January 2025

QCAM MONTHLY

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QCAM® Currency Asset Management

QCAM Special

FX BIAS 2024 Review

Bernhard Eschweiler, Senior Economist
QCAM Currency Asset Management AG

2024 was another rollercoaster year in the currency market. FX BIAS[1] managed the first three quarters well but the final quarter was a challenge. Frequent changes in market expectations on the direction of central bank policies and the fallout of the US election have created volatility around business cycle trends. Nevertheless, we believe the performance of FX BIAS in 2024 continues to validate the value of business surveys in FX trading. Given the diverging performance between manufacturing and services since 2023, we are exploring ways to add more service-sector related business surveys to FX BIAS.

2024 was another rollercoaster

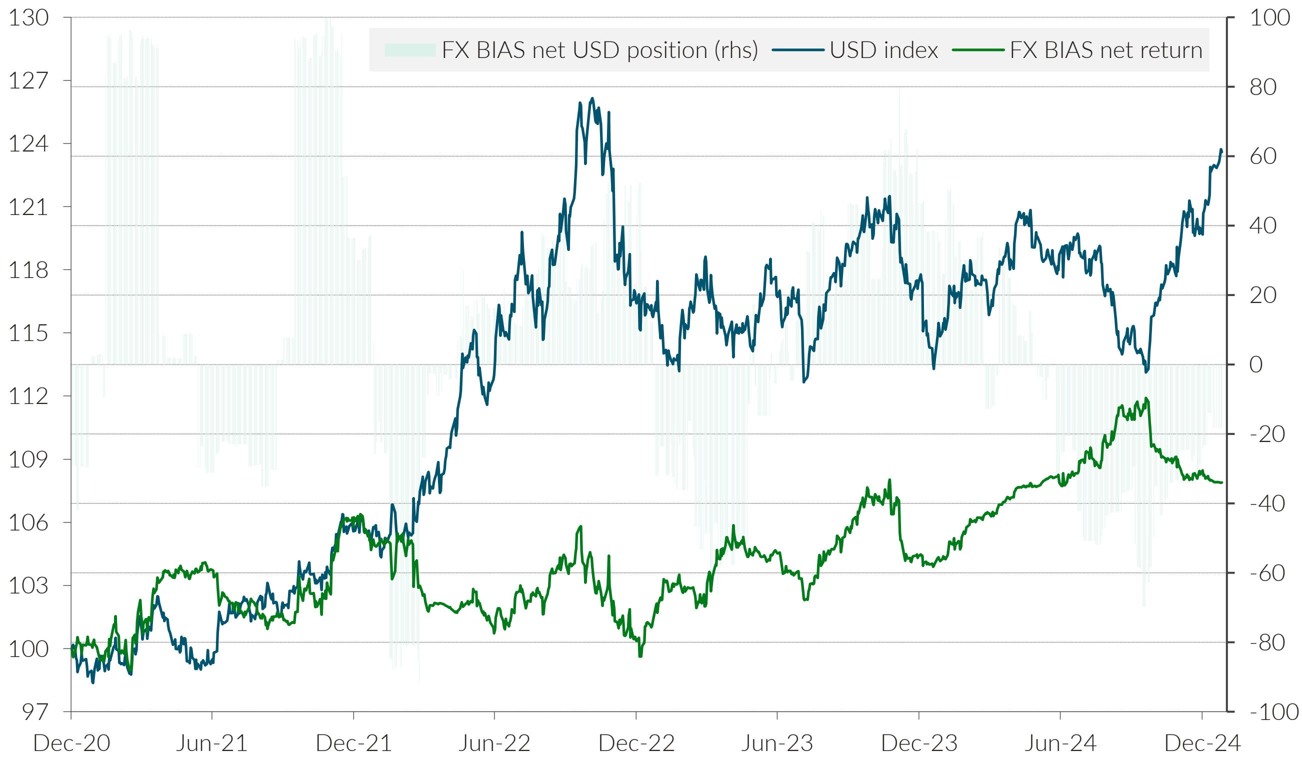
2024 was a continuation of the rollercoaster pattern seen in 2023 but with less ups and downs. The broad USD rallied for the first four months through April, only to give back all the gains in the following five months through September (→see also USD index Chart 1). In the final quarter of 2024, the USD rebounded strongly and broke the upside boundary of the prior two-year trading range (→see Chart 1 again). The simple narrative links the USD's movements in 2024 to changes in US inflation figures and the expected and actual stance of Fed policy. Over the first four months of the year, US inflation disappointed to the upside and the Fed postponed the start of the projected easing cycle. US inflation data improved over the subsequent five months and the Fed began the easing cycle with a 50bps rate cut in September. However, inflation figures again deteriorated in the final quarter forcing the market and eventually the Fed to scale back rate cut expectations. The view that the Fed has less room to ease was compounded by the outcome of the US elections as the policies of the incoming Trump administration are widely viewed to be growth-friendly as well as inflationary.

Riding the waves

FX BIAS has done well riding the up and down moves of the broad USD over the first nine months. FX BIAS started 2024 with a net-long USD position which declined subsequently to neutral (→see Chart 1 again). From May onwards, FX BIAS shifted to a net-short USD position, which peaked in September. This gradual shift from a net-long to a net-short USD position resulted in a nine-months series of un-interrupted positive returns for FX BIAS. By the end of September, the USD-denominated FX BIAS certificate had returned 7.4% over the first nine months of the year. This gain was halved to 3.7% in the final quarter as the USD rebounded while FX BIAS was still net short USD. Fortunately, the loss was dampened as the net-short USD position declined from a peak of over 60% in late September to below 20% at the end of the year. The setback at the end of last year has been disappointing but we continue to believe that the position adjustments of FX BIAS in 2024 validate the value of business surveys in FX trading.

1 – For more detail on FX BIAS and its evolution see: Introducing FX BIAS, QCAM Monthly December 2020; One year of FX BIAS, QCAM Monthly December 2021; Expanding FX BIAS, QCAM Monthly August 2022; FX BIAS 2022 Review, QCAM Monthly January 2023; FX BIAS 2023 Review, QCAM Monthly January 2024

Chart 1: QCAM FX BIAS net USD position and return versus USD index since launch



Source: QCAM Currency Asset Management AG; The returns refer to the USD based FX BIAS certificate and are net of costs and fees.

Table 1: FX BIAS individual currency positions, changes and performance in 2024 (in percent)

	EUR	JPY	GBP	AUD	CAD	CHF	NZD	SEK	NOK
Weight in FX BIAS	24.6	15.5	13.1	9.6	8.5	8.5	6.8	6.8	6.6
Average position*	16.1	-22	30.7	0	27.8	30.8	18.3	58.7	6.4
% long	56.8	7.7	68.3	45.2	26.6	52.1	66.8	99.6	49.8
% neutral	6.6	61	21.6	36.3	72.2	26.6	30.9	0	6.6
% short	36.7	31.3	10	18.5	1.2	21.2	2.3	0.4	43.6
FX change**	-6.3	-10.2	-1.7	-9.2	-8.3	-7.1	-11.5	-8.8	-10.6
Return	2.3	4.7	2.5	-4.5	-10.1	6	-3.7	-5.1	-1.5
Prior year	4.2	-8.1	-6	8	2.6	5.4	-5.3	-2.5	-5.2
Volatility	4.7	8.1	4.4	2.2	3.8	8.8	3.2	9.5	4.5

* Average currency position versus the USD (+ = long)
** FX change versus the USD over the year (+ = appreciation versus the USD)
Source: QCAM Currency Asset Management AG

Winners and losers

Table 1 shows the individual currency positions (all versus the USD), the respective exchange rate changes and the resulting performances of the FX BIAS currency components. All individual currency positions have been on average long versus the USD in 2024 except for the JPY (short) and the AUD (neutral). However, positions have varied over the year. For example, the SEK had the largest average long position versus the USD and held that position almost the entire year although not always at 100%. The JPY position in contrast was for 61% of the year neutral, less than 8% long and nearly a third of the year short, resulting on average in a net short position. All currencies depreciated versus the USD over 2024 but again to different extents. The GBP held up best, loosing just 1.7% versus the USD, while the NZD fell the most, followed by the NOK and the JPY. In terms of FX BIAS performance, there have been four winning positions (CHF, JPY, GBP and EUR) and five loosing positions (CAD, SEK, AUD, NZD and NOK).

Chart 2 shows the performance of the individual currency positions over time. By the end of September, five position had solid positive returns (CHF, JPY, GBP, SEK and EUR), two positions returned around zero (NOK and CAD) and two positions were loss making (AUD and NZD). In the last quarter, all positions produced negative returns but at different levels. The long CAD and SEK positions lost the most, both down nearly 10%, while the nearly neutral AUD and NZD positions lost the least. Compared with 2023, encouraging are the consistently positive performances of the CHF and EUR positions (→see Table 1 again). Positive is also the turnaround of the JPY and GBP from loss making in 2023 to positive returns in 2024. A concern are the consistent losses of the NZD, SEK and NOK positions although their weights in FX BIAS are significantly smaller.

The road ahead

As we pointed out before, we remain confident in the use of business surveys in FX trading. Having said that, there are clearly limits and difficulties as well as structural changes that impact the performance of FX BIAS and require some adjustments:

1. Business surveys cannot capture all events in advance and their impact on currency markets. This was clearly the case with the outbreak of the Ukraine war in early 2022 and to some extent was again true for the US election in 2024. We cannot rule out the reoccurrence of unexpected events, but our risk management guidelines allow us to limit possible negative implications.

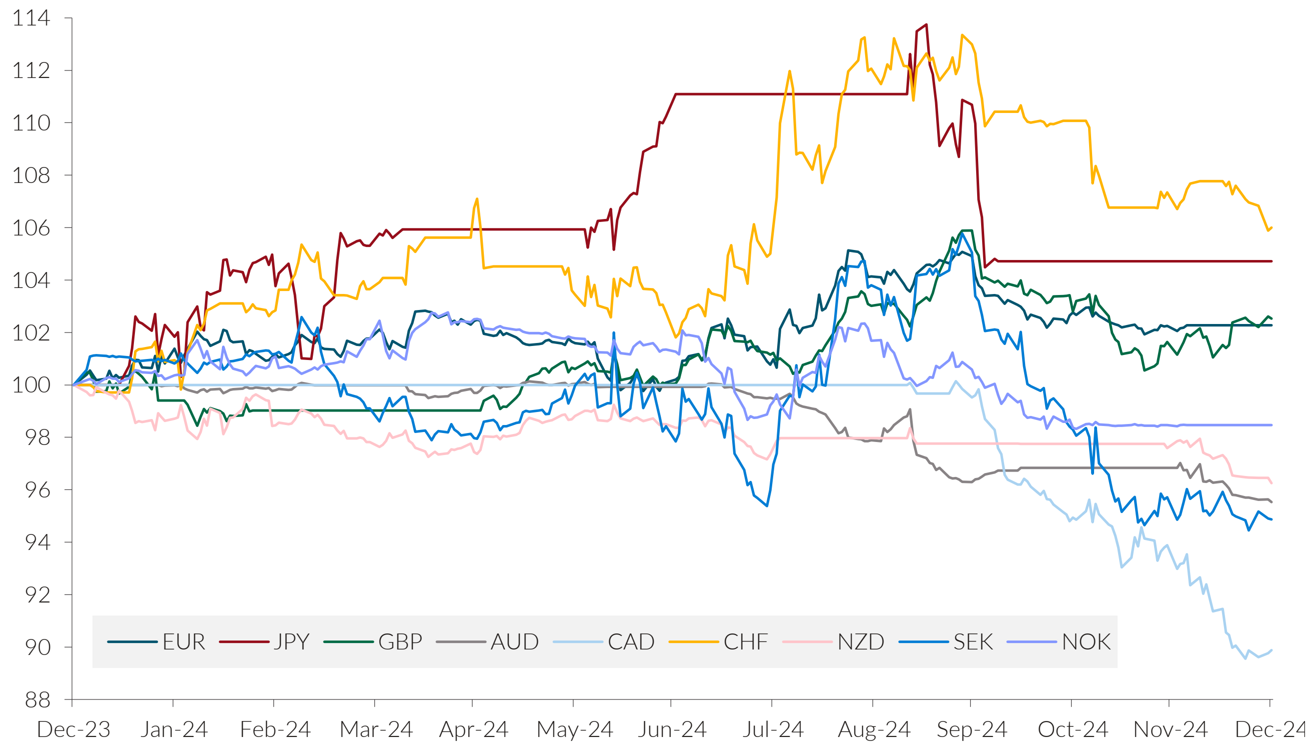
2. Business cycle trends as captured by business surveys and currency markets expectations on the direction of monetary policy can diverge at times and undermine the performance of FX BIAS. Encouraging, however, is that such periods of divergence have so far been temporary and not become prolonged and structural. At the end of 2023, for example, the market was very bullish on Fed easing, while US business surveys still outperformed most of their peers of other major currencies. Yet, the long USD position of FX BIAS, which was hurtful in late 2023, became profitable again in early 2024.

3. Service-sector related business surveys may become more relevant. This was not the case when we launched FX BIAS, also because the signal value of the service sector was distorted due to the impact of the corona pandemic. Over the last two years, however, service-related business surveys have outperformed manufacturing surveys and may have in general become more significant for determining business cycle dynamics (see Chart 3). In the case of USDJPY, we have just added service-sector business surveys, which we found useful, and are exploring options to include service-sector business surveys for other currency pairs as well.

4. There are signs that commodity related business surveys, especially for oil and gas, have lost value for commodity currencies. As the US has become a net energy exporter itself, changing prospects for energy commodities no longer have a clear and unambiguous impact on the major commodity currencies versus the USD. As this change is probably structural, we are looking for alternative surveys to capture the dynamics of commodity currencies.

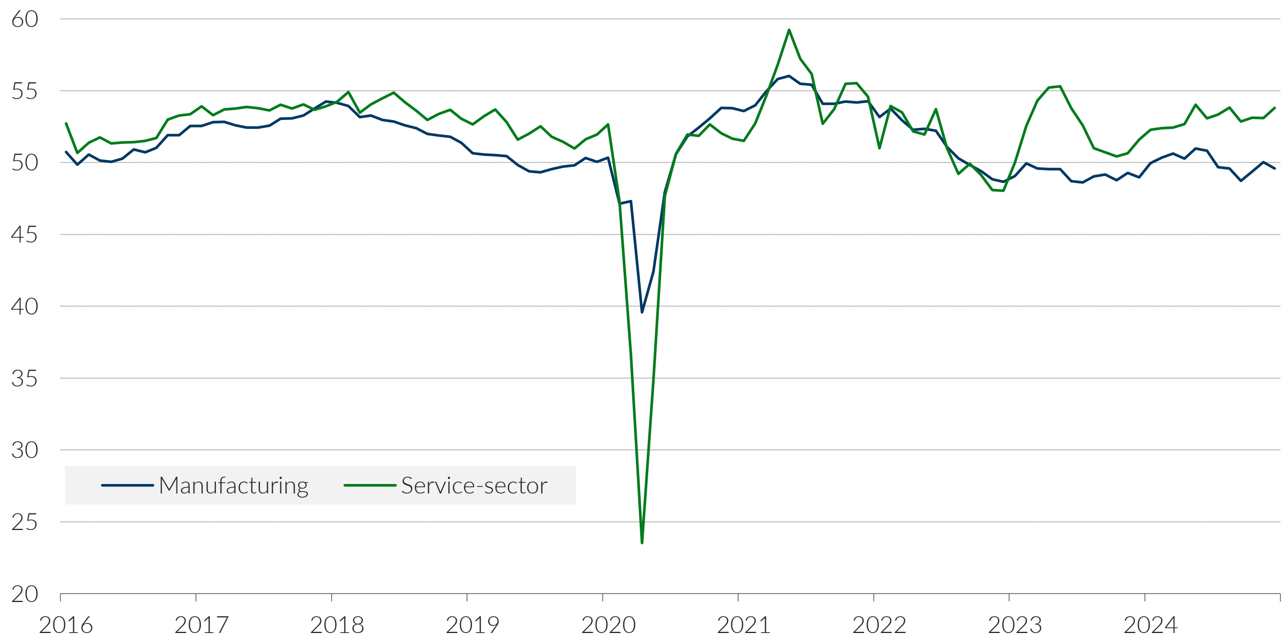
For further information and the fact sheet please contact us at info@q-cam.com or +41 55 417 00 50.

Chart 2: QCAM FX BIAS individual currency performance in 2024



Source: QCAM Currency Asset Management AG

Chart 3: Global manufacturing and service-sector business surveys



Source: JPMorgan and QCAM Currency Asset Management AG

QCAM Insight

More uncertainty than direction

Bernhard Eschweiler, Senior Economist
QCAM Currency Asset Management AG

The USD rallied further in December and economic fundamentals and policy developments suggest that the USD has further upside. The start of 2025, however, is dominated by uncertainties surrounding first policy moves. Trump could surprise by being more moderate or more radical. Current rhetoric suggests the later but that could change quickly. In our view, uncertainty is unlikely to fade quickly and that implies more volatility for FX markets in coming months.

The USD DXY rallied another 2.6% in December and broke out of the range of the last two years. The USD advanced versus all major and most EM currencies, with the NZD, the AUD and the JPY suffering the biggest losses. The USD rally was driven primarily by two factors: first, the Fed's acknowledgement at the December FOMC meeting that it has less room to lower interest rates than previously projected; second, market anticipation that the policies of the incoming Trump administration will further limit the Fed's ability to ease policy. News, announcements, statements and rumors since the start of the year, however, have created more uncertainty and volatility than clear direction.

The base-case for more USD strength

As we had outlined in our "2025 sneak preview" in the last FX Monthly, the base-case scenario points to further USD strength. This view is based on four factors.

1. US economic growth has been solid through the end of last year and that momentum is likely to carry well into 2025 irrespective of policy steps by the new administration (see also QCAM FX Monthly November 2024). In contrast, most other major economies are struggling to lift growth or stay out of recession (most notably China and some key euro-area economies).

2. The basic thrust of the incoming US administration's policy agenda has the potential to strengthen growth further through deregulation and tax cuts but is also likely to increase inflationary pressures.

3. And as a result, the Fed is expected to lower interest rates less than any other major central bank except for the BoJ, which is expected to raise interest rates. Current forwards imply that the Fed will lower interest rates by just 32 bps over the next 12 months. All other major central banks excluding the BoJ are projected to lower interest on average at least twice as much and the ECB is even seen to cut rates three times as much as the Fed.

4. The USD remains the dominant safe-haven currency, a feature that could come to its support given prevailing and potentially new geopolitical uncertainties.

Fog of uncertainties

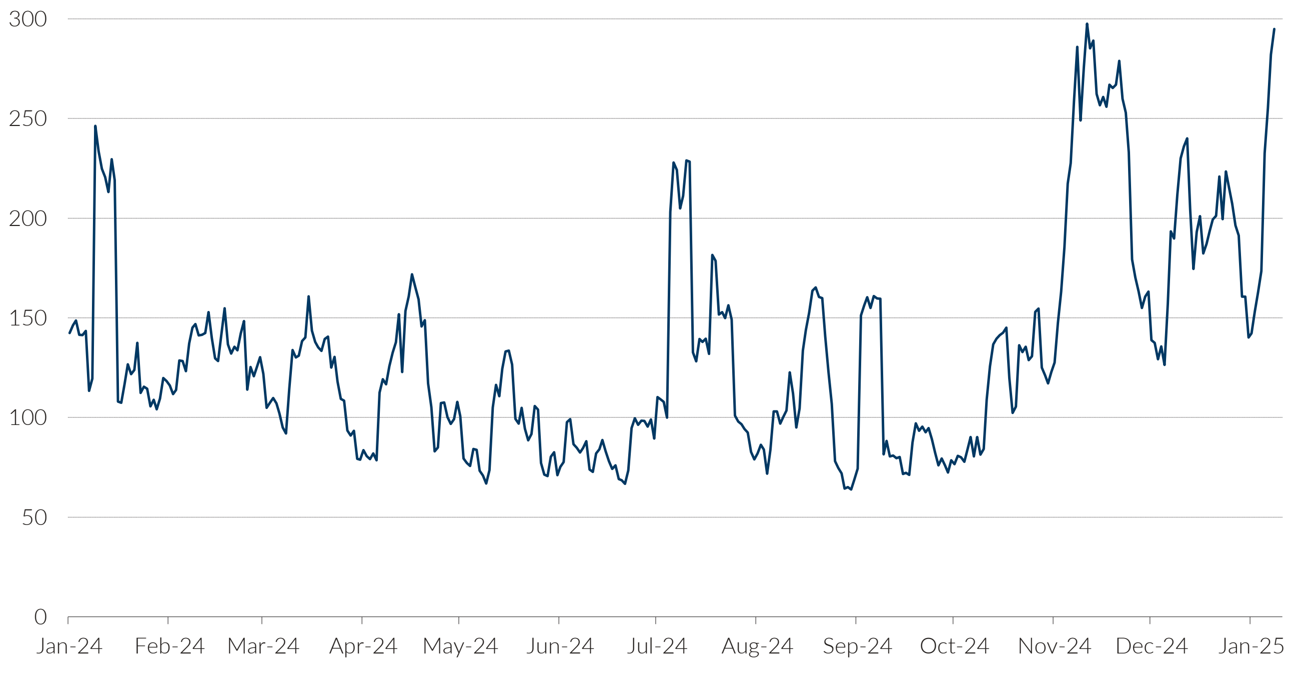
Despite the compelling case for further USD strength, the near-term outlook is clouded by uncertainties. The main source of uncertainty is the rollout of Trump's economic policy agenda (see Chart). This was highlighted by the turmoil triggered by the recent Washington Post article, which suggested that the implementation of the new administration's policies may be tamer than feared. The subsequent USD selloff and US Treasury rally showed that the market had priced firmer action. Since then, Trump has missed no opportunity to push his hardline rhetoric. However, the complexity and interconnectivity of the policy agenda as well as the diverging preferences of the players involved besides the president (Senate and House of Representatives) over extent, sequencing and packing suggest that multiple overlapping legislative and executive initiatives with rolling announcements and deadlines are more likely than one clean implementation plan.

The other area of uncertainty is Trump's foreign policy agenda. How will he deal with the conflicts in Ukraine and the Middle East? Will he put military pressure on Russia to get Putin to the negotiation table and will he deepen the conflict with Iran? Trump's threats to annex Greenland and Canada are not just populist provocations. A look at the map highlight the geo-economic importance of Greenland and Canada especially in the conflict with China and Russia. Last but not least, there are plenty of uncertainties not directly linked to the incoming US administration, especially in Europe. Germany faces an election in February and the outcome may not be a strong government that is able to fix the country's economic malaise. France and Austria are in similar positions. Moreover, these are not just problems for each of these countries on their own, but they weaken the overall position of Europe to deal cohesively with the many external and internal challenges.

The leaders not always win

In our view, the fog of uncertainties is unlikely to clear quickly. The result is probably more volatility for financial markets in coming months. Our best guess is that the USD will still be in the lead by the middle of this year, simply because it has the strongest fundamental support for now. However, that could change over time if Trump's crackdown on trade and immigration curtails growth and boosts inflation while the market loses confidence in the sustainability of US government debt and Fed independence.

US economic policy uncertainty index



Source: St. Louis Fed and QCAM Currency Asset Management AG

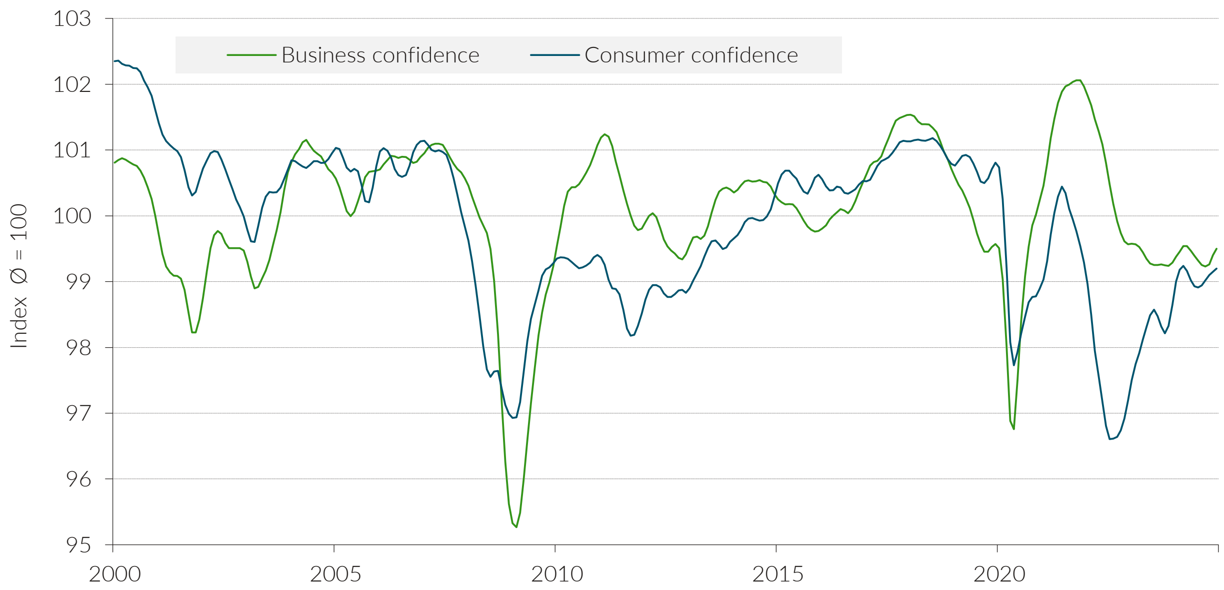
Economy & Interest Rates

Global business and consumer sentiment continue to stabilize, but a recovery seems not imminent. Overall, we expect global growth this year to roughly match last year's performance, but with some relative changes. Growth in the US is likely to moderate a bit, while most developed countries will probably see a modest pickup in growth. However, US outperformance is expected to continue. Growth in emerging markets will probably moderate as well. Disinflation is expected to continue, paving the way for an overall soft-landing scenario, but with some differences, which will also determine the direction of monetary policy. We expect less easing from the Fed, more easing from the ECB and a continuation of policy normalization from the BoJ.

	Real GDP growth[1]		Unemployment rate[1]		Inflation rate[1]		Current account[2]		Fiscal balance[2]		Public debt[2]	
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
Global	3.0	2.8	n.a.	n.a.	3.2	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developed	1.7	1.8	n.a.	n.a.	2.7	2.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
USA	2.7	2.5	4.0	4.2	2.9	2.5	-3.3	-3.5	-7.6	-7.5	121	124
Canada	1.2	1.8	6.2	6.0	2.3	2.0	-1.0	-1.0	-2.0	-1.0	106	103
Euro-area	0.8	1.0	6.5	6.5	2.4	2.0	2.6	2.5	-3.1	-3.1	88	88
Sweden	1.0	2.0	8.5	8.0	2.2	2.0	6.5	6.0	-1.1	-0.5	36	35
Switzerland	1.3	1.3	2.4	2.4	1.3	1.0	8.2	8.0	0.6	0.5	32	31
UK	0.8	1.0	4.2	4.2	2.5	2.5	-2.8	-3.0	-4.3	-4.5	102	104
Japan	0.0	1.3	2.5	2.5	2.7	2.7	3.8	3.5	-6.1	-6.0	251	252
Australia	1.1	2.0	4.1	4.0	3.2	3.0	-0.9	-1.0	-1.7	-2.0	49	50
Emerging	4.1	3.6	n.a.	n.a.	4.0	3.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China	4.8	4.0	5.1	5.5	0.3	0.5	1.4	1.5	-7.4	-7.5	90	94
India	6.5	6.0	n.a.	n.a.	5.0	4.0	-1.1	-1.5	-7.8	-7.5	90	94
Russia	3.5	1.5	2.6	3.0	8.4	8.0	2.7	2.5	-2.0	-2.0	20	20
Brazil	3.5	2.0	7.2	7.0	4.4	5.0	-1.7	-2.0	-6.9	-7.0	88	92

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

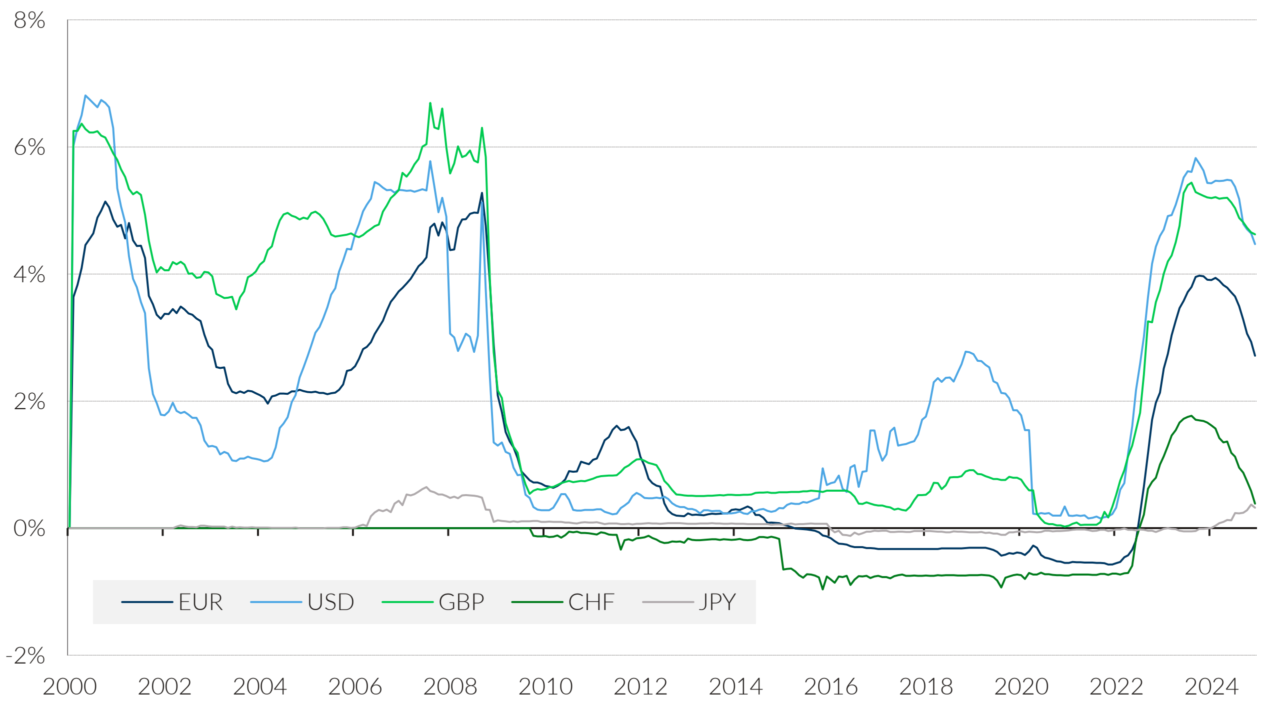
Interest Rates

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	4.32%	4.38%	4.64%	5.32%	4.18%	4.41%	3.98%	3.84%	3.88%	2.87%
EUR	2.76%	2.87%	3.27%	3.94%	2.46%	2.46%	2.12%	2.48%	2.57%	2.51%
JPY	0.34%	0.35%	0.25%	-0.01%	0.04%	1.11%	1.03%	0.91%	0.81%	0.71%
GBP	4.59%	4.65%	4.79%	5.20%	3.92%	4.17%	3.81%	3.83%	3.57%	3.43%
CHF	0.39%	0.60%	0.84%	1.66%	0.88%	0.49%	0.32%	0.64%	1.31%	1.34%
AUD	4.26%	4.32%	4.32%	4.35%	3.33%	4.36%	4.12%	4.17%	4.27%	4.02%
CAD	3.12%	3.25%	3.97%	5.02%	3.87%	3.34%	3.10%	3.45%	3.57%	3.56%
SEK	2.39%	2.48%	3.02%	3.99%	2.71%	2.73%	2.27%	2.43%	2.51%	2.65%
RUB	21.30%	20.63%	19.75%	15.75%	12.59%	13.68%	11.12%	11.12%	9.62%	9.51%
BRL	11.83%	10.26%	9.74%	9.96%	11.14%	15.05%	14.32%	12.39%	10.35%	11.92%
CNY	1.65%	1.76%	1.71%	2.11%	1.99%	1.49%	1.68%	1.88%	2.36%	2.41%
TRY	46.18%	50.15%	51.90%	46.15%	30.40%	38.04%	38.04%	38.04%	38.04%	29.42%
INR	6.68%	6.60%	6.61%	6.80%	6.19%	6.20%	6.11%	6.23%	6.37%	6.48%

Source: QCAM Currency Asset Management, as of January 7th, 2025

3-month Rates



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

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FX Markets

FX Performance vs. PPP

The USD DXY gained 2.6% in December following +5.2% in October and November. USD strength was broad-based versus both all other major currencies as well as most EM currencies. Net long speculative USD positions increased further and stand at a historical high with EUR, CHF, CAD and NZD most oversold. Short-term interest rates continued to move lower but some forwards price less future rate cuts than a month ago, notably for the Fed. The cost of forward hedging versus the USD has declined further but remains expensive for JPY and CHF. Actual and implied FX volatilities were mixed but on balance relatively stable and 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.

Overview

	Current Exchange Rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	1M	12M	5 years	PPP	Neutral Range	Deviation[3]
EURUSD	1.037	0.17%	-1.74%	-5.29%	-6.96%	1.23	1.10 - 1.36	-16%
USDJPY	157.700	0.21%	5.16%	8.95%	45.28%	102.35	90.63 - 114.06	54%
GBPUSD	1.250	-0.15%	-1.79%	-1.76%	-4.78%	1.54	1.37 - 1.71	-19%
EURCHF	0.941	0.15%	1.48%	1.14%	-13.00%	0.91	0.86 - 0.96	3%
USDCHF	0.908	-0.02%	3.29%	6.79%	-6.49%	0.79	0.70 - 0.88	15%
GBPCHF	1.135	-0.17%	1.44%	4.91%	-10.96%	1.02	0.93 - 1.11	11%
CHFJPY	173.755	0.22%	1.81%	2.02%	55.37%	95.98	85.00 - 106.96	81%
AUDUSD	0.625	0.97%	-2.10%	-6.99%	-9.07%	0.76	0.67 - 0.85	-18%
USDCAD	1.435	-0.31%	1.35%	7.52%	10.24%	1.22	1.13 - 1.30	18%
USDSEK	11.089	0.15%	1.23%	8.18%	17.38%	8.30	7.35 - 9.24	34%
EURSEK	11.496	0.33%	-0.53%	2.46%	9.21%	8.95	8.41 - 9.50	28%
USDRUB	107.171	-5.77%	6.58%	17.85%	72.85%	69.79	51.16 - 88.41	54%
USDBRL	6.075	-1.56%	-0.11%	24.55%	49.06%	3.95	2.39 - 5.51	54%
USDCNH	7.337	0.03%	0.74%	2.41%	5.67%	7.14	6.54 - 7.73	3%
USDTRY	35.340	-0.08%	1.62%	18.42%	491.82%	23.21	18.23 - 28.20	52%
USDINR	85.763	0.22%	1.25%	3.17%	19.36%	83.79	77.04 - 90.54	2%
US_Dollar_Index	108.671	0.17%	2.47%	6.11%	12.03%	87.66	81.85 - 93.47	24%

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

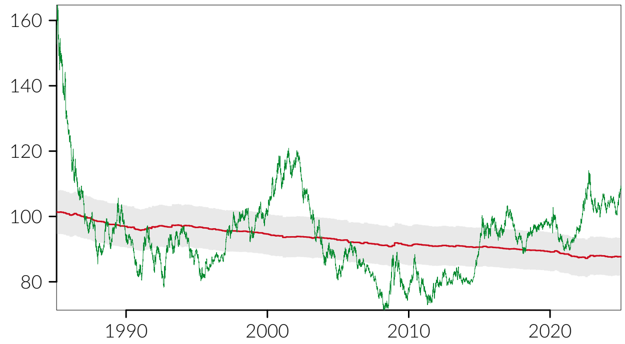
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral range is determined by ± 1 standard deviation of the historical variation around the PPP value.

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

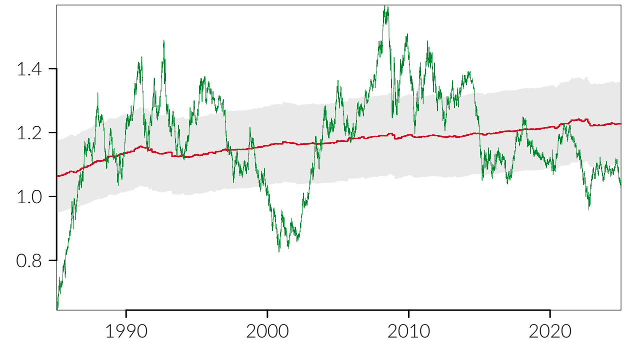
Source: QCAM Currency Asset Management, as of January 7th, 2025

Purchasing Power Parity

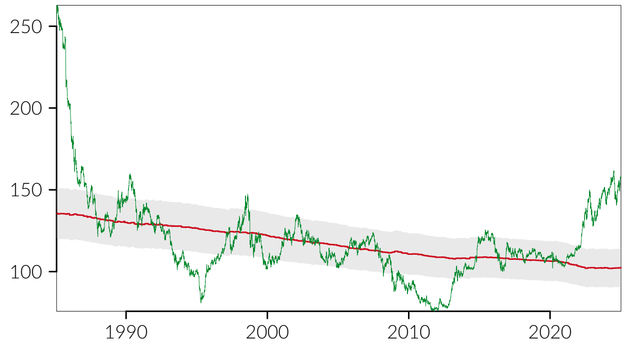
DXY



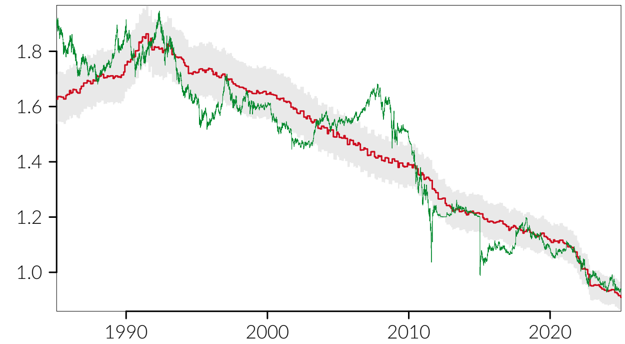
EURUSD



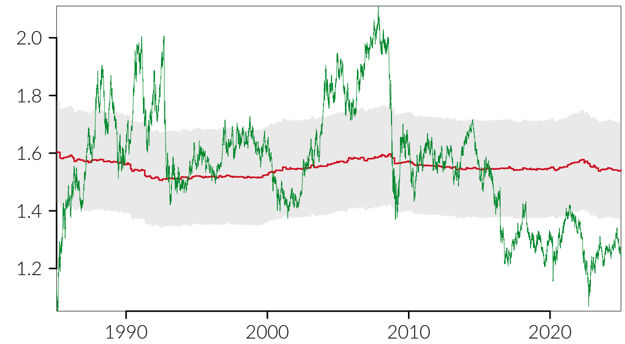
USDJPY



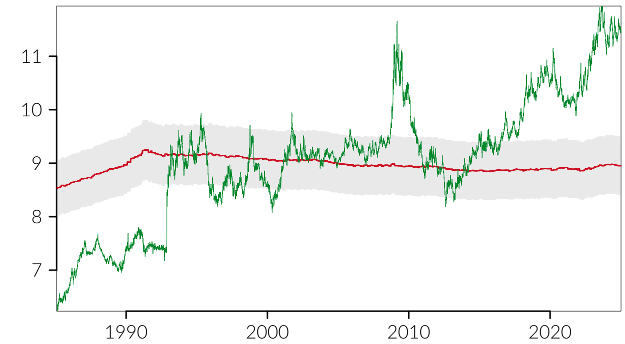
EURCHF



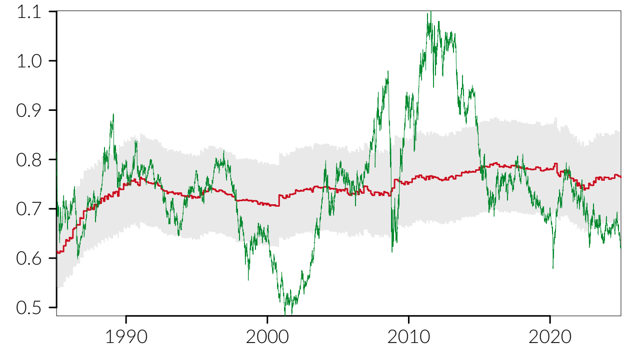
GBPUSD



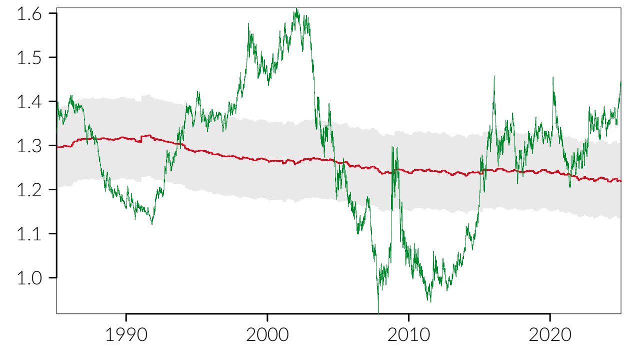
EURSEK



AUDUSD



USDCAD



Source: QCAM Currency Asset Management, as of January 7th, 2025

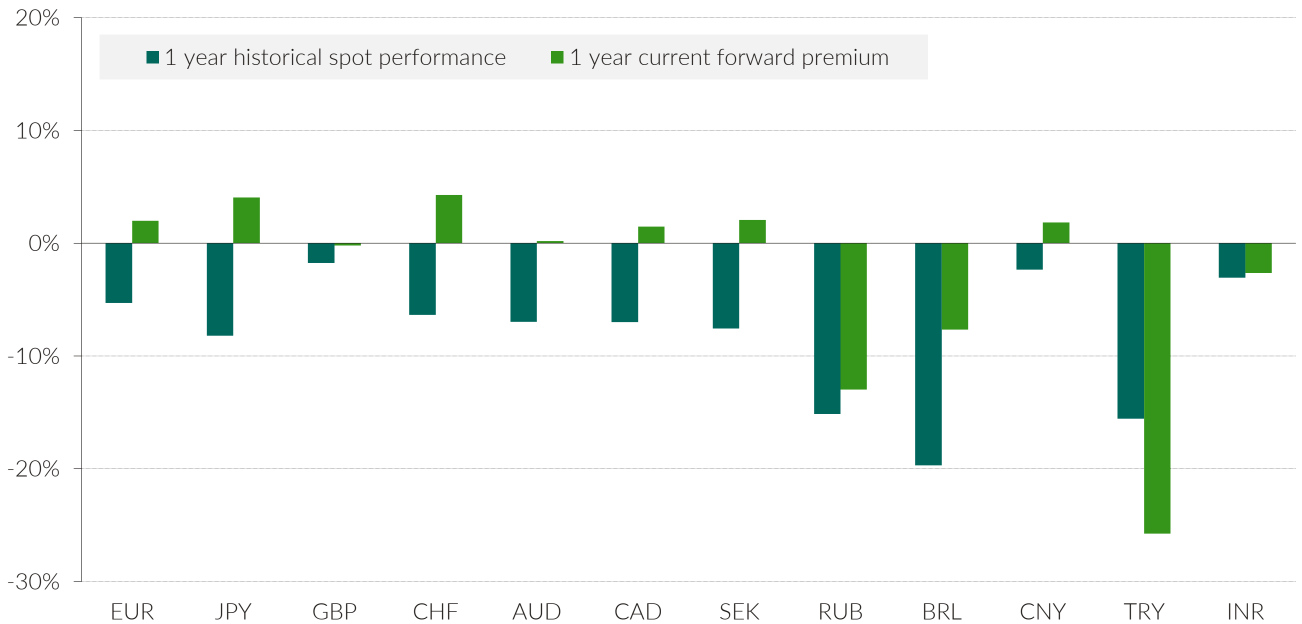
PPP — Spot — Neutral Range

FX Spot vs Forwards

FX Forwards Level and Premium

	Current Exchange Rate	Forward Level			Premium p.a.		
		1M	3M	12M	1M	3M	12M
EURUSD	1.037	1.0380	1.0409	1.0572	1.42%	1.62%	1.95%
USDJPY	157.700	157.1062	156.0528	151.5621	-4.24%	-4.18%	-3.84%
GBPUSD	1.250	1.2496	1.2492	1.2476	-0.33%	-0.25%	-0.19%
EURCHF	0.941	0.9388	0.9353	0.9202	-2.58%	-2.41%	-2.17%
USDCHF	0.908	0.9044	0.8985	0.8704	-4.00%	-4.01%	-4.04%
GBPCHF	1.135	1.1301	1.1224	1.0859	-4.33%	-4.26%	-4.23%
CHFJPY	173.755	173.7184	173.6808	174.1280	-0.24%	-0.17%	0.21%
AUDUSD	0.625	0.6245	0.6246	0.6256	0.02%	0.08%	0.18%
USDCAD	1.435	1.4329	1.4297	1.4137	-1.25%	-1.34%	-1.43%
USDSEK	11.089	11.0694	11.0332	10.8648	-1.95%	-2.00%	-1.99%
EURSEK	11.496	11.4905	11.4846	11.4863	-0.52%	-0.39%	-0.08%
USDRUB	107.171	108.9707	111.6673	123.1596	18.89%	16.78%	14.71%
USDBRL	6.075	6.1090	6.1779	6.5781	6.35%	6.79%	8.17%
USDCNH	7.337	7.3360	7.3206	7.2043	-0.15%	-0.89%	-1.78%
USDTRY	35.340	36.4729	38.4129	47.6026	34.97%	34.78%	34.22%
USDINR	85.763	86.0503	86.5110	88.0925	3.78%	3.49%	2.68%

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



Source: QCAM Currency Asset Management, as of January 7th, 2025

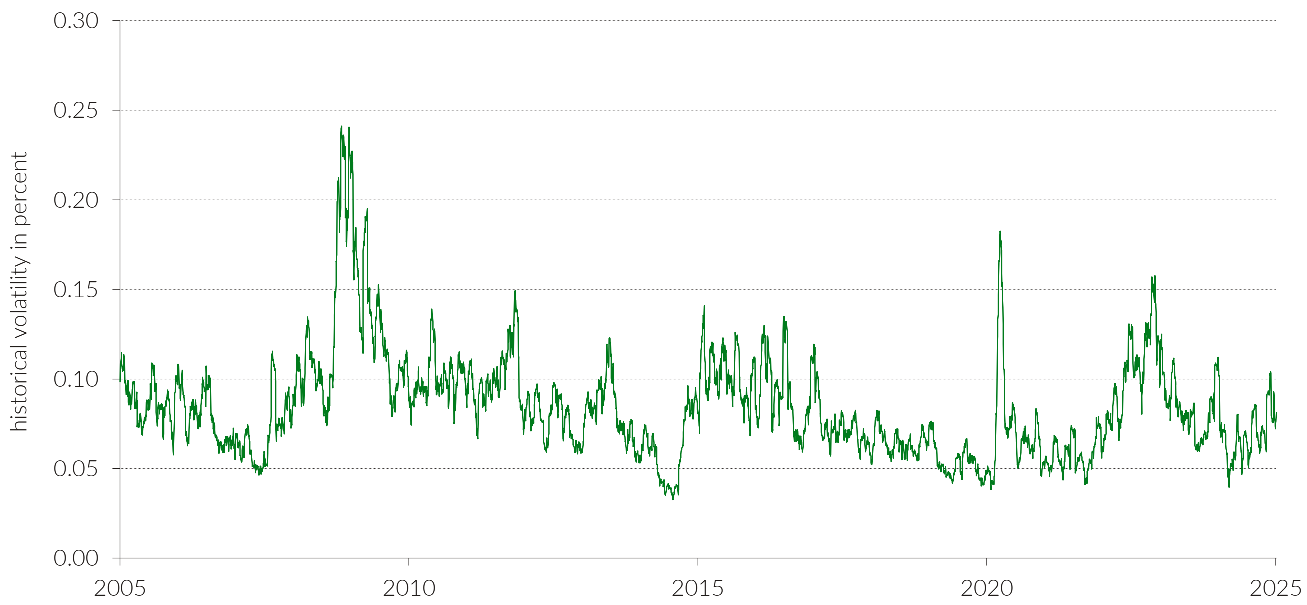
FX Volatility

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	1.037	7.66%	7.19%	8.72%	7.28%	7.83%	7.25%	6.68%	7.07%
USDJPY	157.700	10.92%	11.32%	11.63%	9.04%	10.20%	10.93%	10.00%	8.87%
GBPUSD	1.250	7.88%	7.41%	9.41%	8.79%	8.23%	6.97%	7.40%	8.45%
EURCHF	0.941	3.92%	4.77%	5.55%	4.96%	5.28%	5.68%	5.65%	5.48%
USDCHF	0.908	6.85%	6.87%	7.53%	7.61%	7.43%	7.03%	7.23%	7.16%
GBPCHF	1.135	6.04%	7.13%	6.35%	7.52%	6.58%	6.60%	6.50%	7.62%
CHFJPY	173.755	8.60%	8.28%	9.91%	7.86%	8.90%	9.43%	9.68%	8.22%
AUDUSD	0.625	9.02%	8.99%	10.47%	10.56%	10.18%	9.73%	9.73%	10.35%
USDCAD	1.435	4.69%	4.25%	6.06%	6.63%	6.33%	5.48%	5.80%	6.62%
USDSEK	11.089	8.71%	9.16%	12.66%	10.73%	10.48%	10.50%	11.32%	10.48%
EURSEK	11.496	5.34%	5.38%	6.15%	6.26%	5.38%	5.75%	7.45%	6.56%
USDRUB	107.171	30.87%	24.19%	13.98%	21.72%	26.50%	25.43%	28.65%	25.79%
USDBRL	6.075	11.44%	11.61%	10.76%	15.06%	14.90%	14.20%	13.00%	16.58%
USDCNH	7.337	4.52%	5.51%	4.16%	4.73%	6.05%	6.28%	4.93%	5.39%
USDTRY	35.340	2.57%	2.69%	2.46%	12.91%	13.13%	13.75%	13.82%	20.66%
USDINR	85.763	1.42%	1.43%	1.66%	4.14%	3.28%	3.20%	3.10%	5.11%

[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 January 7th, 2025

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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.

January 2025 — Current positioning

There have been several position changes since the last QCAM MONTHLY. The discretionary Macro positions all remained unchanged but the Macro carry model went long JPY and the Macro oil price model went short CAD. Business Sentiment turned short both JPY and GBP and is on balance neutral versus the USD. Finally, Technical went neutral SEK. As a result, the balance of all USD positions shifted from neutral to a small long with a mix of longs versus the EUR, the JPY, the GBP and the CAD and short versus the CHF. The overall EUR position is short versus both the CHF and the SEK.

Overview[1]

	Macro	Business Sentiment	Technical	Comment
EURUSD	–	0	–	All positions were unchanged with the balance moderately short EUR.
USDJPY	–/–	++	++	The Macro carry model went long JPY and Business Sentiment turned short JPY, leaving the balance moderately short JPY.
EURCHF	–	––	–	All positions were unchanged. The balance of all CHF positions is long versus both the EUR and the USD.
USDCHF	0	––	–	
GBPUSD	0	––	–	Business Sentiment went short GBP and all other positions were unchanged leaving the balance half short GBP as well.
EURSEK	0/+	––	0	Technical went neutral while all other positions were unchanged, reducing the overall long SEK position.
USDCAD	+/+	––	++	The Macro oil price model went short CAD, all other positions were unchanged, leaving the balance modestly short CAD.

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

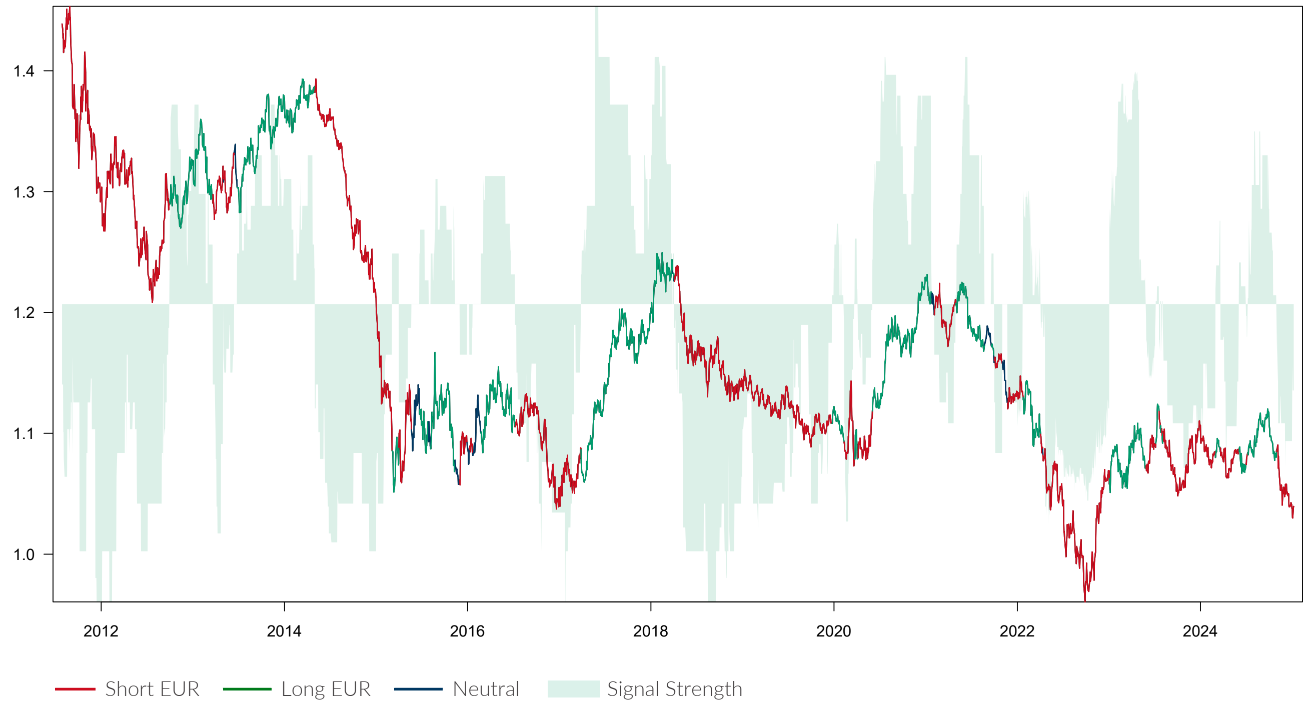
Source: QCAM Currency Asset Management

EURUSD

We kept the Macro position at short EUR. The Euro-area economy is underperforming versus the US economy, the Trump trade policy risks hurting the EU and the ECB is likely to cut rates more than the Fed. The EUR has a strong current account support and is both undervalued and oversold but that is not enough until the economy truly recovers. Business Sentiment stayed neutral and Technical remained short EUR with the balance of all strategy positions also moderately short 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/+	The US fiscal deficits is set to rise vs the Euro-area fiscal deficit
	Interest Rate Differentials	–	Balance of monetary policy expectations is biased towards more ECB rate cuts versus the Fed and a widening rate spread
	Oil prices	0	Oil price expected to stay in volatile range
Sentiment	Business Sentiment	0	The momentum in Euro-area surveys is at par with US surveys
	Risk Sentiment	–	Uncertainty over impact of Trump policies and domestic politics
Technical	Price Action	–	Technical stayed short EUR
	Spec Positions	+	Net short EUR position increased towards inflection point
	PPP Valuation	+	EUR undervaluation is around 16%

EURUSD and QCAM Strategic Positioning



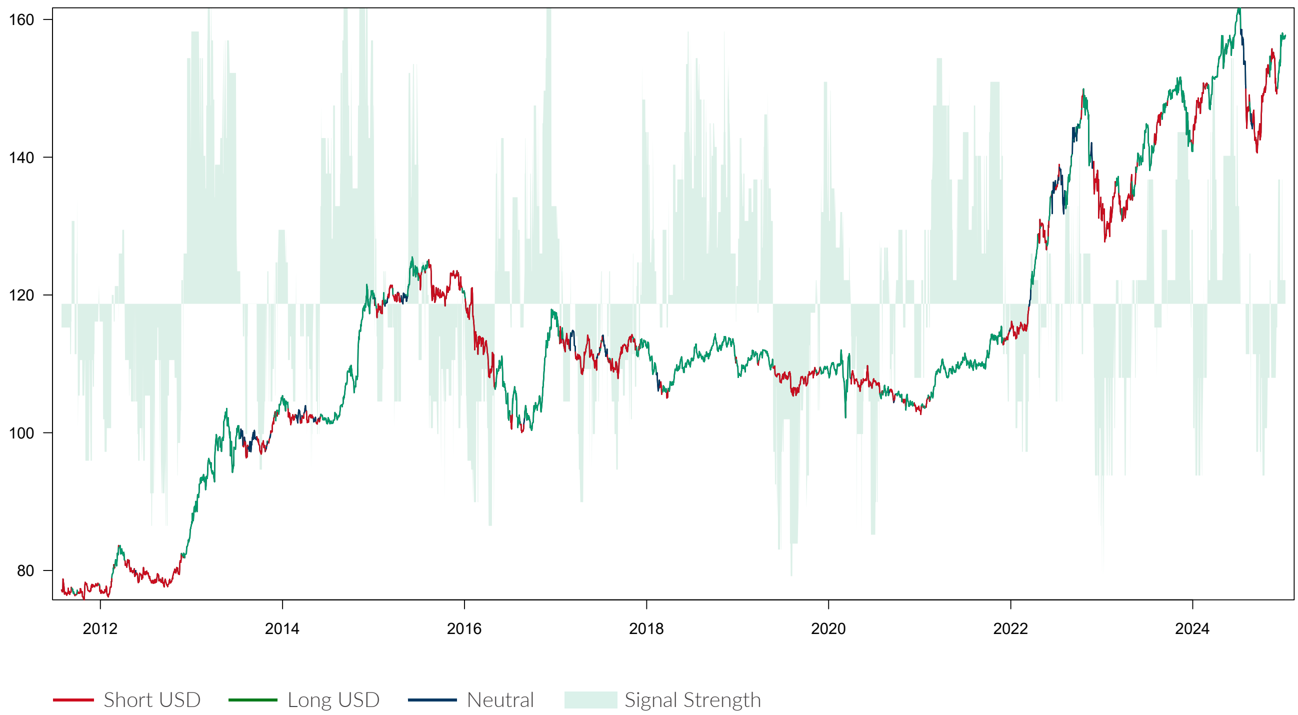
Source: QCAM Currency Asset Management

USDJPY

We kept the discretionary Macro position at long JPY. We believe the BoJ will maintain its normalization policy irrespective of political pressure. The data continues to show economic growth and inflation resilience. We also expect the JPY to gradually regain its safe-haven status. A potential risk is trade tensions with the US, but we think Trump needs Japan more as a partner versus China. As a result, we see the overall risk/reward trade-off as favourable for the JPY. The Macro carry model turned long JPY, while Business Sentiment moved to short JPY and Technical stayed short JPY, leaving the balance of all positions moderately short JPY.

	FX Factors	JPY Impact	Comment
Macro	Current Account Balances	+	The Japanese current account has returned to a solid surplus
	FDI Flows	–	Net outflows largely offset current account surplus
	Interest Rate Differentials	+	The Macro carry model shifted to long JPY
Sentiment	Business Sentiment	–	The momentum of Japanese Business Sentiment fell behind US surveys
	Risk Sentiment	0	Safe-haven character not yet restored
Technical	Price Action	–	Technical stayed short JPY
	Spec Positions	0	Net JPY position at neutral
	PPP Valuation	+	The JPY is currently about 54% undervalued

USDJPY and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

EURCHF

We kept our discretionary Macro position at long CHF versus EUR. CHF fundamentals look attractive versus the EUR, also given political uncertainties in the Euro-area and the ongoing safe-haven appeal of the CHF. The SNB already cut interest rates four times and is not expected to cut rates more than the ECB in 2025, while FX interventions seem less likely. Business Sentiment and Technical stayed long CHF, keeping the balance of all strategy positions at long CHF as well.

	FX Factors	CHF Impact	Comment
Macro	Current Account Balances	+	Surplus remains steady support for CHF
	Interest Rate Differentials	0/–	Possibility that SNB will cut rates further amid low inflation
	SNB Policy Intervention	0	SNB less inclined to use interventions
Sentiment	Business Sentiment	+	The Swiss economy remains ahead of the Euro-area economy in the surveys
	Risk Sentiment	0	The rise in risk aversion had limited impact on the CHF lately
Technical	Price Action	+	Technical stayed long CHF
	Spec Positions	+	The CHF oversold position has declined a bit but is still large
	PPP Valuation	0	CHF is close to fair-value versus the EUR

EURCHF and QCAM Strategic Positioning

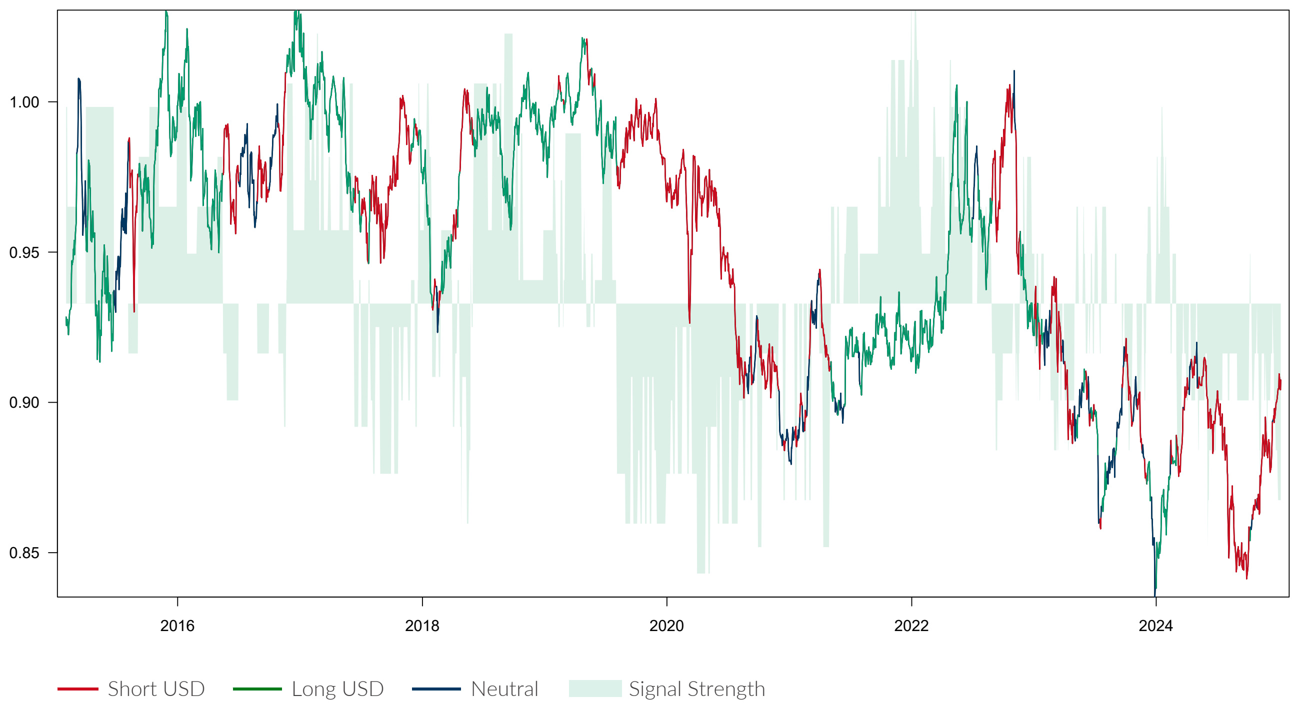
Source: QCAM Currency Asset Management

USDCHF

Our Macro positions in EURCHF (short) and EURUSD (short) imply neutral USDCHF. The Swiss economy remains fundamentally sound and the CHF's safe-haven properties uncontested. The SNB already cut interest rates four times and the spread to US rates is wide, but SNB interventions seem less likely as the CHF weakened already versus the USD and the SNB is probably getting concerned that the new US administration may put it on the currency manipulator list. Business Sentiment and Technical stayed both long CHF, leaving the balance of all strategy positions long CHF versus the USD.

	FX Factors	CHF Impact	Comment
Macro	Current Account Balances	+	Surplus remains steady support for CHF
	Interest Rate Differentials	0/–	Wide spread to US rates and possibility that SNB will cut rates further amid low inflation
	SNB Policy Intervention	0	Less intervention risk given CHF decline
Sentiment	Business Sentiment	+	Momentum of Swiss surveys is ahead of US surveys
	Risk Sentiment	0	The rise in risk aversion had limited impact on the CHF lately
Technical	Price Action	0	Technical stayed long CHF
	Spec Positions	+	The CHF oversold position has declined a bit but is still large
	PPP Valuation	0	CHF is about 15% undervalued versus USD

USDCHF and QCAM Strategic Positioning



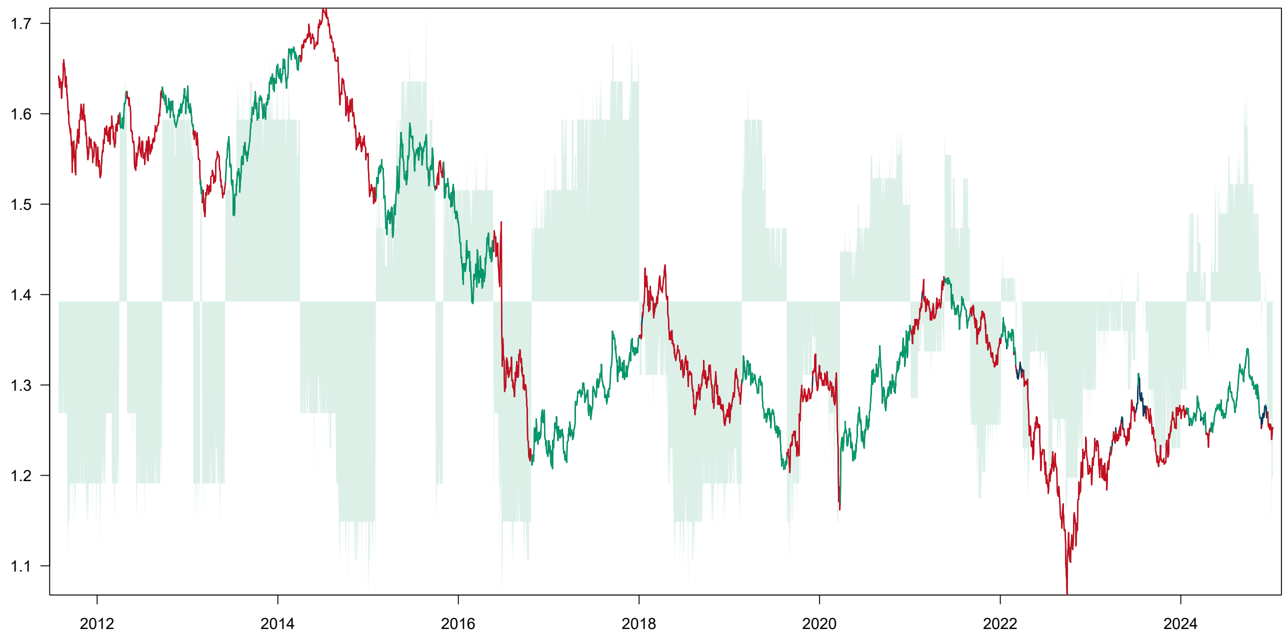
Source: QCAM Currency Asset Management

GBPUSD

We keep the discretionary Macro position at neutral and remain unexcited about the UK's economic fundamentals. The positive growth momentum seems to fade and the government's new budget implies more borrowing. Inflation has picked up again and we believe the BoE will cut interest rates cautiously in line with the Fed. Support from global investor sentiment has cooled as well. Business Sentiment shifted to short GBP and Technical stayed short GBP. The overall strategy position is short GBP.

	FX Factors	GBP Impact	Comment
Macro	Current Account Balances	0/–	The UK deficit has increased to pre-Corona levels
	Interest Rate Differentials	0	UK rates are at par with US rates and BoE and Fed are expected to move in close alignment
	Oil Price	0	Oil price expected to stay in volatile range
Sentiment	Business Sentiment	–	Momentum in UK surveys has fallen behind versus US surveys
	Risk Sentiment	0/–	Global risk-on sentiment support has faded
Technical	Price Action	–	Technical stayed short GBP
	Spec Positions	0	The overbought GBP position declined close to neutral
	PPP Valuation	0/+	The GBP is 19% 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 Sweden is vulnerable to US tariffs and when risk sentiment deteriorates. The Macro interest rate model stayed short SEK and Business Sentiment remained long SEK while Technical moved to neutral, moderating the overall long SEK position.

	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	–	The Macro interest rate model stayed short SEK
Sentiment	Business Sentiment	+	Surveys stayed long SEK
	Risk Sentiment	0	Concerns over the property slump are gradually easing
Technical	Price Action	0	Technical moved to neutral
	PPP Valuation	+	The SEK is roughly 28% undervalued versus the EUR

EURSEK and QCAM Strategic Positioning

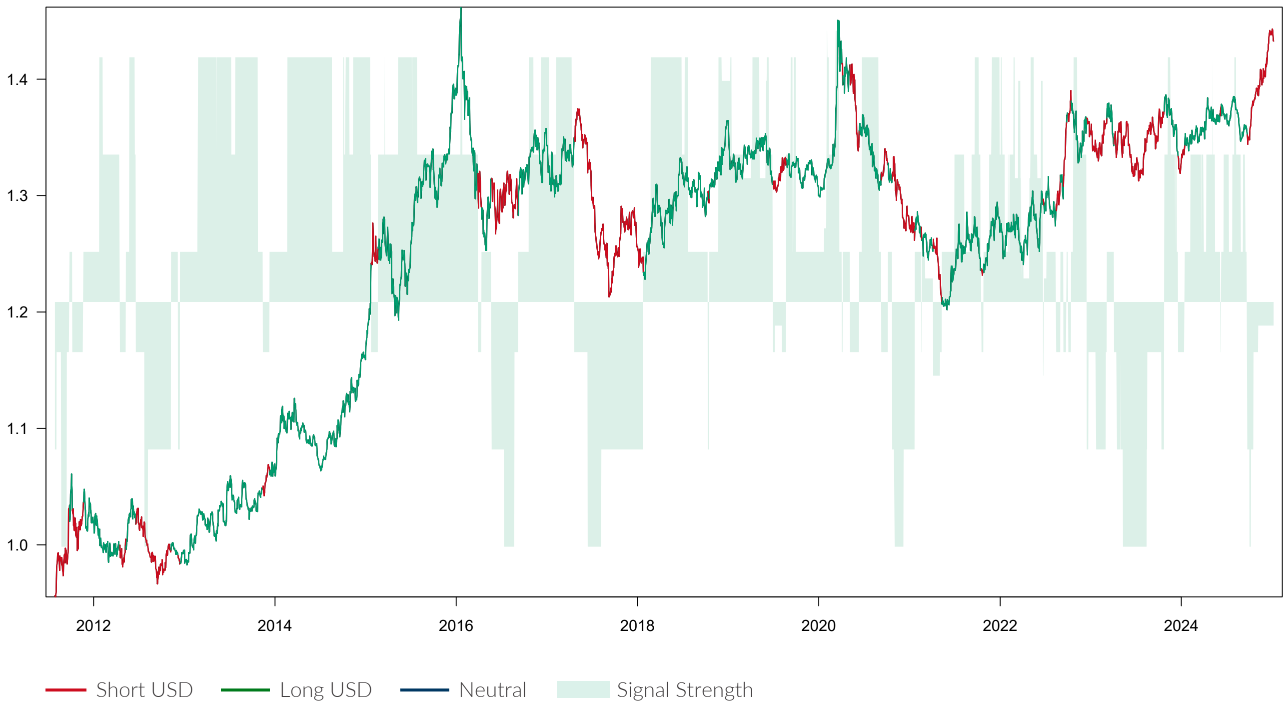
Source: QCAM Currency Asset Management

USDCAD

We kept the discretionary Macro position at short CAD. Canada has already become a target of Trump's trade agenda. In addition, Canada is in more need to lower interest rates, given the interest burden in the housing sector. Canadian inflation is also below US inflation and the BoC is moving ahead of the Fed in the easing process. The political leadership turmoil adds to the uncertainty, but a resolution could also improve market sentiment towards the CAD. The Macro oil price model shifted to short CAD while Business Sentiment stayed long CAD and Technical remained short CAD, leaving the overall position moderately 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 went short CAD
	Interest Rate Differentials	–	CAD interest rates moving lower ahead of USD interest rates
	USD DXY Trend	0	Negative correlation with USD is small
Sentiment	Business Sentiment	+	Canada has firmer momentum versus the US in the surveys
	Risk Sentiment	0/–	Political leadership turmoil
Technical	Price Action	–	Technical stayed short CAD
	Spec Positions	+	The CAD oversold position is at a historical high
	PPP Valuation	0	CAD is about 18% undervalued versus the USD

USDCAD and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

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 - USD Strategy

QCAM's Short Term Fixed Income - USD Strategy 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.

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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