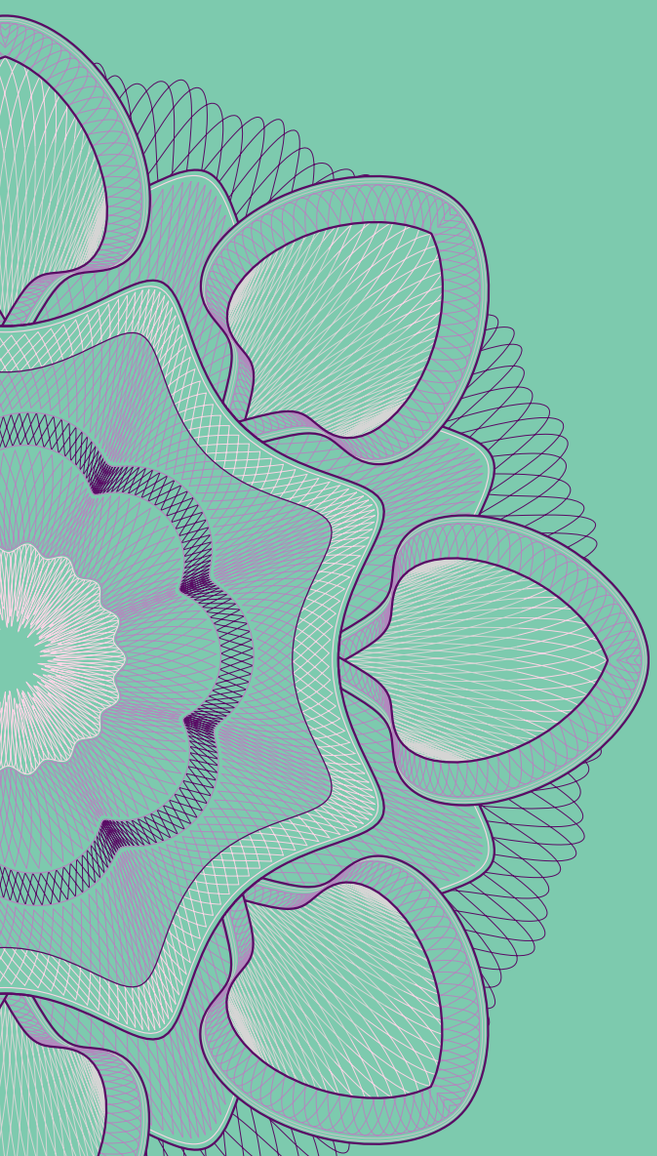
Number of the month

10,000 points

The Swiss Market Index was setting highs almost daily at the end of April. As May begins, the SMI is just a bit more than 200 points below the threshold of 10,000. It is a matter of time before this line is crossed. But thereafter a correction might await, since the Swiss economy has been softening for some time now and corporate profits are stagnating. At the moment, however, optimism is in bloom, despite the maxim, "Sell in May and go away."



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