Currency Asset Management

September 2024

# QCAM MONTHLY

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# QCAM Insight

# It's the labor market, stupid!

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

**The USD weakened further in August as renewed hopes for a soft-landing of the US economy and further Fed rate cut expectations revived the risk-on market sentiment. In the near-term, much will depend on US labor market figures. However, we believe that the market's Fed rate cut expectations are overdone. If we are right, that should support the USD in the short-term, which would not be unusual for a September month. Medium-term, we think that the USD DXY will stay in the current range.**

The USD DXY fell 2.3% in August. The decline occurred in two steps, the first following the weak US labor market report for July and the second after the dovish speech of Fed Chairman Powell at Jackson Hole. However, while risk-off sentiment initially benefitted safe-haven currencies like the JPY and the CHF, better US economic data in the second half of August combined with Fed rate cut expectations shifted sentiment back to risk-on and benefitted riskier currencies like the NZD, the SEK and the AUD. The sell-off pushed the USD DXY to the bottom of the trading range that has prevailed since the start of last year, from where it recovered a bit since the start of September.

**Powell ties it all to the labor market**

The dovish surprise of Powell's Jackson Hole speech was his view that economic downside risks have increased, while inflation upside risks have decreased. Specifically, Powell expressed growing confidence that inflation is on a sustainable path back to 2%, because the labor market has cooled, while further cooling in labor market conditions is undesirable. For the market that means, any disappointing labor market figures trigger more rate cuts and, thus, will focus all attention on upcoming job reports, especially before the September 18th Fed meeting (notably the August employment report and the weekly jobless figures).

We agree, that the balance of risks has shifted but the question is by how much and what this means for monetary policy. The labor market is central, but there is more to economic and inflation risks than jobs. The labor market aside, the balance of US real activity data and surveys has not deteriorated over the last few months. Notably, real consumption spending has been rising at a healthy clip from May through July and the Q2 real GDP report was revised up showing continued high profit margins. Thus, bringing inflation sustainably down to 2% will not be easy if spending remains vibrant.

**September seasonality**

In the near-term, market attention is focused on Fed policy. The Fed is widely expected to start easing on September 18th and to project more interest rate cuts until the end of next year than previously forecasted. Currently, the market looks for 25bps on September 18th with a good chance for 50bps and expects a total of more than 200bps of rate cuts until the end of next year. Given our view on growth and inflation, that much easing is unlikely unless the US economy weakens significantly in the near-term and residual inflation pressures dissolve quickly. As a result, we think the balance of risks points to less rate cuts than the market expects and more USD upside in the near-term, which would not be unusual for a September month. Indeed, the US equity market has typically sold off and the USD has rallied in September (see table). We find no statistical evidence that supports the view that behind this pattern lies a persistent and independent seasonality. However, we believe that investment and trade behavior facilitate in combination with other factors such an outcome. Over the last three years, it has clearly been inflation concerns and Fed tightening fears that have culminated in September, undermining stocks and boosting the USD. On the other hand, there is no evidence that it is simply a rise in risk aversion that drives stocks lower and the USD higher in September. The VIX and Gold have more often been down than up over the last 10 September months, while Treasury yields have been mostly higher. In other words, the soft-landing scenario and the risk-on sentiment may well persist, but the market may have to dial back its rate cut expectations, which should be enough to push the USD higher in September.

### Still range bound

The near-term upside chances of the USD are a tactical opportunity in our view. Strategically, we believe that the USD DXY will stay in the current range, which is shaped by the balance of global and relative growth performances as well as central bank policy paths as outlined in our previous FX Monthlies. As a result, we also keep our strategic macro positions at neutral. Geopolitical conflicts (Middle East and Ukraine) remain significant risk factors. The US election continues to be an open race and the economic implications of the actual outcome are probably less of a risk than the potential response by disappointed voters.

**Financial patterns in September over the last 10 years***

| Year | USD-DXY | EUR-USD | JPY-USD | GBP-USD | AUD-USD | CAD-USD | CHF-USD | SEK-USD | NZD-USD | NOK-USD | S&P 500 | VIX | Tsy yield | Gold |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | 3.9 | -4.1 | -5.3 | -2.4 | -6.5 | -2.9 | -4.1 | -3.4 | -6.9 | -3.8 | -1.6 | 4.3 | 17 | -6.2 |
| **2015** | 0.6 | -0.3 | 1.2 | -1.5 | -0.9 | -0.8 | -1.0 | 1.2 | 1.0 | -1.7 | -2.6 | -3.9 | -15 | -1.8 |
| **2016** | -0.6 | 0.9 | 2.1 | -0.8 | 1.9 | -0.1 | 1.4 | 0.2 | 0.3 | 4.4 | -0.1 | -0.1 | 2 | 0.5 |
| **2017** | 0.4 | -0.6 | -2.2 | 4.1 | -1.1 | 0.3 | -0.7 | -2.5 | 1.0 | -2.3 | 1.9 | -1.1 | 21 | -3.2 |
| **2018** | 0.0 | -0.2 | -2.4 | 0.3 | 0.1 | 0.9 | -1.0 | 2.7 | -0.1 | 2.7 | 0.4 | -0.7 | 19 | -0.9 |
| **2019** | 0.5 | -1.0 | -1.8 | 1.1 | 0.1 | 0.3 | -0.8 | -0.2 | -0.6 | 0.2 | 1.7 | -2.7 | 18 | -3.2 |
| **2020** | 1.9 | -1.4 | -0.2 | -3.0 | -2.4 | -1.9 | -1.5 | -3.3 | -1.9 | -5.8 | -3.9 | 0.0 | -3 | -4.2 |
| **2021** | 1.7 | -1.8 | -1.5 | -2.0 | -1.2 | -0.2 | -1.8 | -1.3 | -2.0 | -0.3 | -4.8 | 6.7 | 22 | -3.1 |
| **2022** | 3.1 | -2.6 | -4.2 | -4.0 | -6.2 | -4.7 | -0.8 | -4.2 | -7.7 | -8.9 | -9.3 | 5.8 | 68 | -3.0 |
| **2023** | 2.5 | -2.5 | -2.4 | -3.7 | -0.3 | 0.1 | -3.4 | 0.7 | 0.9 | -0.1 | -4.9 | 4.0 | 50 | -4.7 |
| **Avg. all Sept.** | **1.4** | **-1.4** | **-1.7** | **-1.2** | **-1.7** | **-0.9** | **-1.4** | **-1.0** | **-1.6** | **-1.6** | **-2.3** | **1.2** | **20** | **-3.0** |
| **Avg. all months** | **0.2** | **-0.2** | **-0.2** | **-0.2** | **-0.2** | **-0.2** | **-0.2** | **0.1** | **-0.3** | **-0.4** | **0.9** | **0.0** | **1** | **0.5** |
| **Sept. positive** | **80%** | **10%** | **20%** | **30%** | **30%** | **40%** | **10%** | **40%** | **40%** | **30%** | **30%** | **40%** | **80%** | **10%** |

* All are % monthly changes except for the VIX (% point monthly difference) and the Treasury yield (bps monthly difference).

Source: QCAM Currency Asset Management

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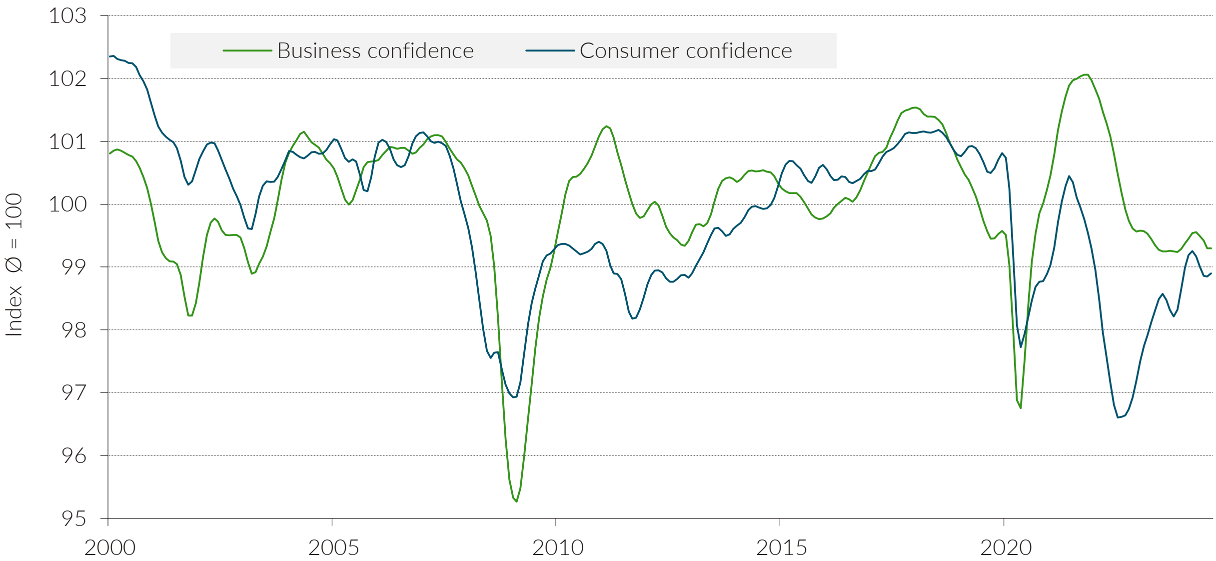
# Economy & Interest Rates

Recession fears, especially in the US, are overdone, but signs that the global recovery is stalling are persisting. In our view, the US economy is finally responding to tighter monetary conditions, China continues to struggle with the property crisis and the Euro-area is held down by structural and fiscal impediments. The process of disinflation continues with the latest figures softer after prior bumps. Overall, soft-landing (moderate growth and lower inflation) still remains the most likely scenario for the US and the global economy but uncertainty and the risk of a hard-landing or no-landing with an inflation rebound remain significant. With the balance of risks shifting from inflation to growth, the process of monetary easing is broadening with the Fed now set to join, but we think that the extend of rate cuts will be less than markets expect.

| | Real GDP growth[1] | | Unemployment rate[1] | | Inflation rate[1] | | Current account[2] | | Fiscal balance[2] | | Public debt[2] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 |
| Global | 3.2 | 2.9 | n.a. | n.a. | 4.5 | 3.2 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Developed | 1.7 | 1.5 | n.a. | n.a. | 4.6 | 2.8 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| USA | 2.5 | 2.5 | 3.6 | 4.2 | 4.1 | 3.0 | -3.0 | -3.0 | -8.8 | -7.0 | 122 | 123 |
| Canada | 1.1 | 1.0 | 5.4 | 5.5 | 3.9 | 2.5 | -0.6 | 0.0 | -0.6 | -1.0 | 107 | 105 |
| Euro-area | 0.5 | 0.7 | 6.5 | 6.5 | 5.4 | 2.2 | 1.9 | 2.0 | -3.5 | -3.5 | 89 | 89 |
| Sweden | -0.2 | 1.0 | 7.7 | 8.0 | 5.9 | 2.5 | 6.2 | 6.0 | -0.5 | -0.5 | 32 | 32 |
| Switzerland | 0.8 | 1.0 | 2.0 | 2.0 | 2.1 | 1.5 | 7.6 | 8.0 | 0.5 | 0.5 | 38 | 37 |
| UK | 0.1 | 1.0 | 4.0 | 4.0 | 7.3 | 2.5 | -2.2 | -2.5 | -6.0 | -5.0 | 101 | 104 |
| Japan | 1.9 | 0.0 | 2.6 | 2.5 | 3.3 | 2.5 | 3.4 | 3.5 | -5.8 | -6.0 | 252 | 255 |
| Australia | 2.1 | 1.5 | 3.7 | 4.0 | 5.6 | 3.5 | 1.5 | 1.0 | -0.5 | -0.5 | 52 | 55 |
| Emerging | 4.4 | 4.0 | n.a. | n.a. | 4.1 | 3.7 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| China | 5.2 | 4.5 | 5.2 | 5.2 | 0.2 | 0.5 | 1.5 | 1.0 | -7.0 | -7.0 | 83 | 87 |
| India | 8.2 | 6.5 | n.a. | n.a. | 5.4 | 5.0 | -1.2 | -1.5 | -9.0 | -9.0 | 82 | 82 |
| Russia | 3.6 | 3.0 | 3.2 | 3.0 | 5.9 | 7.5 | 2.5 | 2.5 | -3.5 | -3.0 | 22 | 22 |
| Brazil | 2.9 | 2.5 | 8.0 | 8.0 | 4.6 | 4.0 | -1.3 | -1.5 | -7.0 | -6.5 | 88 | 90 |

Source: OECD, IMF World Economic Outlook and QCAM estimates [1] In percent annual average [2] In percent of GDP

**OECD business and consumer confidence***




Source: OECD and QCAM *The last observations are QCAM estimates based on other surveys

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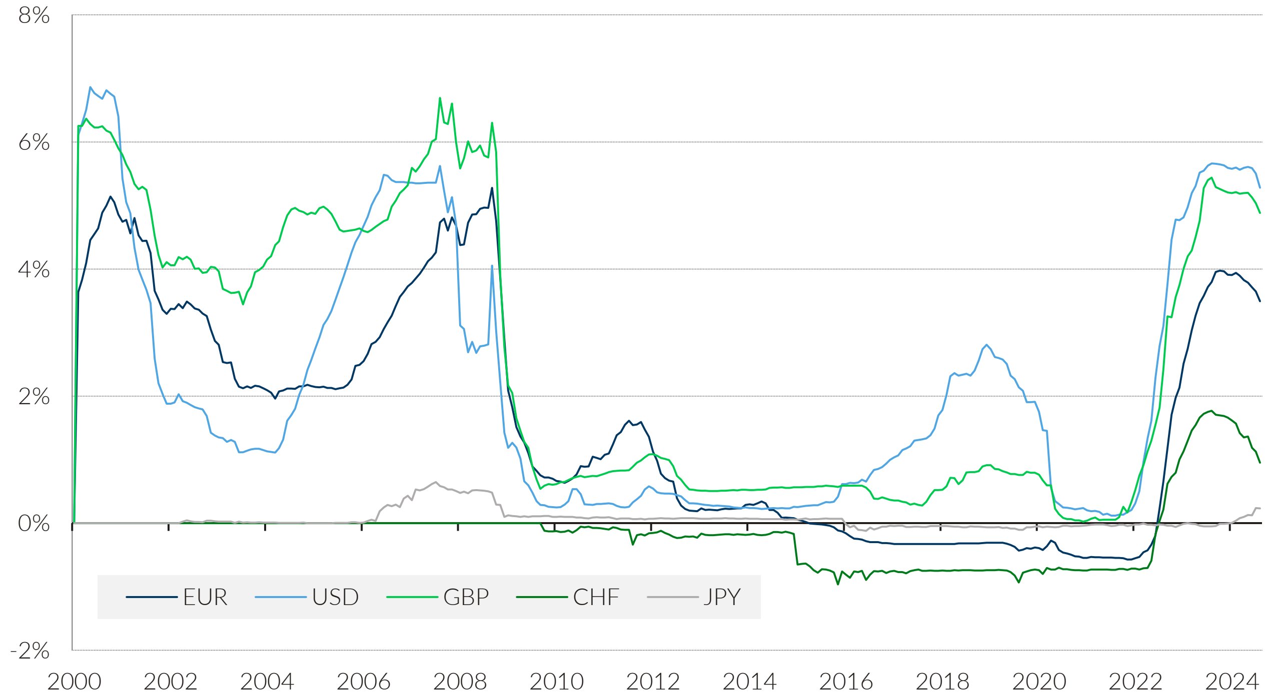
# Interest Rates

## Interest Rate Level Overview

| | Short Term Interest Rate (3month OIS) | | | | | Long Term Interest Rate (10year Swap) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Current | 1M ago | 3M ago | 12M ago | Ø 3 years | Current | 1M ago | 3M ago | 12M ago | Ø 3 years |
| **USD** | 4.97% | 5.11% | 5.35% | 5.41% | 3.66% | 4.27% | 4.27% | 4.33% | 4.18% | 2.67% |
| **EUR** | 3.46% | 3.62% | 3.78% | 3.77% | 2.04% | 2.49% | 2.48% | 2.80% | 3.10% | 2.25% |
| **JPY** | 0.24% | 0.23% | 0.13% | -0.05% | 0.00% | 0.90% | 0.88% | 1.07% | 0.81% | 0.61% |
| **GBP** | 4.87% | 4.92% | 5.19% | 5.44% | 3.39% | 3.66% | 3.54% | 3.94% | 4.35% | 3.09% |
| **CHF** | 0.97% | 1.05% | 1.36% | 1.78% | 0.72% | 0.73% | 0.78% | 1.31% | 1.73% | 1.28% |
| **AUD** | 4.33% | 4.31% | 4.35% | 4.12% | 2.84% | 3.96% | 3.93% | 4.34% | 4.28% | 3.75% |
| **CAD** | 4.13% | 4.30% | 4.79% | 5.07% | 3.47% | 3.29% | 3.25% | 3.82% | 4.08% | 3.41% |
| **SEK** | 3.22% | 3.45% | 3.70% | 3.95% | 2.38% | 2.29% | 2.24% | 2.77% | 3.20% | 2.47% |
| **RUB** | 18.50% | 18.30% | 15.80% | 7.75% | 11.29% | 9.62% | 12.27% | 9.62% | 12.22% | 9.21% |
| **BRL** | 9.58% | 9.44% | 9.06% | 11.40% | 10.90% | 12.13% | 11.81% | 11.76% | 10.96% | 11.70% |
| **CNY** | 1.77% | 1.77% | 1.85% | 1.99% | 2.05% | 1.81% | 1.86% | 2.11% | 2.48% | 2.53% |
| **TRY** | 52.15% | 52.55% | 52.80% | 29.10% | 26.52% | 38.04% | 38.04% | 38.04% | 38.04% | 25.49% |
| **INR** | 6.62% | 6.62% | 6.74% | 6.78% | 5.85% | 6.15% | 6.18% | 6.43% | 6.69% | 6.44% |

Source: QCAM Currency Asset Management, as of September 3rd, 2024

## 3-month Rates




Source: QCAM Currency Asset Management, as of end of August 2024

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# FX Markets

## FX Performance vs. PPP

The USD DXY fell 2.3% in August, with high-beta currencies (AUD & GBP) outperforming the safe-haven currencies (CHF & JPY). EM currencies underperformed dragged down by massive declines of the BRL and the TRY. Speculative overbought and oversold positions declined, notably in CHF and JPY and the market is net long USD. Short-term interest rates moved lower and forwards price faster rate cuts from most central banks over the next 12 months. The cost of forward hedging versus the USD has declined but remains expensive for JPY and CHF. Actual and implied FX volatilities increased across the board and on balance have come close to their historical averages with USDJPY well above. PPP changes continue to converge as inflation moderates but differences to actual exchange rate levels remain large and the USD continues to be overvalued versus all major currencies except the CHF.

**Overview**

| | Current Exchange Rate | Performance[1] | | | | Purchasing Power Parity[2] | | |
|---|---|---|---|---|---|---|---|---|
| | | YTD | 1M | 12M | 5 years | PPP | Neutral Range | Deviation[3] |
| EURUSD | 1.104 | -0.23% | 1.16% | 2.36% | 0.63% | 1.23 | 1.10 - 1.36 | -10% |
| USDJPY | 145.770 | 3.50% | -0.74% | -0.26% | 37.67% | 101.04 | 89.62 - 112.46 | 44% |
| GBPUSD | 1.310 | 2.66% | 2.46% | 4.08% | 8.36% | 1.54 | 1.38 - 1.71 | -15% |
| EURCHF | 0.939 | 1.13% | 0.08% | -1.70% | -13.28% | 0.93 | 0.87 - 0.98 | 1% |
| USDCHF | 0.851 | 1.37% | -1.07% | -3.96% | -13.82% | 0.80 | 0.71 - 0.89 | 6% |
| GBPCHF | 1.115 | 4.07% | 1.36% | -0.04% | -6.61% | 1.04 | 0.95 - 1.14 | 7% |
| CHFJPY | 171.358 | 2.09% | 0.34% | 3.86% | 59.77% | 96.49 | 85.45 - 107.53 | 78% |
| AUDUSD | 0.672 | -1.73% | 3.08% | 4.16% | -0.58% | 0.77 | 0.68 - 0.86 | -13% |
| USDCAD | 1.355 | 2.60% | -2.25% | -0.39% | 1.67% | 1.22 | 1.13 - 1.30 | 11% |
| USDSEK | 10.310 | 2.71% | -2.51% | -6.68% | 4.84% | 8.21 | 7.28 - 9.14 | 26% |
| EURSEK | 11.382 | 2.48% | -1.37% | -4.47% | 5.51% | 8.95 | 8.40 - 9.49 | 27% |
| USDRUB | 86.767 | -3.04% | 1.67% | -9.93% | 29.59% | 68.12 | 49.87 - 86.37 | 27% |
| USDBRL | 5.639 | 16.22% | -1.31% | 14.25% | 35.25% | 3.91 | 2.36 - 5.46 | 44% |
| USDCNH | 7.123 | 0.02% | -0.61% | -2.01% | -0.77% | 7.16 | 6.56 - 7.75 | -1% |
| USDTRY | 33.979 | 14.99% | 2.40% | 27.18% | 493.06% | 20.91 | 16.40 - 25.42 | 63% |
| USDINR | 83.964 | 0.89% | 0.20% | 1.55% | 16.32% | 82.77 | 76.07 - 89.46 | 1% |
| US_Dollar_Index | 101.825 | 0.49% | -1.34% | -2.31% | 2.85% | 87.39 | 81.60 - 93.18 | 17% |

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

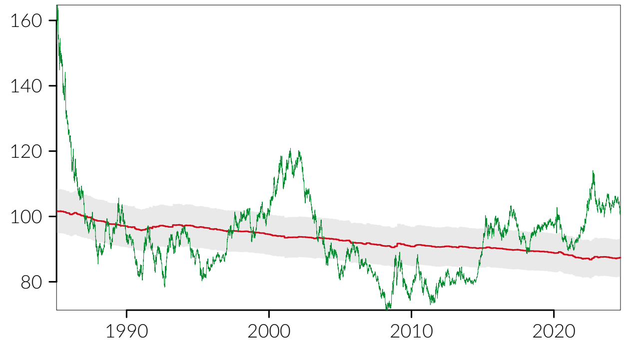
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral range is determined by ± 1 standard deviation of the historical variation around the PPP value.

[3] Deviation of the current spot rate from PPP, in percent.

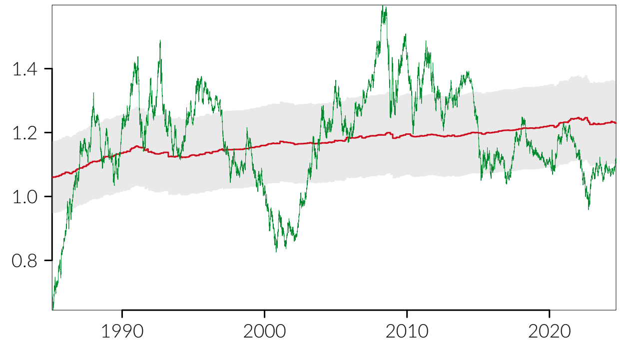
Source: QCAM Currency Asset Management, as of September 3rd, 2024

# Purchasing Power Parity

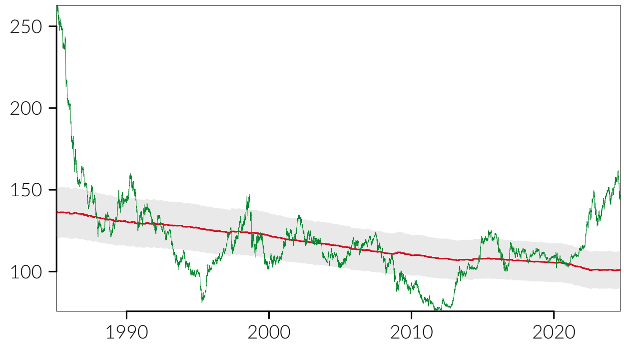
### DXY



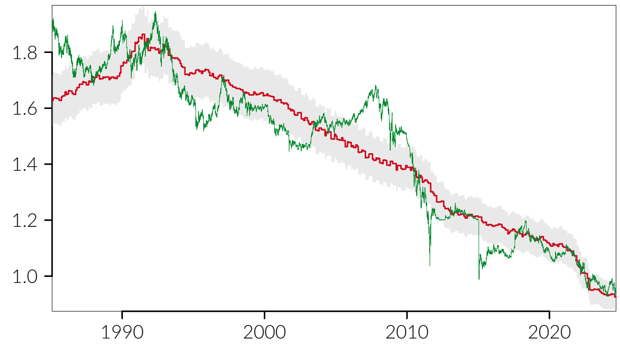

### EURUSD



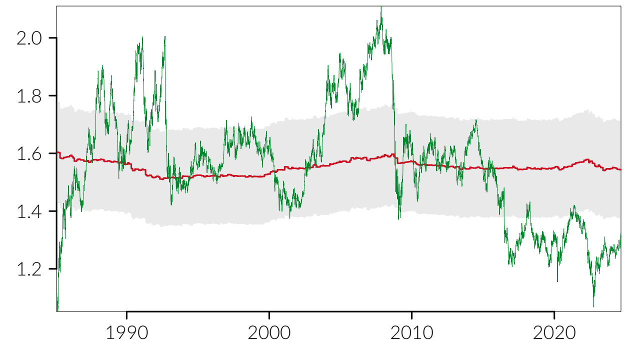

### USDJPY



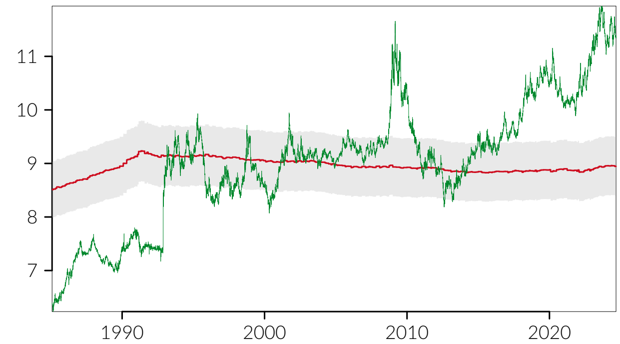

### EURCHF



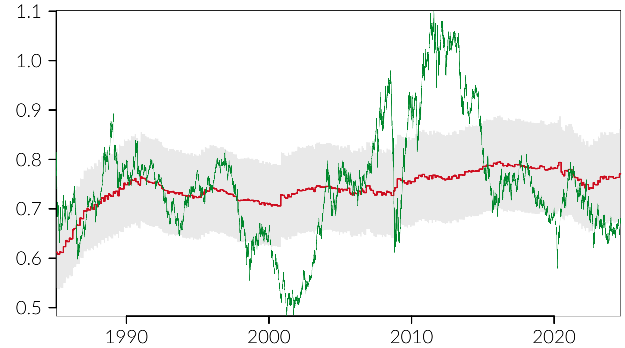

### GBPUSD



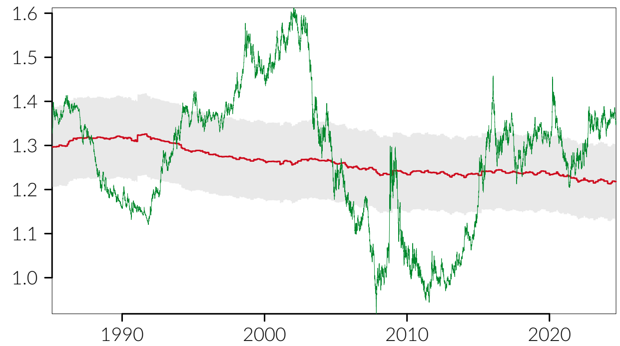

### EURSEK




### AUDUSD




### USDCAD




Source: QCAM Currency Asset Management, as of September 3rd, 2024

PPP Spot Neutral Range

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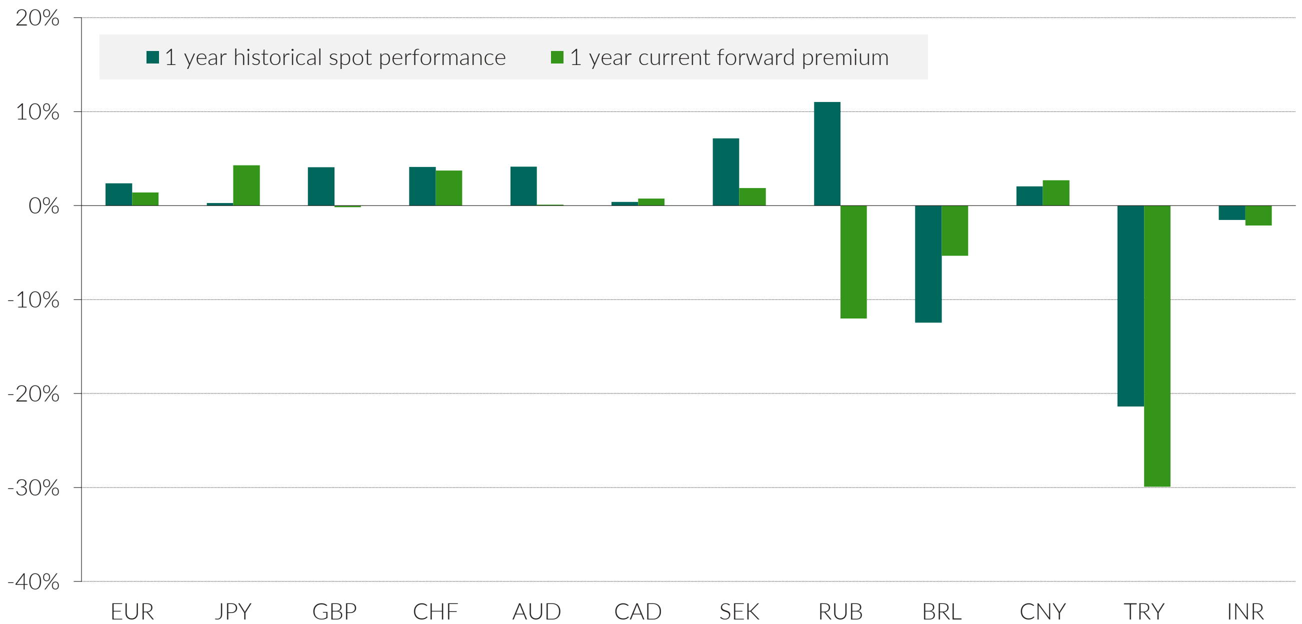
# FX Spot vs Forwards

## FX Forwards Level and Premium

| | Current Exchange Rate | Forward Level | | | Premium p.a. | | |
|---|---|---|---|---|---|---|---|
| | | 1M | 3M | 12M | 1M | 3M | 12M |
| EURUSD | 1.104 | 1.1055 | 1.1083 | 1.1193 | 1.64% | 1.58% | 1.37% |
| USDJPY | 145.770 | 145.0983 | 143.9430 | 139.7729 | -5.18% | -4.96% | -4.06% |
| GBPUSD | 1.310 | 1.3107 | 1.3109 | 1.3080 | 0.30% | 0.19% | -0.18% |
| EURCHF | 0.939 | 0.9369 | 0.9330 | 0.9180 | -2.56% | -2.58% | -2.21% |
| USDCHF | 0.851 | 0.8475 | 0.8418 | 0.8202 | -4.20% | -4.14% | -3.54% |
| GBPCHF | 1.115 | 1.1108 | 1.1036 | 1.0728 | -3.89% | -3.95% | -3.71% |
| CHFJPY | 171.358 | 171.2070 | 170.9987 | 170.4209 | -0.99% | -0.83% | -0.54% |
| AUDUSD | 0.672 | 0.6722 | 0.6729 | 0.6724 | 0.85% | 0.68% | 0.11% |
| USDCAD | 1.355 | 1.3537 | 1.3515 | 1.3449 | -1.14% | -1.03% | -0.73% |
| USDSEK | 10.310 | 10.2931 | 10.2594 | 10.1208 | -1.86% | -1.95% | -1.81% |
| EURSEK | 11.382 | 11.3797 | 11.3712 | 11.3287 | -0.22% | -0.37% | -0.46% |
| USDRUB | 86.767 | 87.5771 | 89.2960 | 98.6015 | 11.21% | 11.53% | 13.45% |
| USDBRL | 5.639 | 5.6575 | 5.6979 | 5.9574 | 3.60% | 4.10% | 5.56% |
| USDCNH | 7.123 | 7.0973 | 7.0583 | 6.9357 | -3.97% | -3.61% | -2.60% |
| USDTRY | 33.979 | 35.2240 | 37.6985 | 48.4844 | 43.97% | 43.30% | 42.10% |
| USDINR | 83.964 | 84.0451 | 84.2362 | 85.7769 | 1.09% | 1.28% | 2.13% |

## Historical Spot Performance and Current Forward Premium vs. the US Dollar




Source: QCAM Currency Asset Management, as of September 3rd, 2024

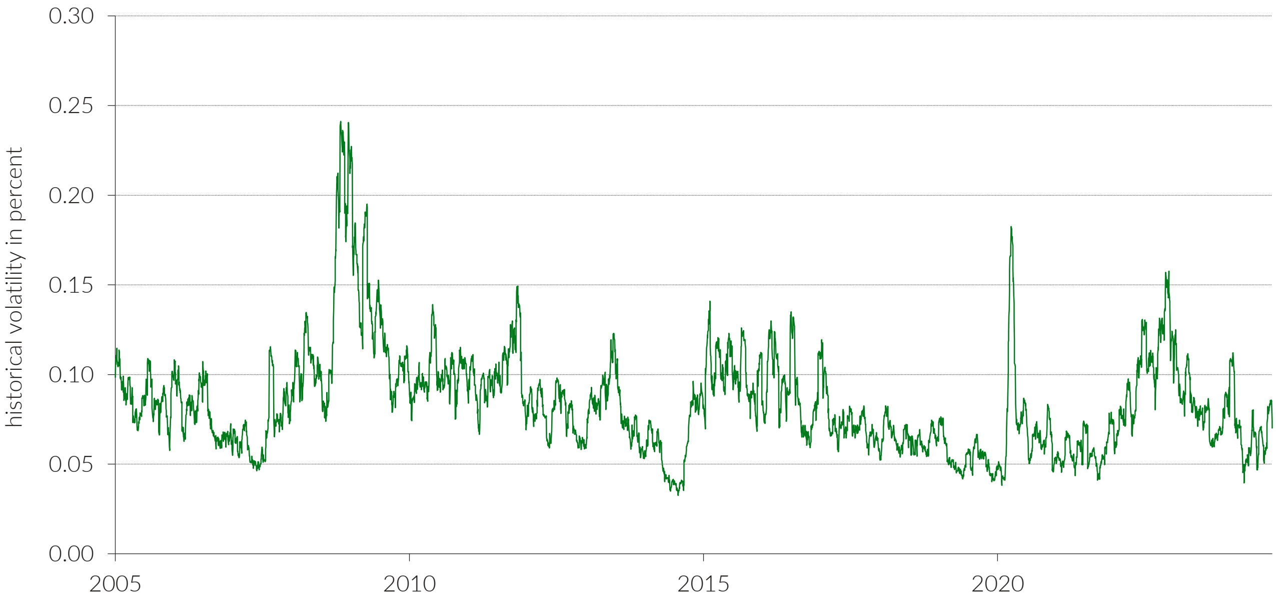
FX Volatility

## Historical vs. Implied Volatility

| | Current Exchange Rate | Historical Volatility [1] | | | | Implied Volatility [2] | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Current | 1M | 12M | Ø 5 years | Current | 1M | 12M | Ø 5 years |
| EURUSD | 1.104 | 5.88% | 4.92% | 6.81% | 7.18% | 6.38% | 5.75% | 6.85% | 6.94% |
| USDJPY | 145.770 | 11.72% | 9.39% | 8.53% | 8.61% | 11.55% | 10.63% | 9.13% | 8.51% |
| GBPUSD | 1.310 | 5.69% | 5.17% | 7.05% | 8.93% | 7.20% | 6.68% | 7.88% | 8.62% |
| EURCHF | 0.939 | 6.02% | 5.60% | 4.43% | 4.87% | 6.38% | 6.50% | 5.09% | 5.39% |
| USDCHF | 0.851 | 7.70% | 6.52% | 7.31% | 7.51% | 8.05% | 7.03% | 7.17% | 7.02% |
| GBPCHF | 1.115 | 7.65% | 6.54% | 4.85% | 7.65% | 7.45% | 7.30% | 6.70% | 7.81% |
| CHFJPY | 171.358 | 7.75% | 6.92% | 7.51% | 7.62% | 9.10% | 8.93% | 8.83% | 7.94% |
| AUDUSD | 0.672 | 7.92% | 6.95% | 10.40% | 10.41% | 9.80% | 9.50% | 10.32% | 10.13% |
| USDCAD | 1.355 | 3.86% | 3.81% | 5.40% | 6.66% | 5.48% | 5.03% | 5.72% | 6.57% |
| USDSEK | 10.310 | 9.87% | 9.65% | 12.19% | 10.60% | 10.75% | 10.40% | 11.45% | 10.28% |
| EURSEK | 11.382 | 6.42% | 6.60% | 7.72% | 6.26% | 6.63% | 6.85% | 7.70% | 6.53% |
| USDRUB | 86.767 | 22.60% | 20.76% | 15.78% | 20.88% | 24.10% | 25.45% | 44.21% | 24.80% |
| USDBRL | 5.639 | 13.43% | 11.28% | 11.86% | 14.98% | 15.23% | 14.20% | 13.48% | 16.39% |
| USDCNH | 7.123 | 4.20% | 2.58% | 4.84% | 4.73% | 5.85% | 4.78% | 5.63% | 5.31% |
| USDTRY | 33.979 | 5.10% | 5.84% | 24.20% | 13.45% | 13.70% | 15.18% | 19.98% | 20.59% |
| USDINR | 83.964 | 1.41% | 2.16% | 2.91% | 4.47% | 2.45% | 2.13% | 3.80% | 5.32% |

[1] Realised 3-month volatility (annualised) [2] Market implied 3-month volatility (annualised)

## 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: QCAM Currency Asset Management, as of September 3rd, 2024

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# FX Analytics

**QCAM has an analytical framework to take scalable exchange rate positions. The QCAM exchange rate strategy for each currency pair has three principle components:**

- **Macro**
- **Business Sentiment**
- **Technical**

The positioning signals from each component are aggregated into an overall positioning score for each currency pair.

The Macro component consists typically of economic growth, balance of payments, fiscal and monetary policy and in some cases commodity fundamentals. The positions are either discretionary or model driven.

The Business Sentiment component is a rule-based framework built on business surveys.

The Technical component consists primarily of the technical analysis of daily exchange rates (trend following and mean reversion).

The summary table below and the following pages show the QCAM strategy framework and the positioning for the major currency pairs actively covered by QCAM. The tables break each of the three strategies into subcomponents with an indication of the current impact. The charts show the respective exchange rate with past QCAM positions and their scale.

**September 2024 / Current positioning**

There have been few position changes since the last QCAM MONTHLY. On the discretionary Macro side, we kept all positions at neutral as we expect continued range trading. Business Sentiment positions also remained unchanged with the balance modestly short USD. Technical went long JPY, neutral CAD, long CHF vs EUR and short CHF vs USD. The balance of all Technical positions is also moderately short USD. As a result, the balance of all strategy positions is moderately short USD as well, led by shorts versus the GBP and the EUR. The only remaining long USD position is versus the CAD, although small. The EUR is short versus the CHF and the SEK.

**Overview[1]**

| | Macro | Business Sentiment | Technical | Comment |
|---|---|---|---|---|
| **EURUSD** | 0 | ++ | + | All positions were unchanged with the balance moderately long EUR. |
| **USDJPY** | 0/+ | 0 | –– | The Macro carry model shifted to short JPY and Technical to long JPY, leaving the balance of all positions slightly long JPY. |
| **EURCHF** | 0 | – | –– | The Technical CHF position shifted long vs. EUR and short vs. USD, all other strategy positions remained unchanged. The balance of all CHF positions is half long versus the EUR and slightly long versus the USD. |
| **USDCHF** | 0 | –– | + | |
| **GBPUSD** | 0 | + | + | All positions were unchanged with the balance moderately long GBP. |
| **EURSEK** | 0/0 | –– | + | All positions were unchanged, leaving the balance slightly long SEK. |
| **USDCAD** | 0/– | ++ | 0 | Technical went from short CAD to neutral, leaving the balance of all positions slightly short CAD. |

[1] The signs relate to the first currency of the exchange rate pair ; ++ or –– means 100% long or short; */* means split position.

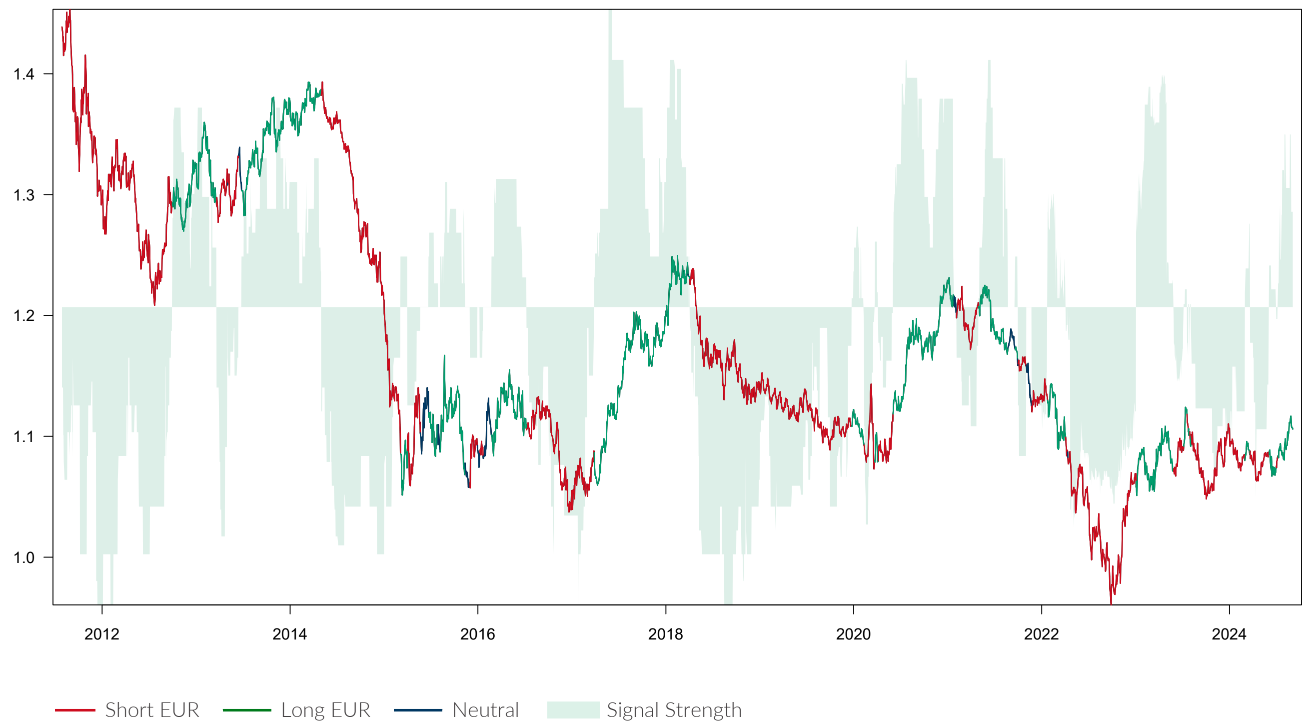
Source: QCAM Currency Asset Management

# EURUSD

We see tactical downside for the EUR in the short-term, but keep the macro position at neutral as we expect EURUSD to stay in the current range. ECB and Fed are both expected to cut in September. The market speculates for more Fed easing, but we think the US economy will hold up better and is more likely to benefit from risk aversion, especially if the global recovery fades further. Business Sentiment and Technical both stayed long EUR with the balance of all strategy positions moderately long EUR.

| | FX Factors | EUR Impact | Comment |
|---|---|---|---|
| **Macro** | Current Account Balances | ++ | The Euro-area's current account surplus is widening gradually versus the US current account deficit |
| | Fiscal Balances | 0 | Euro-area and US fiscal deficits are both elevated |
| | Interest Rate Differentials | 0/– | Both ECB and Fed to cut in September, but following policy paths uncertain with the market expecting more Fed easing. |
| | Oil prices | 0 | Oil price expected to stay in volatile range |
| **Sentiment** | Business Sentiment | + | The momentum in Euro-area surveys has improved versus US surveys |
| | Risk Sentiment | – | Risk aversion and uncertainty remain elevated |
| **Technical** | Price Action | + | Technical is slightly EUR positive |
| | Spec Positions | 0 | Net EUR position is slightly long |
| | PPP Valuation | + | EUR undervaluation is around 10% |

**EURUSD and QCAM Strategic Positioning**



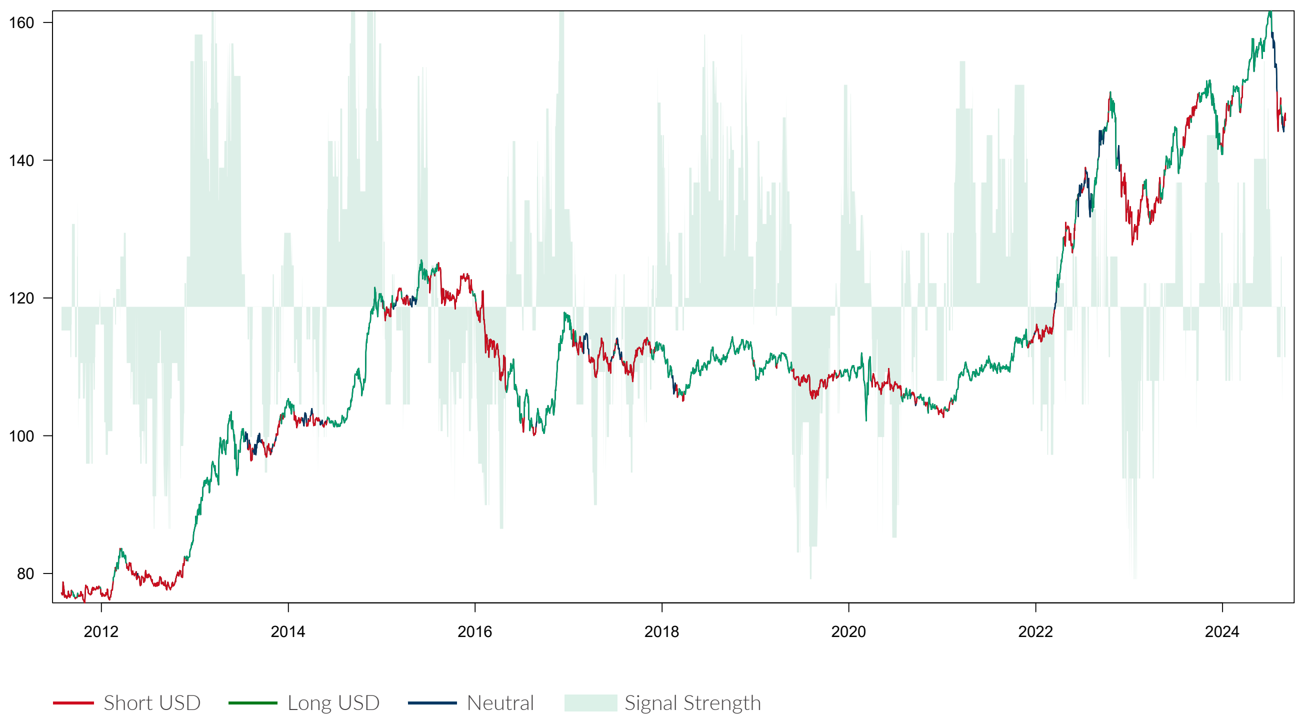

Source: QCAM Currency Asset Management

# USDJPY

The JPY has struggled to extend its rally in August and we keep the discretionary Macro position at neutral. The Japanese economy struggles more than the US economy and both central banks may in the end do less than what markets currently expect (i.e. the Fed ease less and the BoJ tightens less). Moreover, the JPY is vulnerable given position changes if sentiment shifts in favor of the USD. The Macro carry model went short JPY, Business Sentiment stayed neutral and Technical went long JPY, leaving the overall strategy position slightly long JPY.

| | FX Factors | JPY Impact | Comment |
|---|---|---|---|
| **Macro** | Current Account Balances | + | The Japanese current account has returned to a solid surplus |
| | FDI Flows | – | Net outflows have returned to the pre-Corona level |
| | Interest Rate Differentials | 0 | The carry-trade has broken on hawkish BoJ and Fed rate cut speculation, but the bulk of the unwind is probably over. |
| **Sentiment** | Business Sentiment | 0 | The momentum of Japanese Business Sentiment has fallen in line with that of US surveys |
| | Risk Sentiment | 0 | Safe-haven character remains limited |
| **Technical** | Price Action | + | Technical went long JPY |
| | Spec Positions | 0 | JPY shifted from massive oversold to moderately long |
| | PPP Valuation | + | The JPY is currently about 44% undervalued |

### USDJPY and QCAM Strategic Positioning




Source: QCAM Currency Asset Management

# EURCHF

We kept our discretionary Macro position at neutral. CHF fundamentals look attractive versus the EUR, also given political uncertainties in the Euro-area and the ongoing safe-haven appeal of the CHF. However, the SNB has again become more FX sensitive. We think the SNB is now more likely to intervene or lower interest rates in response to CHF strength. Business Sentiment stayed long CHF and Technical went long CHF, shifting the balance of all strategy positions to long CHF as well.

| | FX Factors | CHF Impact | Comment |
|---|---|---|---|
| **Macro** | Current Account Balances | + | Surplus remains steady support for CHF |
| | Interest Rate Differentials | 0/– | Increased risk that the SNB will cut rates to soften CHF |
| | SNB Policy Intervention | 0/– | Increased risk that the SNB will intervene to soften CHF |
| **Sentiment** | Business Sentiment | + | The Swiss economy has moved ahead of the Euro-area economy in the surveys |
| | Risk Sentiment | 0 | The return to risk-on sentiment had limited impact on the CHF |
| **Technical** | Price Action | + | Technical went long CHF |
| | Spec Positions | 0 | The CHF oversold position declined significantly |
| | PPP Valuation | 0 | CHF is close to fair-value versus the EUR |

### EURCHF and QCAM Strategic Positioning

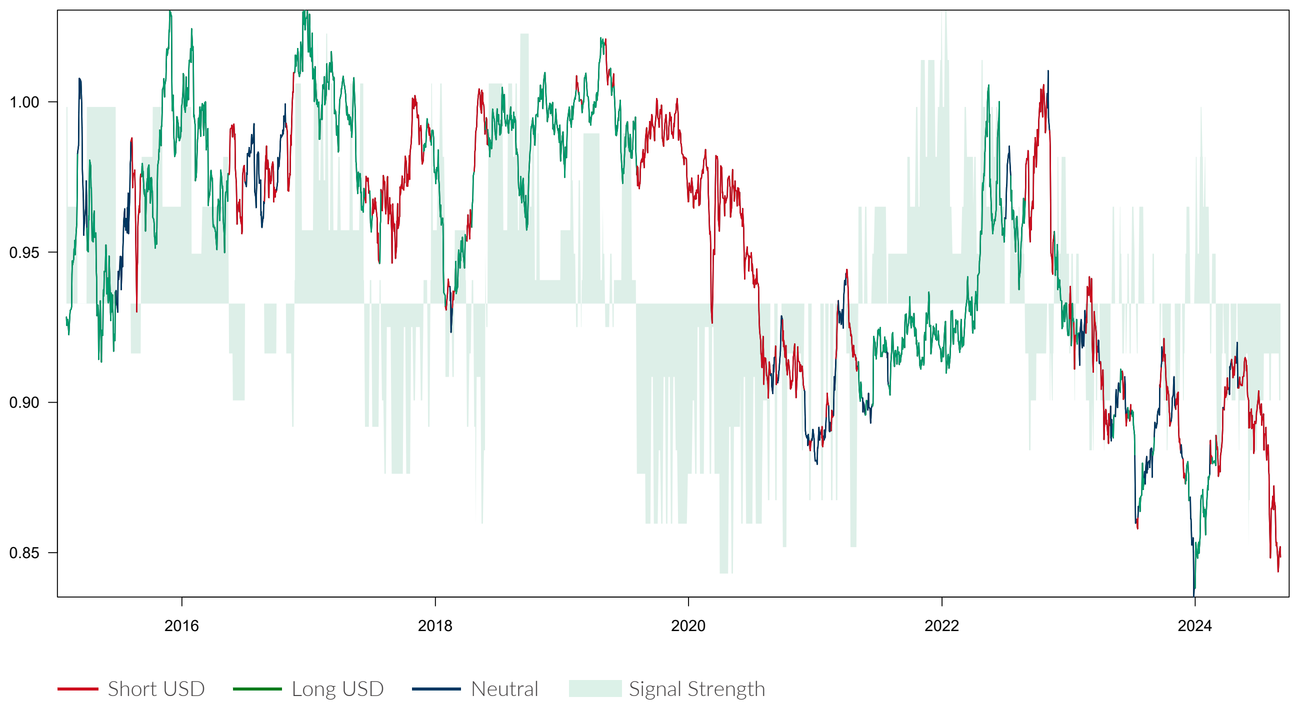

Source: QCAM Currency Asset Management

## USDCHF

Our Macro positions in EURCHF (neutral) and EURUSD (neutral) imply neutral CHF versus the USD. The Swiss economy remains fundamentally sound and the CHF's safe-haven properties uncontested. However, the SNB has again become more FX sensitive. We think the SNB is now more likely to intervene or lower interest rates in response to CHF strength. Business Sentiment remains long CHF but Technical went short, leaving the balance of all strategy positions slightly long CHF versus the USD.

| | FX Factors | CHF Impact | Comment |
|---|---|---|---|
| **Macro** | Current Account Balances | + | Surplus remains steady support for CHF |
| | Interest Rate Differentials | 0/– | Increased risk that the SNB will cut rates to soften CHF |
| | SNB Policy Intervention | 0/– | Increased risk that the SNB will intervene to soften CHF |
| **Sentiment** | Business Sentiment | ++ | Momentum of Swiss surveys is ahead of US surveys |
| | Risk Sentiment | 0 | The return to risk-on sentiment had limited impact on the CHF |
| **Technical** | Price Action | – | Technical went short CHF |
| | Spec Positions | 0 | The CHF oversold position declined significantly |
| | PPP Valuation | 0 | CHF is about 6% undervalued versus USD |

### USDCHF and QCAM Strategic Positioning



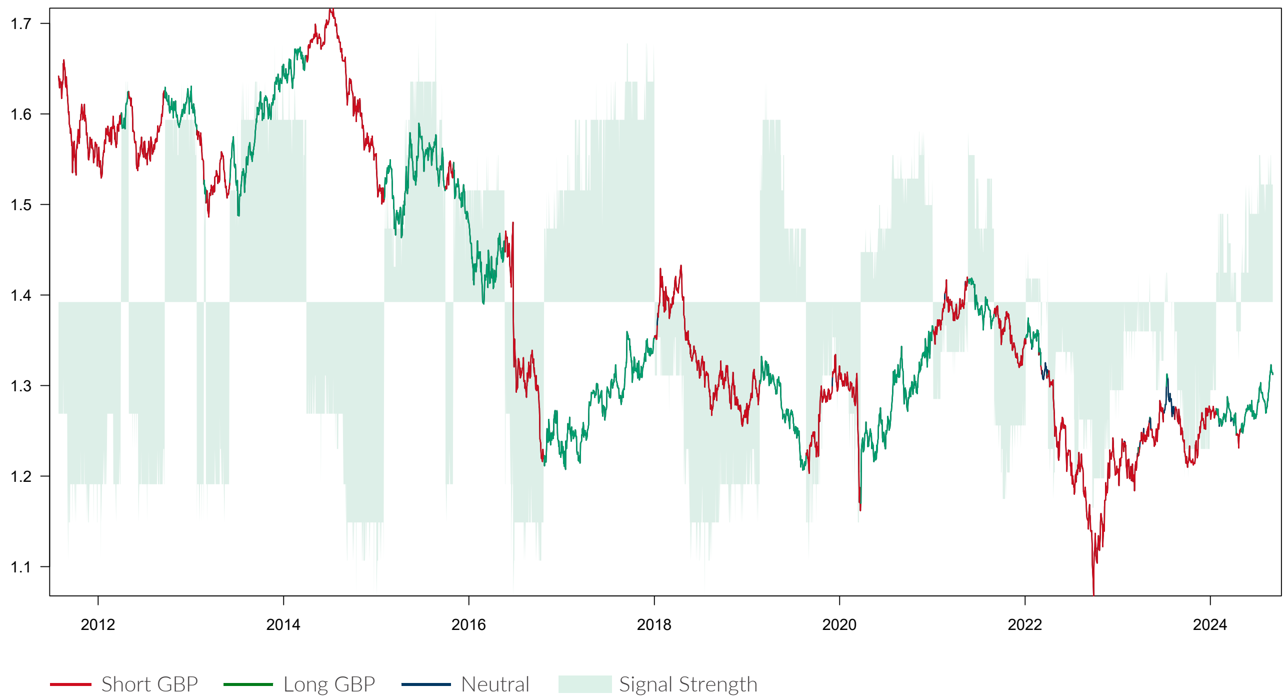

Source: QCAM Currency Asset Management

## GBPUSD

We keep the discretionary Macro position at neutral and remain unexcited about the UK's economic fundamentals. However, the GBP's strong performance in recent months is not only the result of risk-on sentiment and Fed rate cut speculation but also shows that the new government and the BoE are gaining market confidence. Business Sentiment and Technical remained both long GBP. The overall strategy position is long GBP.

| | FX Factors | GBP Impact | Comment |
|---|---|---|---|
| **Macro** | Current Account Balances | 0/– | The UK deficit has declined but remains firmly in the red zone |
| | Interest Rate Differentials | 0 | UK rates are slightly above US rates but the gap is unlikely to widen if the Fed eases less than the market currently expects |
| | Oil Price | 0 | Oil price expected to stay in volatile range |
| **Sentiment** | Business Sentiment | + | Momentum in UK surveys stays ahead versus US surveys |
| | Risk Sentiment | 0/– | Global risk-on sentiment has supported the GBP |
| **Technical** | Price Action | + | Technical remains long GBP |
| | Spec Positions | – | The GBP remains overbought |
| | PPP Valuation | 0/+ | The GBP is 15% undervalued |

**GBPUSD and QCAM Strategic Positioning**




Source: QCAM Currency Asset Management

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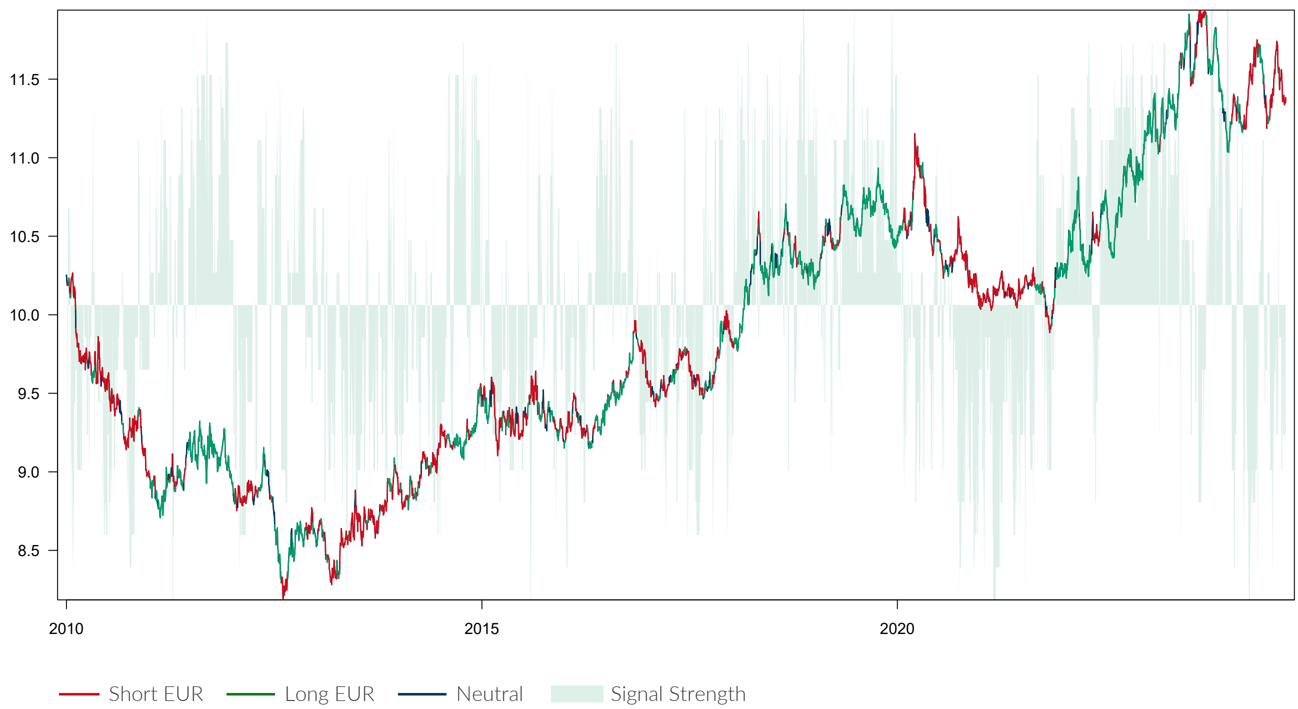
# EURSEK

We keep the discretionary Macro position at neutral. Chances of a soft-landing and falling interest rates have improved and the drag from the housing sector is gradually easing but external uncertainties remain high and the SEK is vulnerable if Fed rate cut expectations get disappointed. All strategy signals were unchanged, leaving the balance slightly long SEK.

| | FX Factors | SEK Impact | Comment |
|---|---|---|---|
| **Macro** | Current Account Balances | + | Sweden's surplus has rebounded to levels above those before the Ukraine war |
| | Interest Rate Differentials | 0 | The Macro interest rate model is neutral SEK |
| **Sentiment** | Business Sentiment | + | Surveys stayed long SEK |
| | Risk Sentiment | – | Concerns over the property slump are gradually easing |
| **Technical** | Price Action | – | Technical stayed short SEK |
| | PPP Valuation | + | The SEK is roughly 27% undervalued versus the EUR |

**EURSEK and QCAM Strategic Positioning**




Source: QCAM Currency Asset Management

# USDCAD

Canada's fundamental position remains solid despite a small current account deficit and the adjustment in housing to higher interest rates. Canadian inflation is slightly below US inflation and the BoC started easing well before the Fed. The main risk for the CAD is a return of risk aversion and less than expected Fed easing. Our discretionary Macro position stays neutral, the Macro oil price model is long CAD, Business Sentiment remained short CAD and Technical went neutral, leaving the overall position slightly short CAD.

| | FX Factors | CAD Impact | Comment |
|---|---|---|---|
| **Macro** | Current Account Balances | 0 | Canada's current account deficit remains small versus the US deficit and compared to past levels |
| | Oil Prices | + | The Macro oil price model remains long CAD |
| | Interest Rate Differentials | 0/– | CAD interest rates close to US but BoC already started easing |
| | USD DXY Trend | 0 | Negative correlation with USD is small |
| **Sentiment** | Business Sentiment | – | Canada has weaker momentum versus the US in the surveys |
| | Risk Sentiment | 0 | No particular risk drivers at the moment |
| **Technical** | Price Action | 0 | Technical went neutral |
| | Spec Positions | 0/+ | The CAD oversold position declined but is still elevated |
| | PPP Valuation | 0 | CAD is about 11% undervalued versus the USD |

### USDCAD and QCAM Strategic Positioning


Source: QCAM Currency Asset Management

# QCAM Products and Services

**Our edge derives from a focus on professional currency management, the absolute transparency and the careful examination of risk. It is our mission to offer our clients innovative transparent solutions, in a thoughtful and risk-controlled environment, and to surpass investment goals.**

### Currency Overlay

Risks under control – opportunities in sight: QCAM Currency Overlay offers customised solutions for individual needs and investment goals. Our Passive Overlay focuses on risk management, reduction of transaction costs and the customer specific management of resulting cash flows.
Our Dynamic Overlay aims to generate returns based on QCAM´s proprietary FX Analytics, embedded in a strict risk budgeting framework.

### FX Best Execution

With larger foreign currency transactions, even a small difference in pricing leads to a major impact on costs and revenues. While it is unattainable for most players to keep the full overview of the deals available in the market, independence and transparency are essential. We carry out a Transaction Cost Analysis for our clients to evaluate potential cost savings. Also, QCAM assists its clients in the design of an optimal multibank-setup and conducts clients FX transactions transparently, independently and in the client's best interests.

### Short Term Fixed Income Strategy - USD

QCAM's Short Term Fixed Income Strategy - USD enhances yield via the use of the FX interbank swap-market. Also, we take advantage from excellent conditions which we receive from our large pool of partner banks and highly rated debtors for money market and currency transactions. The «QCAM STFI-USD» strategy has outperformed its peers for many years on a constant basis.

### FX Alpha

Currencies as an attractive portfolio diversification via QCAM FX BIAS. The focus on QCAM's Business Intelligence Alpha Strategy is on business indicators which we have successfully used for many years. The strategy is market-neutral, no specific market environment necessary. Diversification via a pool of ten different currencies and their respective trading signals.

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# QCAM Profile

## About us

QCAM Currency Asset Management AG is an independent financial services provider with focus on currency and money market management. QCAM brings together a team of internationally experienced Currency and Asset Management specialists, who are managing assets of institutional clients of approx. USD 6 billion.

Our core competences are Currency Overlay Services, FX Transaction Execution according to «Best Execution» principles, FX Alpha and Short Term Fixed Income Management.

Long-standing customers of QCAM are pension funds, family offices, investment funds, companies, NGOs and HNWIs.

**Headquarters**

Zug, Switzerland

**Founded**

2005

**Regulation**

FINMA since 2007
SEC since 2014

## Independent and Transparent

- Interests directly aligned with those of our clients
- Client focused solutions, tailored to each individuals requirements
- Independent selection of suitable external services providers
- No principal-agent conflicts
- Transparent fee model – no hidden costs
- Transparent reporting

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