QCAM Currency Asset Management

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Blockchain: new opportunities and risks for FX markets

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Contents

QCAM Insight

Blockchain: new opportunities and risks for FX markets

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Blockchain, bitcoin, cryptocurrencies – currency markets are entering a new era, with risks and opportunities that are often not yet understood. Here, we explain some basics of this new form of money.

Cryptocurrencies, so-called because they use computer encryption techniques, are multiplying rapidly. They already outnumber the world's conventional currencies. That makes them ripe for exchange trading but entrants to these markets should first understand how these new currencies work. Blockchain currencies stem from new technology, with their own risks and opportunities.

Basics

In a nutshell, blockchain technology enables decentralised bookkeeping. There is no intermediary, no central clearing house or bank, between users. Instead they participate in a peer-to-peer (P2P) network. Blockchain is software. It is downloaded by users to their computers, tablets and smartphones and manages its tasks automatically. Each device keeps the books, recording all the data transfers in the network. This means there might be a hundred thousand copies of a blockchain network's books. This redundancy may be inefficient, but blockchain is certainly the safest way to store important data.

Uses

Blockchain can be applied in a number of ways. Most applications generate their own currency. The first of these was a payment system – bitcoin. Transfers are executed only via the software. Banks and clearing houses are gone, no longer needed. Payments are faster, and they are cheaper.

There are other applications for blockchain networks. Factom specialises in data from property and business registers, universities, stock markets, etc. Such masses of data are too expensive and impractical to store on every network user's computer. Instead, an encrypted fingerprint is stored. An employer, for instance, may use digital fingerprints to compare job applicants. Fakes would be eliminated.

Another application, Steem, wants to be the Facebook of blockchain. But unlike Facebook, comments on Steem are uncensored and no data is transferred outside the network. Nor are users bombarded with advertising. Just the opposite: comments are rewarded in the form of Steem's eponymous currency.

Waves will offer additional financial services. Secured sums of CHF, EUR and USD can be transferred and traded at low cost through its blockchain network. Ethereum wants to be blockchain's AppStore, with a network that serves all the functions we mention here – and more.

Wallet

To make and receive payments with bitcoin, the first step is to establish a digital wallet. This is your account and you use it to execute your transactions. Making a payment requires a private key, or password. As with conventional bank accounts and credit cards, how and how well this private key is stored is decisive for security. Be warned: a lost or forgotten password cannot be reset. The bitcoin in that wallet will not be recovered, ever.

For small everyday transactions, smartphone bitcoin wallets are appropriate. The apps they use can be easily found for most smartphones. The key here is to use a reliable wallet provider. We recommend Blockchain Bitcoin Wallet or Coinbase Bitcoin Wallet.

Payments

Before smartphone payments can be made, bitcoins have to be loaded into the wallet app. A growing number of bitcoin ATM-type terminals provide this service, as well as a few specialised banks, Coinbase and Fidor, for example. Bitcoin Suisse has introduced several bitcoin terminals in Switzerland that take Swiss francs or euro. The wallet app must be open on the smartphone, the bills are introduced and the wallet is then credited accordingly. Voilà!

Time for a coffee, just to try out paying with bitcoin. You order your wallet app to send and your bitcoin address, tagged with your QR code, becomes visible. Hold your phone near the payment point and the payment is made. It will then be confirmed on hundreds of thousands of computers worldwide. The transaction's data – the bitcoin addresses, the amount and the time — are recorded in the blockchain's books, and they are retrievable forever. The wallet's owner, you, remains anonymous throughout.

Bottom line

Blockchain networks enable fast, cheap payments. Potentially, bitcoins can be an attractive enhancement for a portfolio, offering inflation protection and greater diversification. But more research needs to be done in this area. In any case, conventional banks will soon enter the bitcoin arena. Investors interested in profiting from the new financial products and services connected with blockchain currencies are best advised to consult with a specialist regarding the specific risks and opportunities of such positions.

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The macro perspective

Trump's triumph raises inflation expectations

The election of Donald Trump as the 45th President of the United States was a stunning surprise. Right up to the end of the campaign most observers expected a victory for Hillary Clinton. The clearest economic consequence so far is that inflation expectations are on the rise.

Donald Trump will be the next President of the United States. The reaction on financial markets was almost as surprising as the vote itself. After initially retreating on the first trading day after the election, the Dow Jones industrial average closed at a record high. The big winners on the day were in the sectors likely to profit most from the incoming president's economic policies. Share prices in the steel and defence sectors gained, reflecting Donald Trump's campaign vows to invest in infrastructure and increase defence spending. And financials revived, as investors seemed to recall candidate Trump saying he wanted to dismantle the regulatory constraints introduced after the 2008 financial crisis.

Trump's opaque economic policy

That some financial market bets might be based on election campaign rhetoric is one thing. It's entirely another matter at present, however, given that so much remains purely speculative. Mr. Trump's campaign platform can only be described as conflicting. Drastic tax cuts plus a massive increase in government spending does not sound like a formula to achieve the promised reduction of national debt. Further, a US president does not rule alone. The Republican Party may have defended its majorities in the Senate and the House of Representatives, but given the Party's current discord, it is not at all clear how much of a free hand President Trump will have when he takes office in January. Finally, candidate Trump's erratic protectionist pronouncements – a central theme of his campaign – must not be forgotten.

Uncertainties are certain

Given the many uncertainties arising from the election, not least those related to matters of foreign trade, the US economy could be in for a choppy ride in a first phase. Much is likely to depend on corporate investments, which again declined in the third quarter compared with the same period last year. In view of the persistently sluggish development of corporate profits and the stagnating capacity utilisation rates, corporate investment threatens to remain the US economy's Achilles' heel. The most recent sentiment indicators, released just before Election Day, signalled that US annual economic growth would settle at around 1.5 percent in the coming quarters. This matches the trend growth rate for the US economy but it is below the average of the years since the financial crisis, let alone lagging far behind Donald Trump's campaign target of a 4 percent growth rate.

Long-term outlook hard to reckon

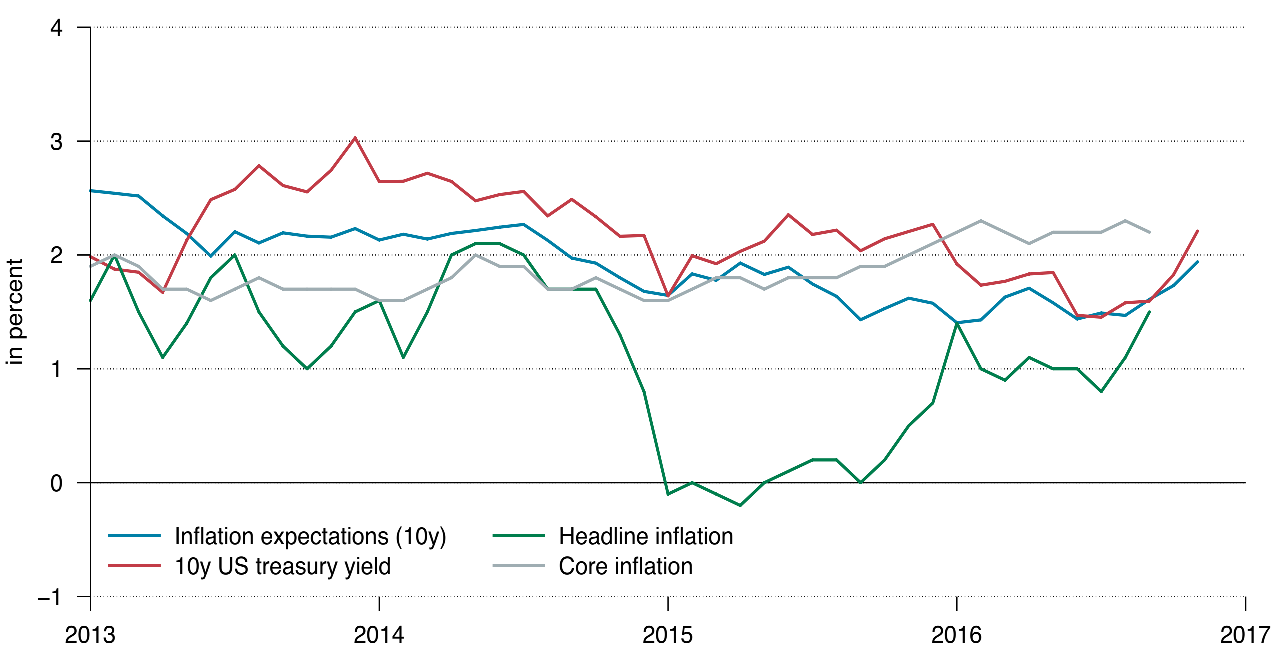
The long-term economic consequences of Donald Trump's election victory are hard to figure. We think the stock market's gust of euphoria faces some daunting counter forces, including worries about another massive expansion of

US government debt. Add to that concerns about a deterioration in world trade, or even potentially a trade war. And, more concretely, the heightened uncertainty likely to accompany next year's elections in France, the Netherlands and Germany.

Interest rates continue rising

For the time being, Donald Trump's election victory has been surprisingly well received on financial markets. We think the upward trend in capital market interest rates, underway since last summer, is likely to continue. Regardless of the election's outcome, we still think US inflation will continue to rise in the coming months, as the restraining effects of low oil prices fade further. In the first quarter of 2017, we think an overall US inflation rate of 2.5 percent is plausible. This, in our view, is likely to bring about an increase in capital market interest rates. The Fed meanwhile still appears likely to increase the federal funds rate at its December meeting. A third reason for higher interest rates is delivered by the rise in inflation expectations since Donald Trump's election victory. Because as uncertain as Mr. Trump's eventual policy measures are right now, one thing already seems clear: the US government's deficit seems set to expand in the coming years.

US inflation expectations



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

The US dollar's mispricing just got bigger

The US dollar is gaining in value across the board. President-elect Trump's economic plans are intensifying expectations that US interest rates will soon rise. Thus, we think the dollar's mispricing is set to increase, creating some interesting long-term investment implications.

Shortly after Donald Trump's stunning election victory the dollar sagged, falling 2.8 percent against the euro. Then something astounding happened: the dollar reversed, gained 3.4 percent against the euro and thus more than recovered its losses. What is going on here, and how sustainable is this dollar rally?

A joyless run-up to the election

Leading up to the US election, a simple narrative made the rounds: from an economic and financial market perspective, a Trump victory was seen as the unfavourable outcome, one that involved substantial risks. The unclear economic policy statements issued by the Trump campaign, including repeated protectionist warnings, fuelled this defensive posture among market participants. Bewildered consumers and businesses would, in this scenario, hobble the economy, flatten any momentum on financial markets and thus smother the prospects of an interest rate hike in the near future.

And indeed immediately following the news of Trump's victory, this story began to unfold and, as indicated by fed funds futures, the probability of a December interest rate hike fell from around 80 percent prior to the election to about 50 percent. If interest rates were not raised, so then ran the reasoning, this would not make the US dollar very attractive. The background here is found in classical interest rate theory, which states that exchange rate developments can be explained by differences in the interest rate levels between different currency areas.

The new narrative

The original storyline of an immanent Trump slump didn't prevail, however. Instead, market participants suddenly saw the possibilities of a Trump presidency. Massive spending on infrastructure and defence, per the new narrative, would drive economic growth. And with the economy gaining strength, nothing would stand in the way of a rate hike from the Fed in December. Indeed, rate-hike expectations were quickly up again at around 80 percent. And this, yet again, was supposed to strengthen the US dollar.

In fact there are more reasons favouring this new, upbeat narrative. Mr. Trump's economic program should lead to a breath-taking increase in national debt. How else can such a massive spending surge end when it coincides with the promised deep tax cuts that will drastically reduce revenues? Secondly, this expansionary spending is likely to raise inflationary pressure, which, we note, is already building as the energy price base effects fade from the picture. Increasing levels of debt and inflation imply one important consequence, namely rising capital market interest rates. This strengthens the interest rate argument regardless of the Fed's actions.

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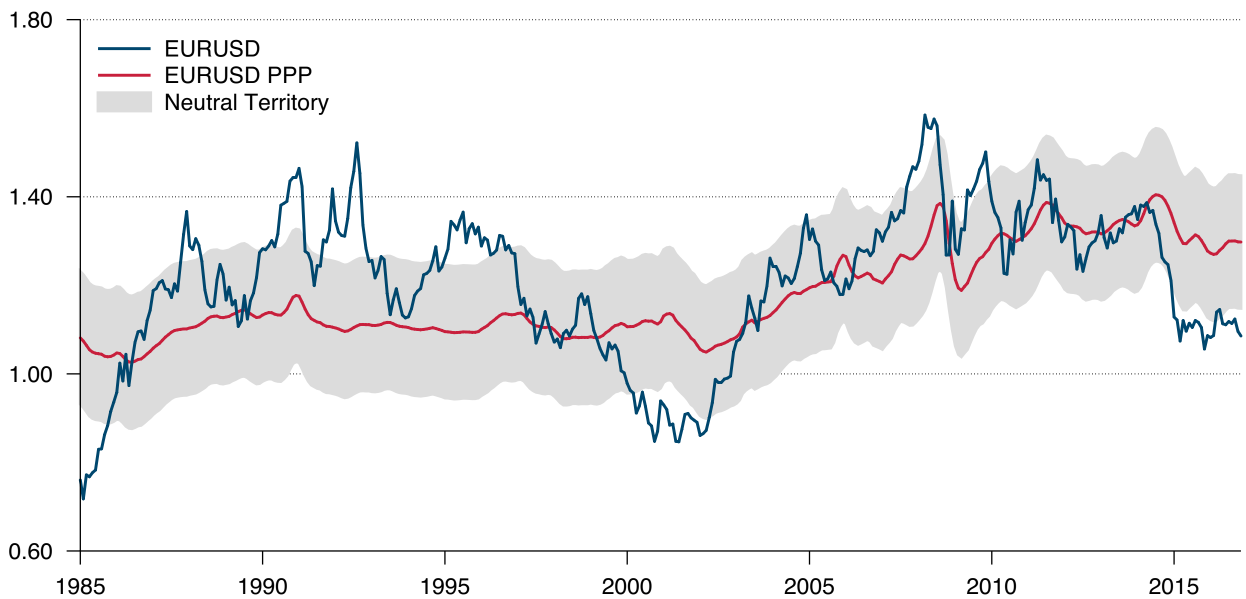
Purchasing power parity

The above narrative is convincing. In fact, it is almost too neat to be true. And the story indeed has a flaw, namely the already strong valuation of the US dollar. According to purchasing power parity, the US dollar is roughly 16 percent overvalued versus the euro. And crucially, just as rising inflation expectations feed expectations for higher interest rates, so should this development lead, according to the principles of the law of one price, to the dollar depreciating over time.

Long-term investment opportunity

Empirically, purchasing power parity substantially outweighs interest rate parity theory – with one very large caveat: investors must take a deep breath if they want to invest according to the principles of purchasing power parity. That said, with a long enough time horizon, betting on a weaker US dollar, especially against the euro, offers an interesting investment opportunity. Thus, ironically, it is with an investment in the EU's battered currency, whose demise has so often been predicted in recent years, that investors may actually stand to benefit from the developments in the United States.

The US dollar's mispricing versus the euro continues to expand



Source: Thomson Reuters Datastream, Wellershoff & Partners

Economic activity

The US economy grew by 1.5 percent in the third quarter of 2016 compared to a year earlier. A rising ISM Manufacturing Index reflects this improving economic climate. The US labour market was also robust in September, adding 161 000 new jobs. Wellershoff & Partners' leading indicator for the US economic climate points to further growth potential.

The data so far shows that the Eurozone's economic recovery is continuing. The economy grew by 1.6 percent in the third quarter, year-over-year. This not only exceeded trend growth levels but even surpassed the US economy's growth rate for the quarter. Spain, in particular, made a solid contribution to this result, posting a growth rate of 3.2 percent.

According to Wellershoff & Partners' leading economic indicators, these positive developments in the Eurozone look likely to continue over the coming months. France's economy, however, is struggling, recording growth of only 1.2 percent year-over-year, as establishing a positive growth dynamic there remains elusive.

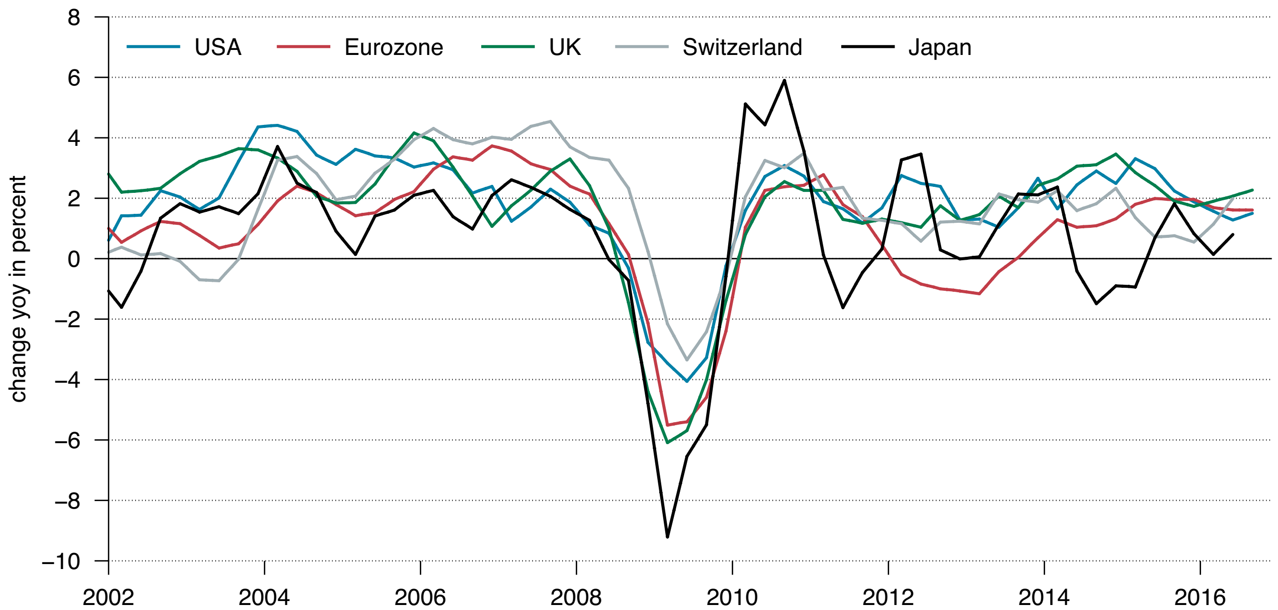
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q4/2015	Q1/2016	Q2/2016	Q3/2016	7/2016	8/2016	9/2016	10/2016
United States	1.7	1.9	1.6	1.3	1.5	2.9	1.9	3.0	2.6
Eurozone	1.0	2.0	1.7	1.6	1.6	2.1	2.0	2.2	2.5
Germany	1.4	1.3	1.8	1.7	1.7	2.6	2.4	2.7	3.0
France	0.7	1.3	1.4	1.3	1.2	1.4	1.6	1.6	1.6
Italy	0.2	0.9	0.9	0.7	0.9	1.3	0.9	1.0	1.3
Spain	1.6	3.6	3.4	3.4	3.2	3.2	2.8	2.9	3.6
United Kingdom	1.8	1.7	1.9	2.1	2.3	2.2	2.4	2.5	2.7
Switzerland	1.5	0.6	1.1	2.0	–	1.2	0.8	1.3	1.3
Japan	0.4	0.8	0.1	0.8	0.8	1.9	1.9	2.0	1.9
Canada	1.6	0.3	1.2	0.9	–	1.5	1.0	1.7	1.4
Australia	2.4	2.8	3.0	3.3	–	3.5	3.3	3.3	3.1
Brazil	1.4	-5.9	-5.4	-3.8	–	-0.3	-0.5	-0.3	-0.1
Russia	0.1	-3.8	-1.2	-0.6	–	-0.3	1.0	1.3	2.6
India	7.7	7.2	7.9	7.1	–	6.8	6.6	6.7	6.1
China	7.4	6.8	6.7	6.7	6.7	8.9	8.5	8.6	9.3
Advanced economies[4]	1.4	2.0	1.6	1.6	–	2.6	2.0	2.7	2.6
Emerging economies[4]	6.0	4.5	4.8	4.8	–	5.6	5.6	5.6	6.3
World economy[4]	3.5	3.2	3.2	3.2	–	3.6	3.3	3.6	4.0

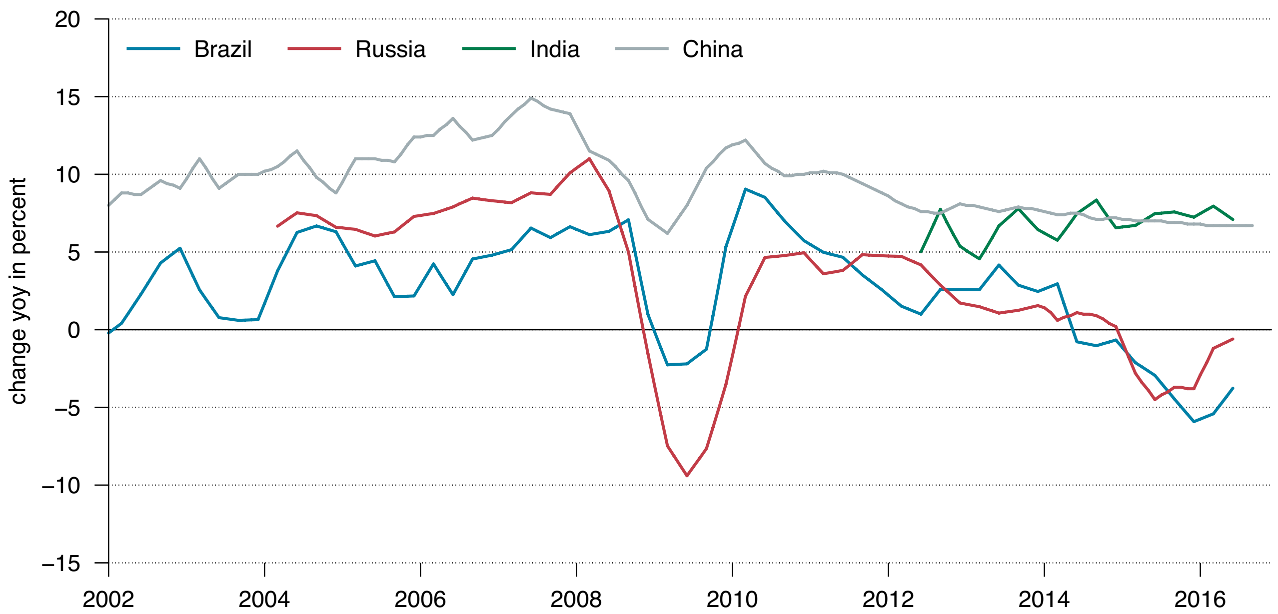
1 Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
2 Year-on-year growth rate, in percent.
3 Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6 months lead on the year-on-year growth rate of real GDP.
4 Calculations are based on nominal GDP weights derived from purchasing power parity exchange rates.

Source: European Commission, Penn World Table, Thomson Reuters Datastream, Wellershoff & Partners

Economic growth in advanced economies



Economic growth in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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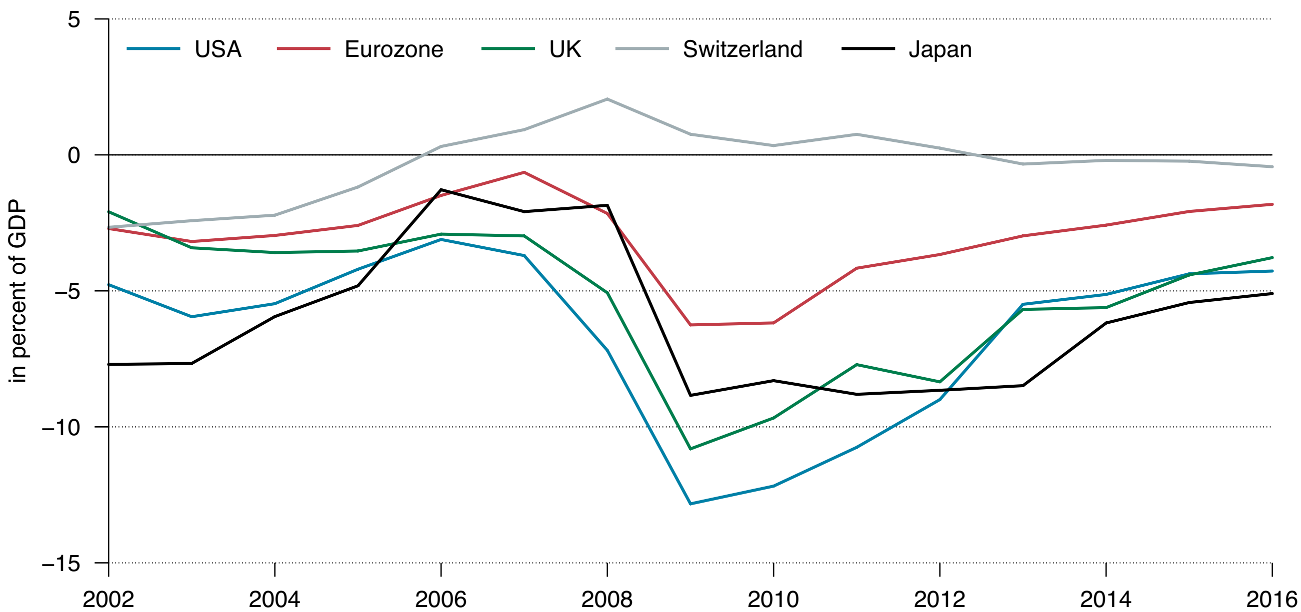
Economic indicators

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	22.4	24.7	-2.6	-2.5	111.3	114.2	-7.0	-4.3	7.2	4.9
Eurozone	17.2	15.9	2.6	3.8	105.1	109.6	-3.1	-1.8	11.2	10.0
Germany	4.9	4.6	7.2	9.2	82.4	75.2	0.0	0.3	6.8	6.0
France	3.6	3.3	-0.8	-0.7	112.6	121.6	-4.3	-3.4	9.6	9.6
Italy	2.8	2.5	0.3	2.1	144.5	160.3	-3.0	-2.3	11.1	11.5
Spain	1.8	1.7	0.1	1.1	101.6	117.4	-7.6	-3.7	23.8	19.3
United Kingdom	3.7	3.5	-3.9	-5.9	110.9	115.3	-6.4	-3.8	6.8	4.8
Switzerland	0.9	0.9	9.9	10.6	45.6	46.2	0.0	-0.4	3.0	3.2
Japan	6.8	6.3	1.5	3.4	220.8	233.1	-7.5	-5.1	4.0	3.0
Canada	2.3	2.0	-3.0	-3.7	86.0	92.1	-1.9	-2.5	7.1	7.0
Australia	1.9	1.7	-3.6	-3.5	31.0	40.9	-3.3	-2.9	5.6	5.6
China	12.7	15.1	2.3	2.4	37.4	46.3	-1.0	-3.0	4.1	–
Brazil	3.1	2.4	-3.3	-0.8	64.2	78.3	-4.9	-10.4	7.4	11.8
India	2.6	3.0	-2.6	-1.4	68.8	68.5	-7.5	-6.7	–	–
Russia	2.6	1.7	3.5	3.0	13.6	17.1	-0.8	-3.9	5.7	5.2

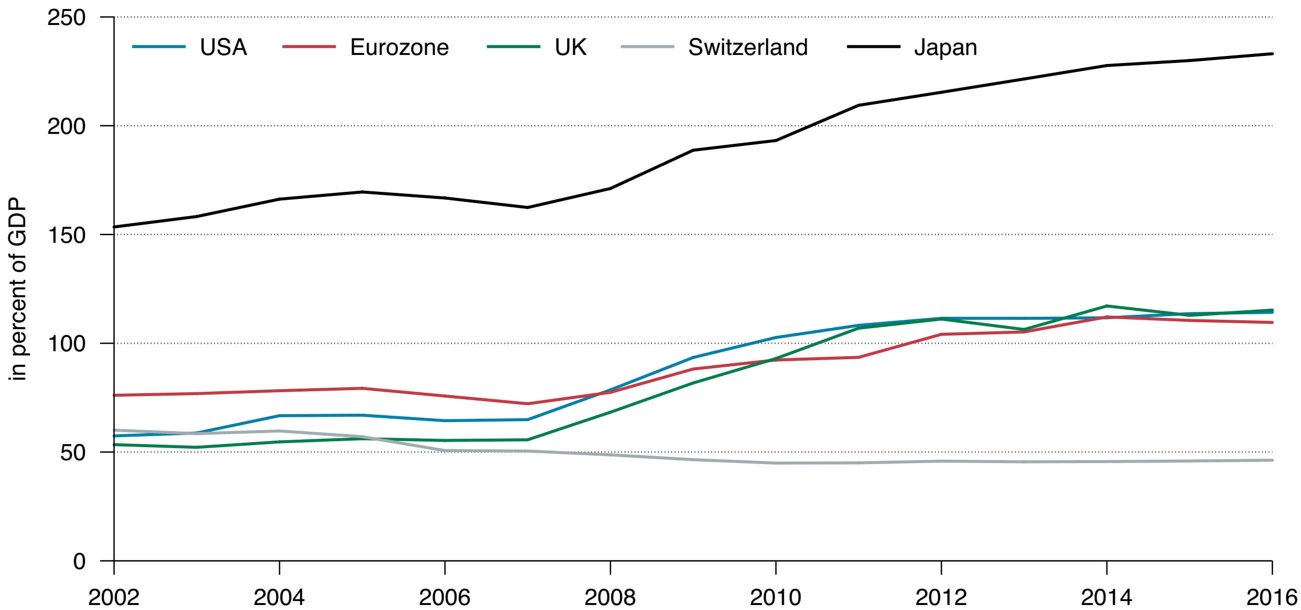
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

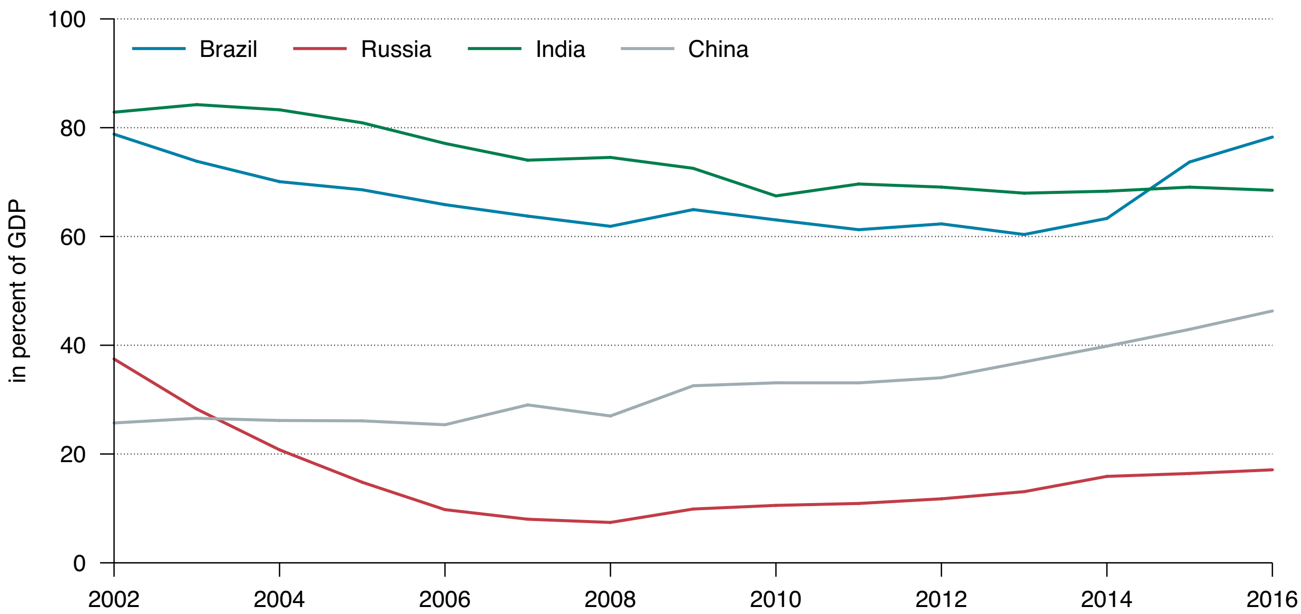


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

The overall inflation rate in the US rose to 1.6 percent in October compared to a year earlier. This is a marked increase compared to the 1.1 percent rate increase recorded in August. This uptick can be explained by the fading base effects of low energy prices. Estimates from Wellershoff & Partners suggest that an unchanged core inflation rate of 2.1 percent and no major movements in the price of crude oil should lead to an overall US inflation rate of 2.5 percent in the Spring of 2017.

The Eurozone also reported another round of increased inflation rates. While the overall rate climbed from 0.4 percent to 0.5 percent year-over-year, core inflation came in at 0.8 percent. As a result, both the level of consumer price inflation and the divergence from the core rate caused by the oil price effect are lower in the Eurozone than in the United States. Accordingly, there is less pressure on the European Central Bank to declare any normalization of its monetary policy.

In Switzerland, the annual rate of consumer price inflation in October was -0.2 percent. This is a substantial increase from the -1.4 percent rate seen in Spring. We expect Swiss inflation to return to positive territory in the coming months.

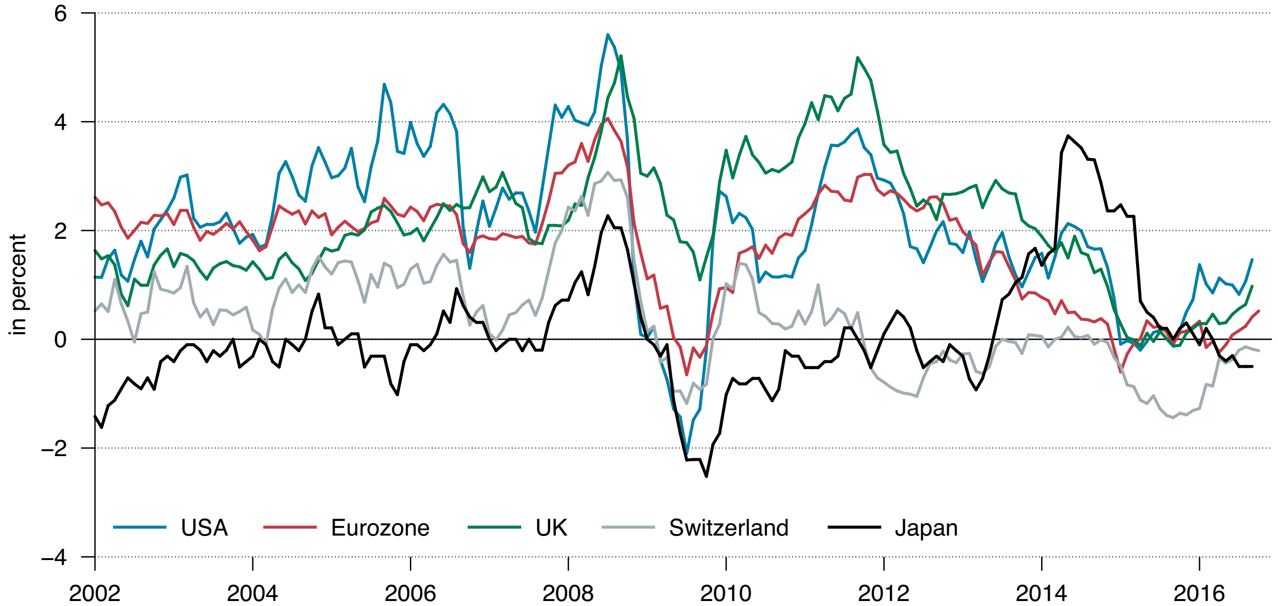
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		7/2016	8/2016	9/2016	10/2016	7/2016	8/2016	9/2016	10/2016
United States	1.8	0.8	1.1	1.5	1.6	2.2	2.3	2.2	2.1
Eurozone	1.5	0.2	0.2	0.4	0.5	0.9	0.8	0.8	0.8
Germany	1.4	0.4	0.4	0.6	0.8	1.3	1.1	1.2	1.1
France	1.2	0.2	0.2	0.4	0.4	–	–	–	–
Italy	1.5	-0.1	-0.1	0.1	-0.1	0.6	0.4	0.5	0.2
Spain	1.5	-0.6	-0.1	0.2	0.7	0.7	0.9	0.8	–
United Kingdom	2.4	0.6	0.6	1.0	–	1.3	1.3	1.5	–
Switzerland	0.1	-0.2	-0.1	-0.2	-0.2	0.0	0.0	-0.1	-0.3
Japan	0.3	-0.5	-0.5	-0.5	–	0.3	0.2	0.1	–
Canada	1.6	1.3	1.1	1.3	–	2.1	1.8	1.8	–
Australia	2.5	1.1	1.2	1.3	–	1.6	1.6	1.7	–
Brazil	6.1	8.7	9.0	8.5	7.9	7.3	7.5	7.1	6.9
Russia	9.3	7.2	6.8	6.4	6.1	7.4	7.0	6.7	6.4
India	7.6	6.1	5.0	4.3	–	–	–	–	–
China	2.9	1.8	1.3	1.9	2.1	1.8	1.6	1.7	1.8
Advanced economies[4]	1.5	0.5	0.6	0.9	0.9	1.5	1.5	1.4	1.4
Emerging economies[4]	4.6	4.0	3.4	3.5	3.4	3.2	3.0	3.0	2.9
World economy[4]	2.7	2.1	1.9	2.1	2.1	1.9	1.9	1.8	1.8

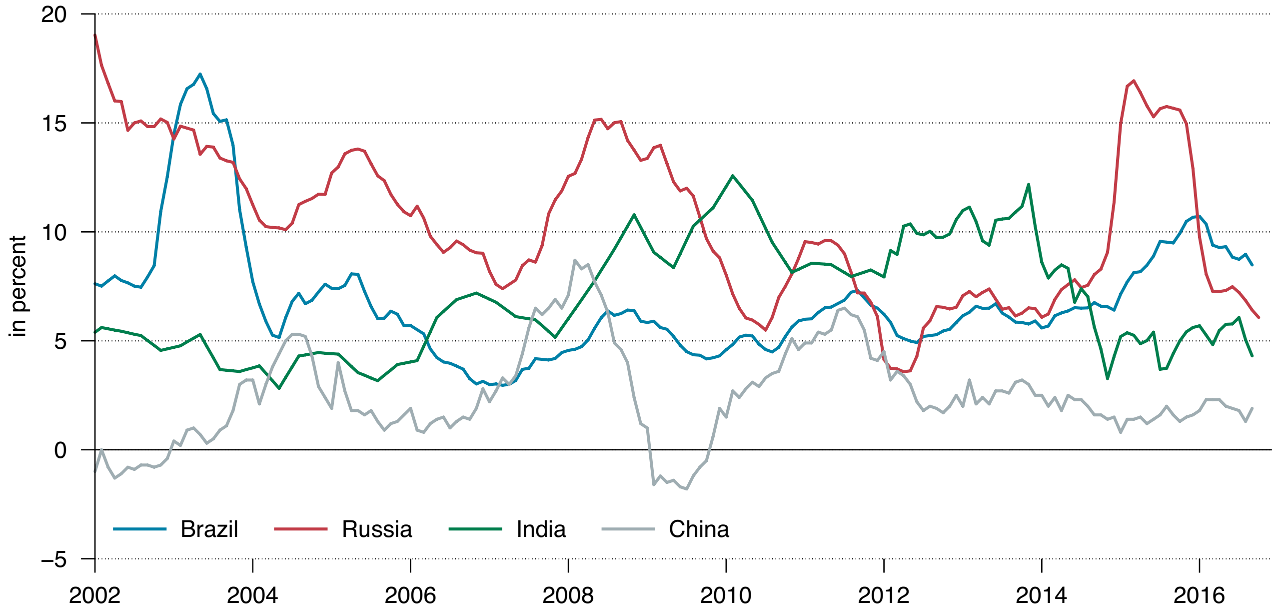
1 Average annual consumer price inflation, in percent.
2 Year-on-year change of the consumer price index (CPI), in percent.
3 Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change of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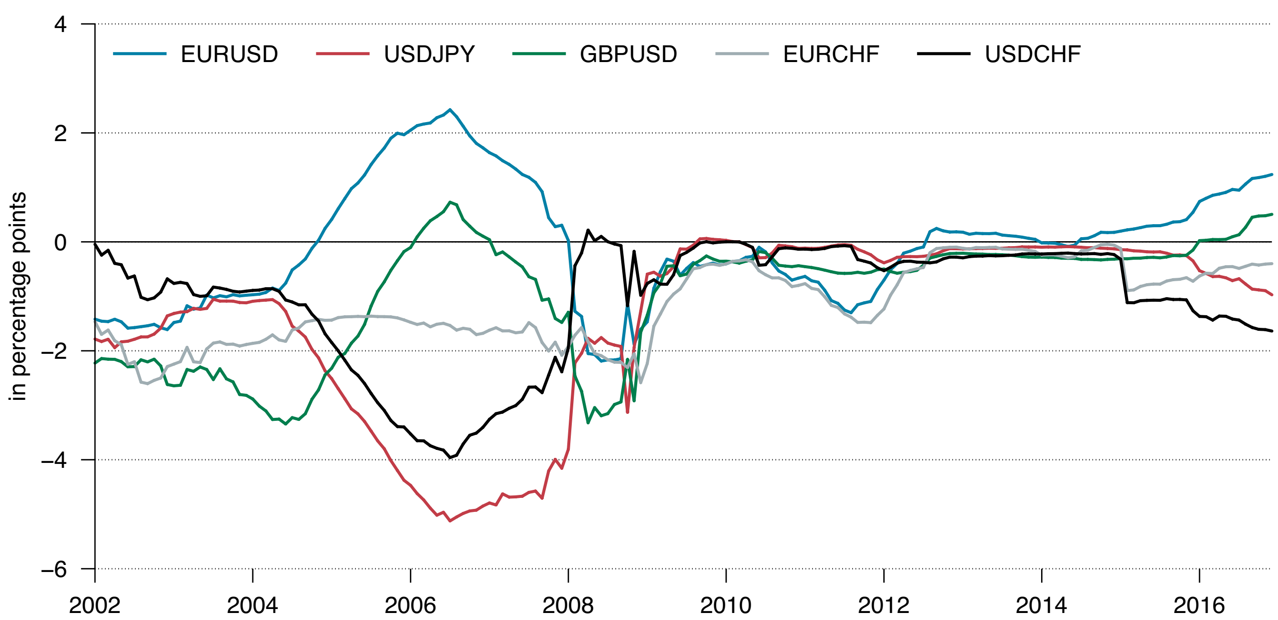
Interest rates

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	1.086	1.23	0.44	0.25	-0.10	1.70	0.85	0.41	-0.03
USDJPY	106.6	-0.97	-0.29	-0.27	-0.89	-1.48	-0.71	-0.53	-1.05
GBPUSD	1.259	0.51	-0.21	-0.22	-0.58	0.78	-0.10	-0.22	-0.60
EURCHF	1.072	-0.41	-0.71	-0.40	-0.83	-0.37	-0.77	-0.50	-0.91
USDCHF	0.988	-1.64	-1.15	-0.65	-0.74	-2.07	-1.61	-0.92	-0.89
GBPCHF	1.243	-1.13	-1.36	-0.87	-1.31	-1.30	-1.72	-1.14	-1.49
CHFJPY	107.9	0.66	0.86	0.38	-0.15	0.59	0.90	0.39	-0.16
AUDUSD	0.754	-0.59	-1.62	-2.14	-2.59	0.13	-0.97	-1.51	-2.16
USDCAD	1.352	0.00	0.46	0.75	0.46	-0.45	0.02	0.50	0.27
USDSEK	9.089	-1.53	-0.66	0.24	0.35	-1.86	-0.98	0.07	0.28
USDRUB	66.2	9.17	11.13	9.03	7.57	8.58	10.30	8.57	7.79
USDBRL	3.489	12.64	13.98	10.57	9.88	10.92	14.63	10.28	9.77
USDCNY	6.816	1.97	2.67	3.73	2.48	1.46	2.41	3.41	2.23
USDTRY	3.255	8.21	10.66	8.91	9.59	8.35	10.18	8.73	9.82
USDINR	67.14	7.47	7.47	8.78	7.19	5.42	6.16	6.43	4.60

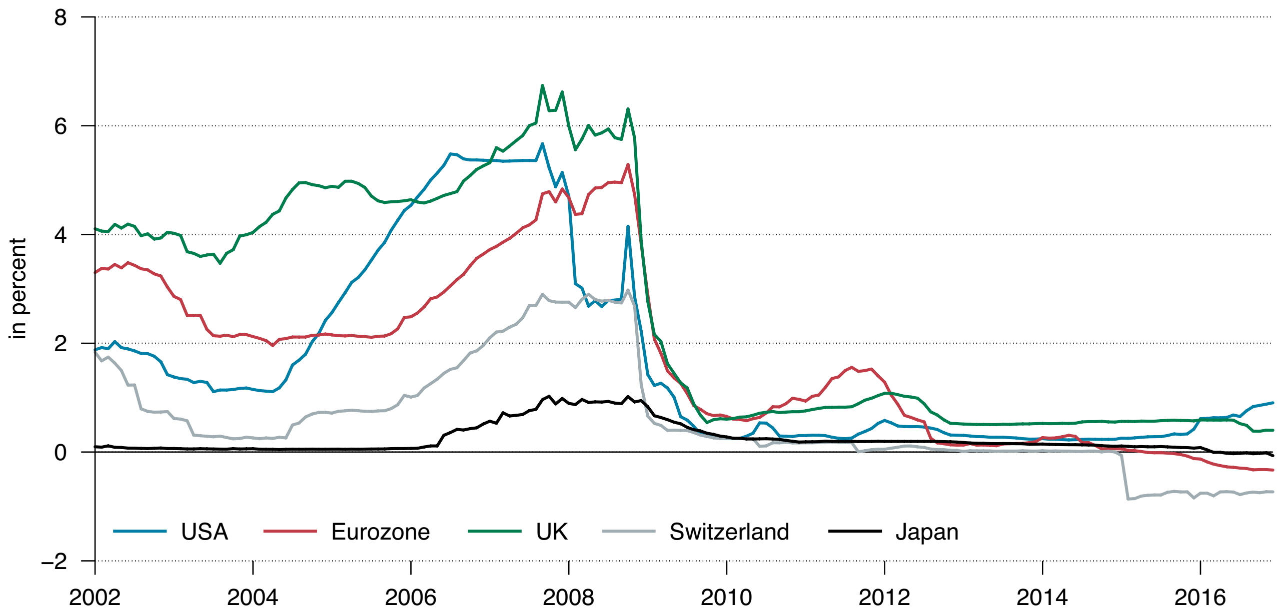
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

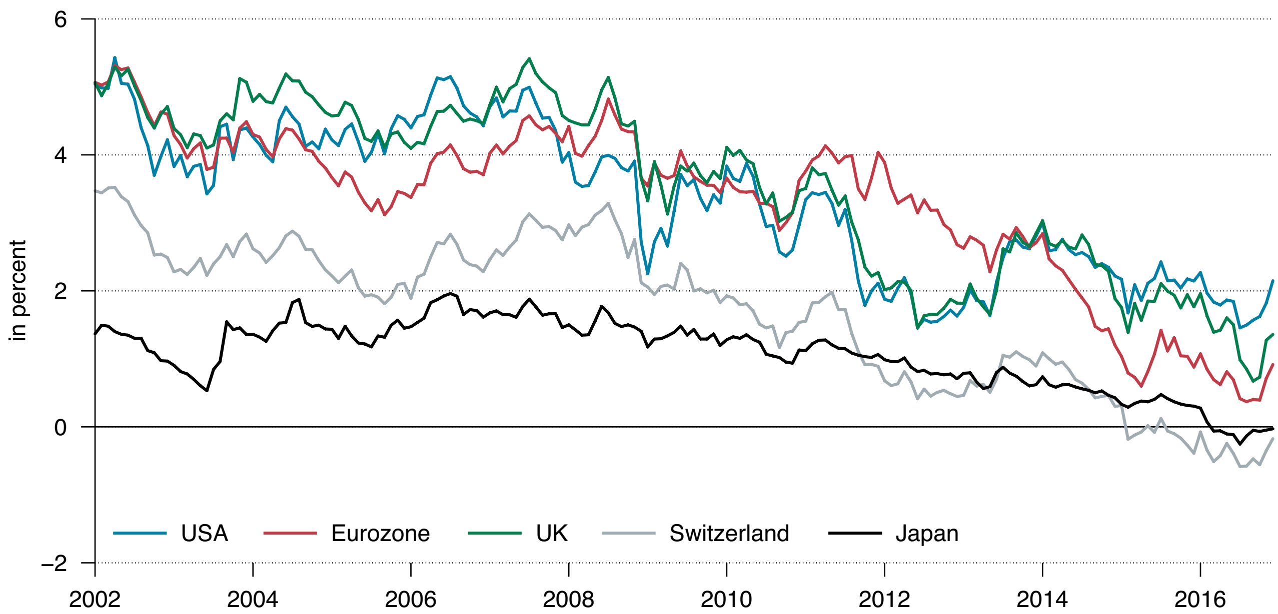


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

FX markets

The GBPCHF exchange rate is at 1.24. We think an investment could prove worthwhile in the long-term, if the investment horizon is suitable. According to purchasing power parity estimates, the undervaluation is still at around 20 percent. However, the potential for dramatic disruptions from the ongoing uncertainties after the Brexit vote should not be underestimated. We recommend that investors hedge their investments with a stop loss-limit.

The Turkish lira has suffered the biggest losses over the past three months. Versus the US dollar, it has shed about 10 percent of its value in this time frame. The lira's woes reflect the profound uncertainty among investors about Turkey's current political outlook. Until the situation normalises, we think heightened volatility can be expected.

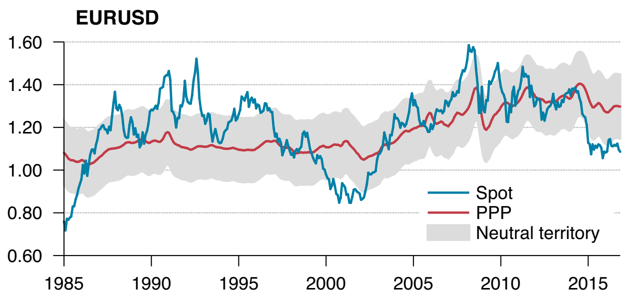
Donald Trump's victory in the US presidential election sent currency markets into a tizzy. First the EURUSD exchange rate surged nearly 2.8 percent, to almost 1.13, only to fall by 3.4 percent thereafter. On November 9, the day of the election, the trade-weighted Bloomberg Dollar Spot Index showed the US dollar strengthening by 1.5 percent, which only further increased the dollar's overvaluation. We would point out that the consensus view before the election called for the dollar to depreciate if Donald Trump were to win.

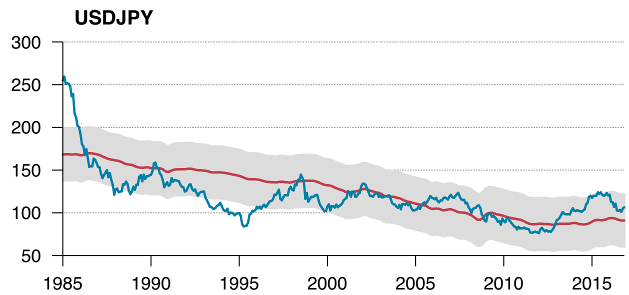
FX overview

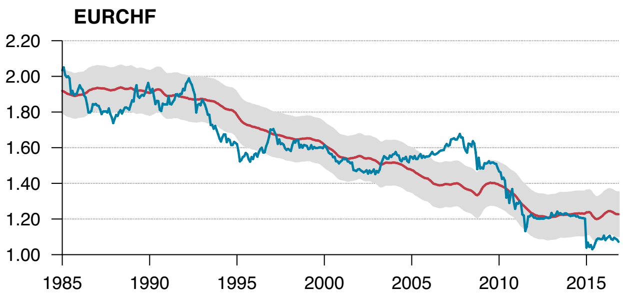
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.086	-0.1	-2.9	0.9	-21.0	1.30	1.15 - 1.45	-16.4
USDJPY	106.6	-11.4	5.6	-13.3	38.3	90.9	60.5 - 121.3	17.2
GBPUSD	1.259	-14.6	-2.7	-17.2	-21.7	1.62	1.43 - 1.82	-22.4
EURCHF	1.072	-1.4	-1.4	-0.6	-13.1	1.23	1.10 - 1.35	-12.6
USDCHF	0.988	-1.3	1.5	-1.6	9.9	0.97	0.73 - 1.20	2.2
GBPCHF	1.243	-15.7	-1.2	-18.4	-13.9	1.55	1.27 - 1.83	-19.8
CHFJPY	107.9	-10.2	4.1	-11.9	25.8	88.9	73.8 - 103.9	21.4
AUDUSD	0.754	3.6	-2.0	6.1	-26.5	0.71	0.59 - 0.82	6.6
USDCAD	1.352	-2.6	4.5	1.6	33.5	1.19	1.12 - 1.26	13.3
USDSEK	9.089	7.8	7.7	5.3	37.4	7.27	6.34 - 8.19	25.1
USDRUB	66.2	-9.3	2.2	0.4	118.0	40.7	32.8 - 48.6	62.7
USDBRL	3.489	-11.8	10.5	-8.0	100.1	2.87	2.36 - 3.38	21.6
USDCNY	6.816	5.0	2.6	7.0	7.5	6.72	6.49 - 6.95	1.4
USDTRY	3.255	11.5	10.3	13.5	83.5	2.57	2.37 - 2.78	26.4
USDINR	67.14	1.5	0.4	1.1	34.0	73.7	70.1 - 77.3	-8.9

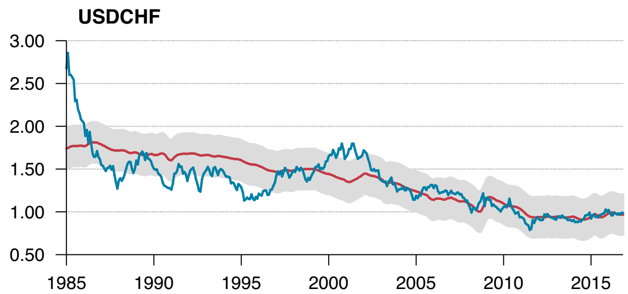
[1] Performance over the respective period of time, in percent.
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.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

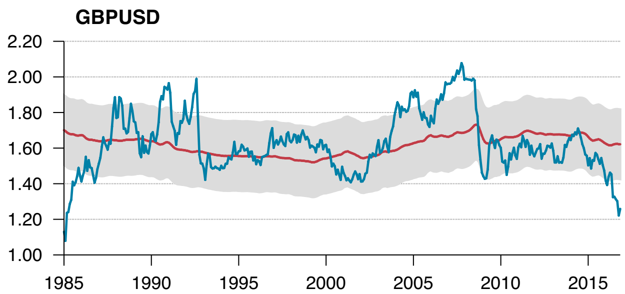
Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

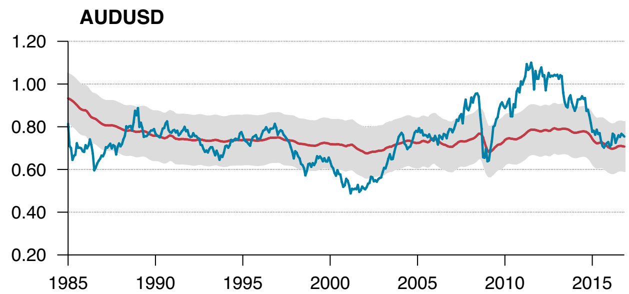


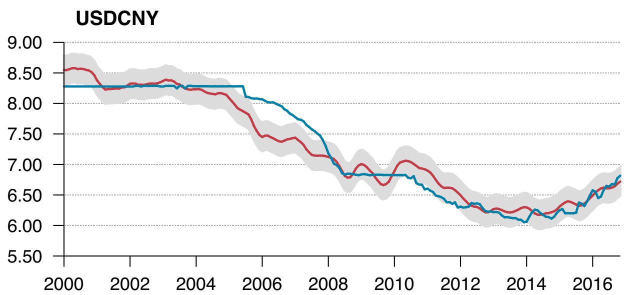


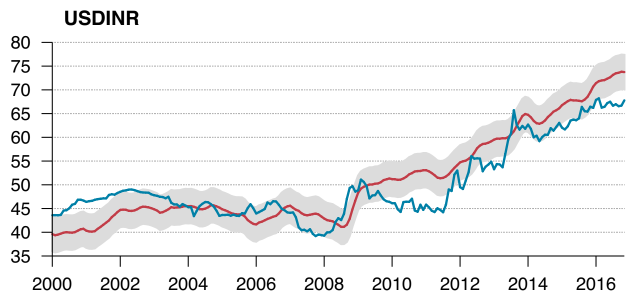


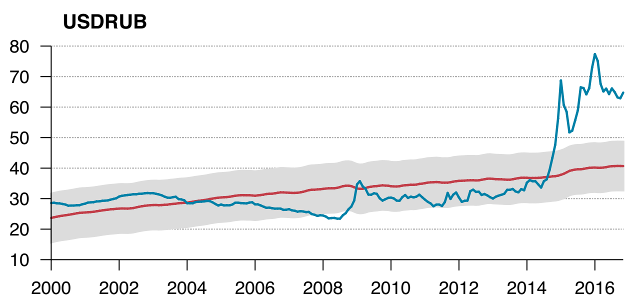


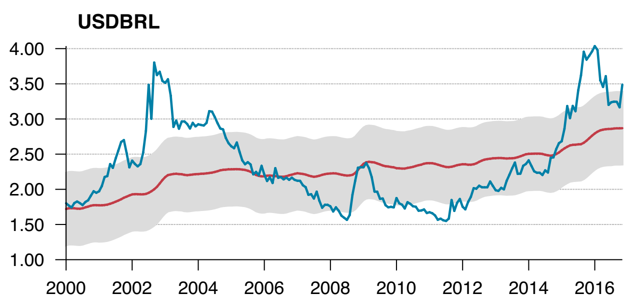












Source: Thomson Reuters Datastream, Wellershoff & Partners

FX volatility

FX volatility overview

	Current exchange rate	Volatility 3 months[1]				Volatility 12 months[1]			
		Historical	Implied	Ø 5 years[2]	Ø 10 years[2]	Historical	Implied	Ø 5 years[2]	Ø 10 years[2]
EURUSD	1.086	7.4	9.9	9.1	10.4	8.9	10.3	9.6	10.7
USDJPY	106.6	11.2	12.3	9.7	10.8	11.4	11.9	10.4	11.2
GBPUSD	1.259	10.9	10.8	8.3	9.7	12.4	11.8	8.9	10.2
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CHFJPY	107.9	9.0	10.8	10.8	11.5	11.1	11.8	11.5	12.0
AUDUSD	0.754	10.0	11.6	10.6	12.5	11.8	12.0	11.3	12.8
USDCAD	1.352	8.7	9.5	8.0	9.8	9.7	9.6	8.5	10.1
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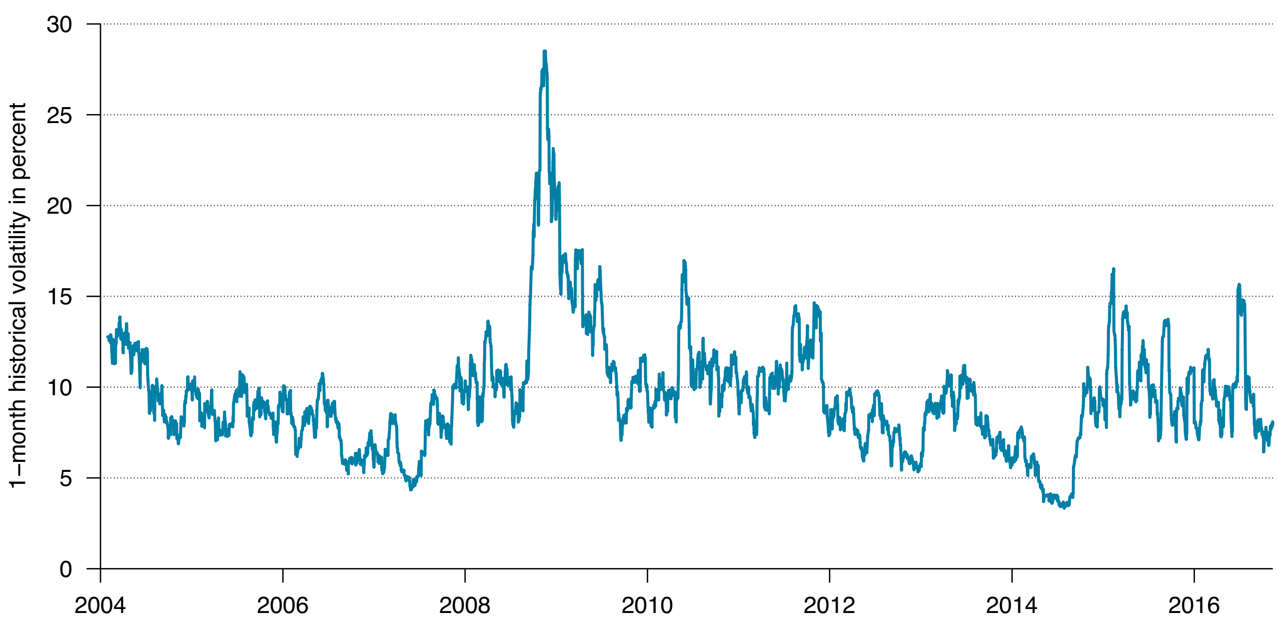
USDRUB	66.2	12.7	16.2	16.0	13.6	18.9	17.3	16.4	14.7
USDBRL	3.489	15.0	17.9	14.8	15.3	17.5	17.1	15.3	15.8
USDCNY	6.816	2.1	5.6	2.9	3.0	2.5	7.4	3.8	4.6
USDTRY	3.255	9.9	14.3	11.5	13.2	11.0	14.7	12.9	14.6
USDINR	67.14	3.5	7.0	9.2	9.5	4.1	8.0	10.2	10.4

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

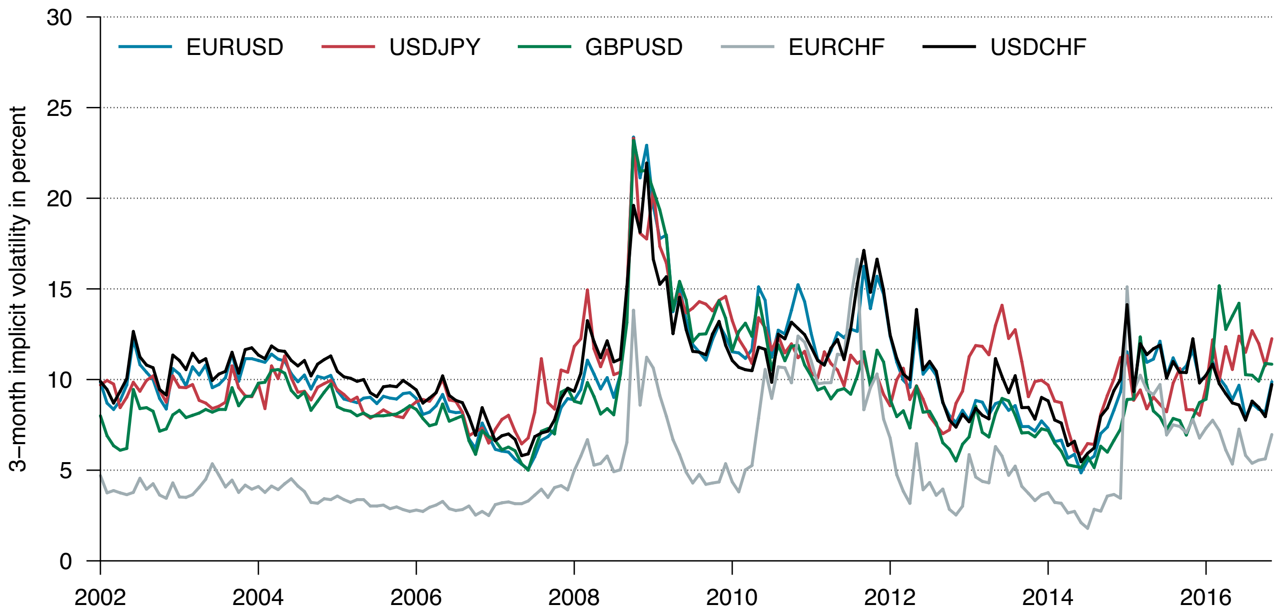
QCAM volatility indicator[3]



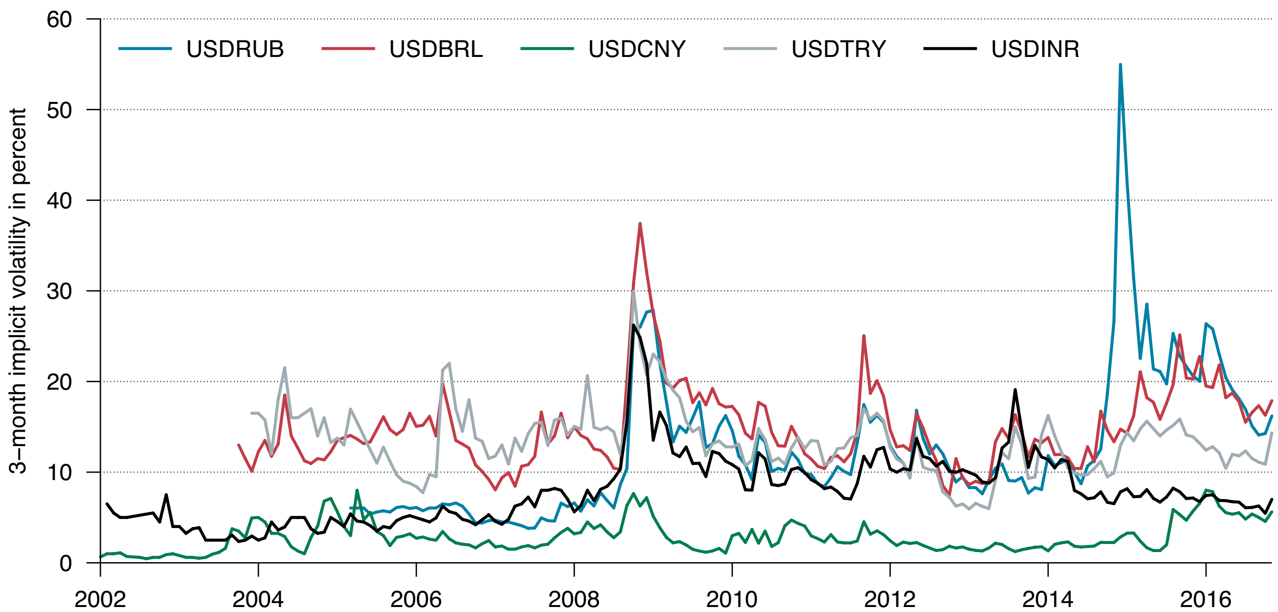
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implied volatility



Implied volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

QCAM® Currency Asset Management

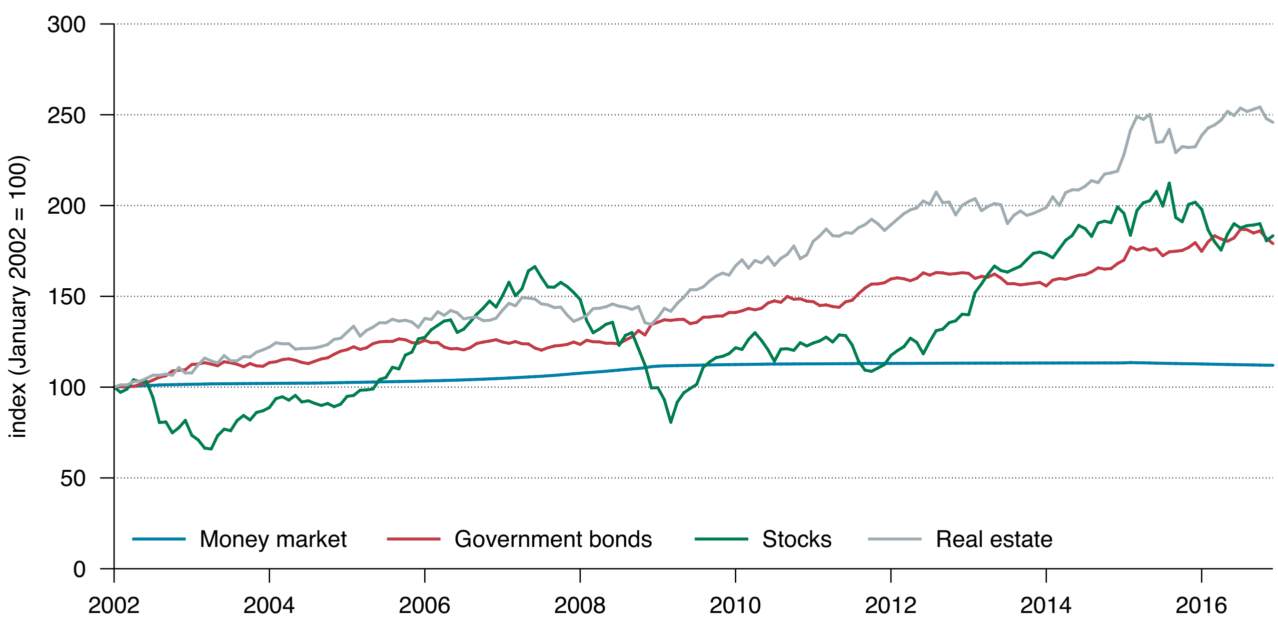
Financial markets

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	-0.6	-0.2	-0.7	-0.9	-0.6	-0.2	-0.7	-0.9
Swiss government bonds	2.4	-4.1	1.0	14.0	2.4	-4.1	1.0	14.0
Swiss corporate bonds	1.2	-2.3	-0.1	12.9	1.2	-2.3	-0.1	12.9
Swiss equities (SMI)	-7.4	-4.9	-7.4	64.1	-7.4	-4.9	-7.4	64.1
European equities (Stoxx600)	-4.6	-2.1	-6.2	66.6	-5.4	-3.5	-6.4	44.6
UK equities (Ftse100)	12.0	-2.0	13.4	46.4	-4.9	-3.2	-7.3	26.6
Japanese equities (Topix)	-9.1	5.1	-11.6	109.8	2.4	1.9	0.3	65.9
US equities (S&P 500)	7.9	-0.4	8.1	90.7	7.5	0.9	6.2	107.7
Emerging markets equities	9.5	-6.3	4.6	0.6	9.1	-5.1	2.8	9.5
Global equities (MSCI World)	4.5	-1.7	4.2	60.5	4.2	-0.5	2.4	74.8
Swiss real estate	3.0	-4.3	3.1	29.4	3.0	-4.3	3.1	29.4
Global real estate	0.6	-11.9	3.7	52.9	0.2	-10.8	1.9	66.5
Commodities	4.9	-2.0	-0.6	-44.7	4.5	-0.8	-2.3	-39.8
Brent oil	24.4	-5.2	1.1	-61.2	23.9	-4.0	-0.7	-57.8
Gold	15.6	-9.2	13.8	-30.8	15.2	-8.1	11.9	-24.7

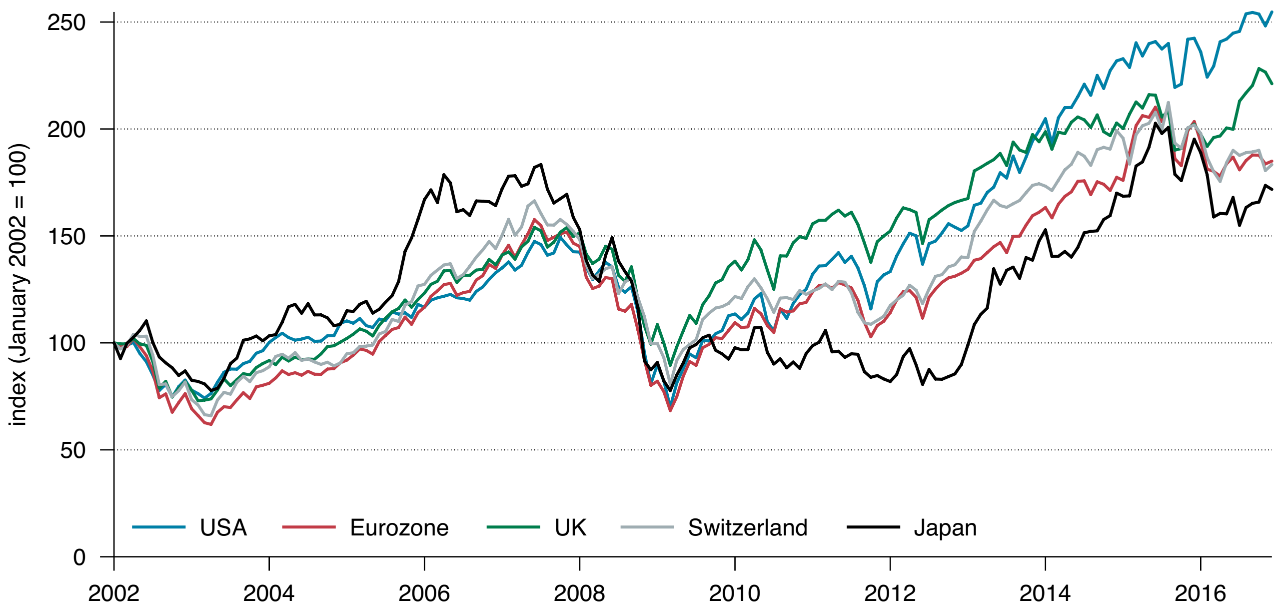
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

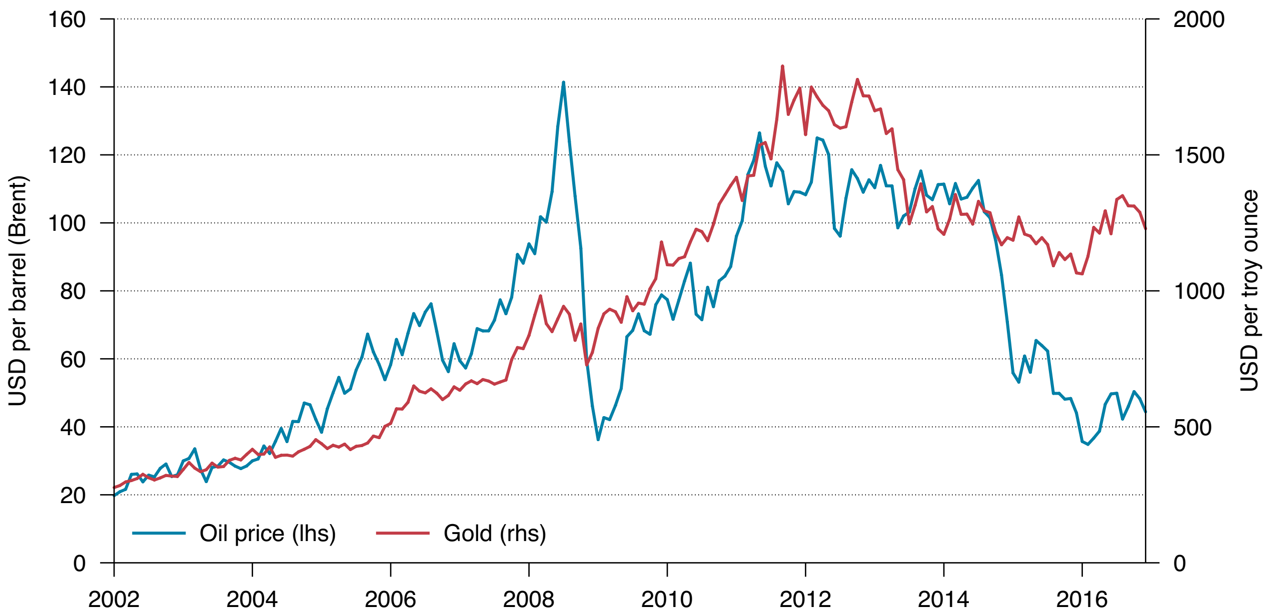


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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In the course of the US presidential elections, the Swiss National Bank "only" intervened on currency markets in the amount of about one billion Swiss francs, while the franc was allowed to appreciate against the euro. Immediately after the Brexit vote, however, such a revaluation was vigorously countered by interventions in the amount of about 10 billion francs. Are we witnessing a change in policy?