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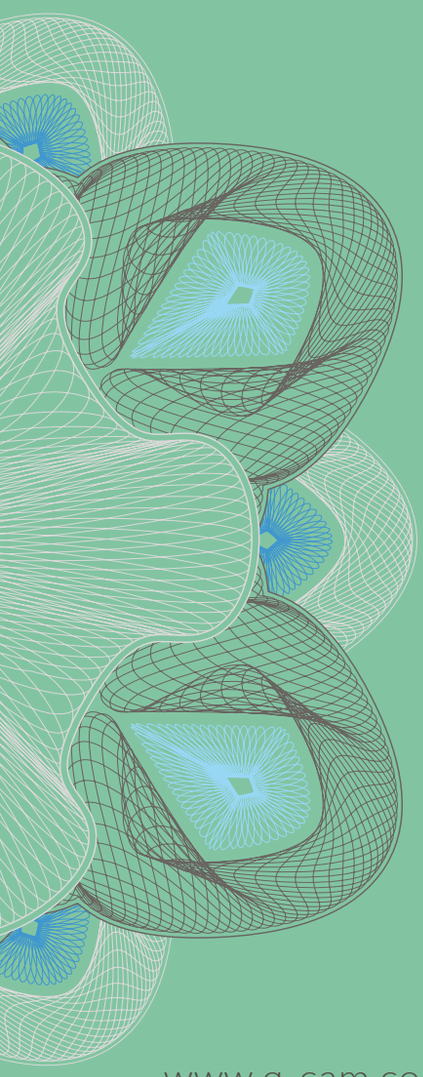
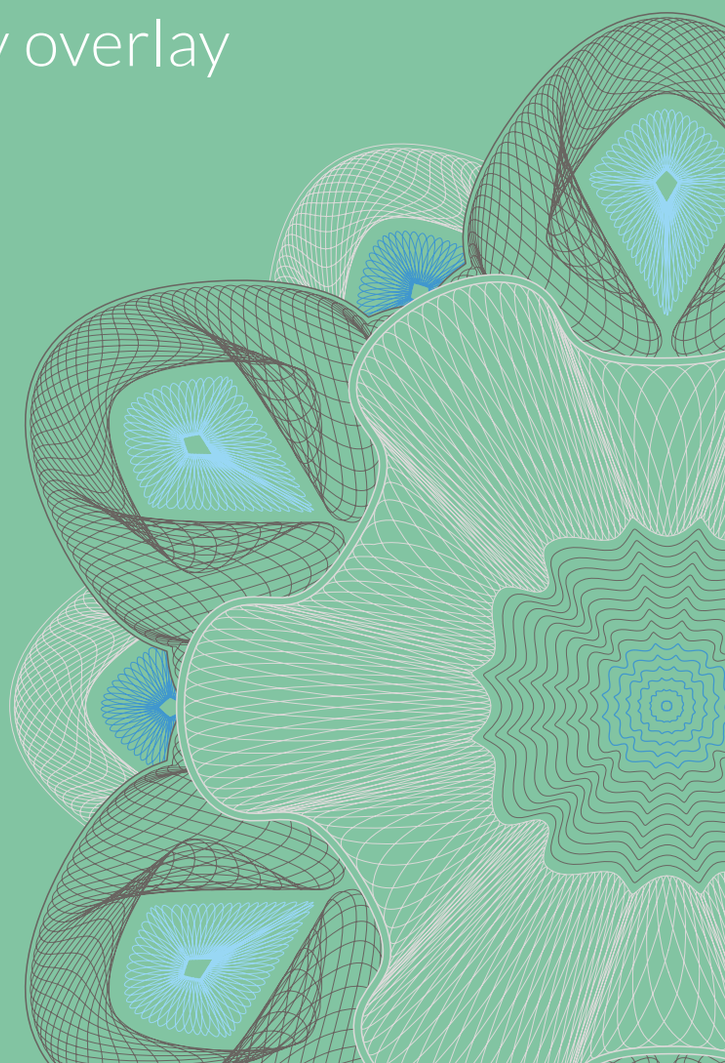
FEBRUARY 2017

FX MONTHLY

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





www.q-cam.com

QCAM Currency Asset Management AG
Huobstrasse 9
8808 Pfäffikon SZ
Schweiz

Wellershoff & Partners Ltd.
Zürichbergstrasse 38
8044 Zürich
Schweiz

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Contents

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QCAM Insight

Yield optimization with a dynamic currency overlay

When dealing with currencies, most investors focus primarily on avoiding losses, which is why a passive currency overlay is used for hedging purposes. But in the current environment of record-low interest rates, there is an increasing demand for alternative yield opportunities. A dynamic currency overlay offers investors one such opportunity. Dynamic currency overlays are increasingly being employed in place of simple passive overlays. We discuss who might find this approach appropriate and present some factors to keep in mind when assessing currency overlays.

Defining dynamic currency overlay

With a passive currency overlay, the investor sets a hedge ratio that reflects the ratio of foreign exchange risk in the portfolio. An overlay is usually carried out for the currencies that comprise a substantial portion of the portfolio and have a significant effect on the entire portfolio's performance. The focus of the passive approach is solely on reducing foreign exchange risk.

Dynamic currency overlays take another approach, one that enables an investor to pursue two objectives. In addition to reducing foreign exchange risk, the investor can generate additional returns by allowing specified deviations from the target hedge ratio. The range and scale of the permitted deviations from the hedge ratio vary according to the investor's risk tolerance and objectives. Deviations adhere to defined investment strategies. The objective of a dynamic currency overlay is to exceed benchmark yields.

Not for everyone

Dynamic overlay has received a lot of attention lately in the global investment landscape. In anticipation of rising volatility on the currency markets, and as part of the widening search for alternative investment opportunities, some institutional investors – in particular large North American pension funds – have recently launched calls for tenders. The target is usually as follows: The currency risk should largely be hedged; in the case of major trends, the investor aims to profit from the under- or even over-hedging of the currency risk and in this way generate additional yield. What appears simple enough at first glance is of course more complex in practice.

In periods of adverse price movements, an investor who employs a dynamic currency overlay must be ready and able to accept poorer performance compared to a purely passive overlay, as well as a correspondingly larger tracking error versus defined benchmarks. Since the market environment may not always benefit a dynamic hedging strategy in the short and medium term, patience and a long-term perspective are prerequisites for investors using this approach.

Dynamic overlay in practice

A dynamic overlay is usually applied to a portfolio's existing currency risks. No positions in other currency pairs are considered. The time frame of the investment strategy is usually medium- to long-term, with the clear goal of generating excess returns versus a passive overlay during periods of persistent exchange-rate trends.

Usually a currency manager who offers an absolute

return strategy also proposes a dynamic overlay strategy. The crux of this arrangement is that the underlying FX absolute return strategies, each depending on its focus, do not involve the same currency pairs that are then managed in the dynamic overlay mandate. It is a challenge to find a capable dynamic overlay manager who can provide a suitable solution for an investor's specific requirements. The detailed analysis and evaluation of overlay managers is of utmost importance.

Dynamic overlay by QCAM

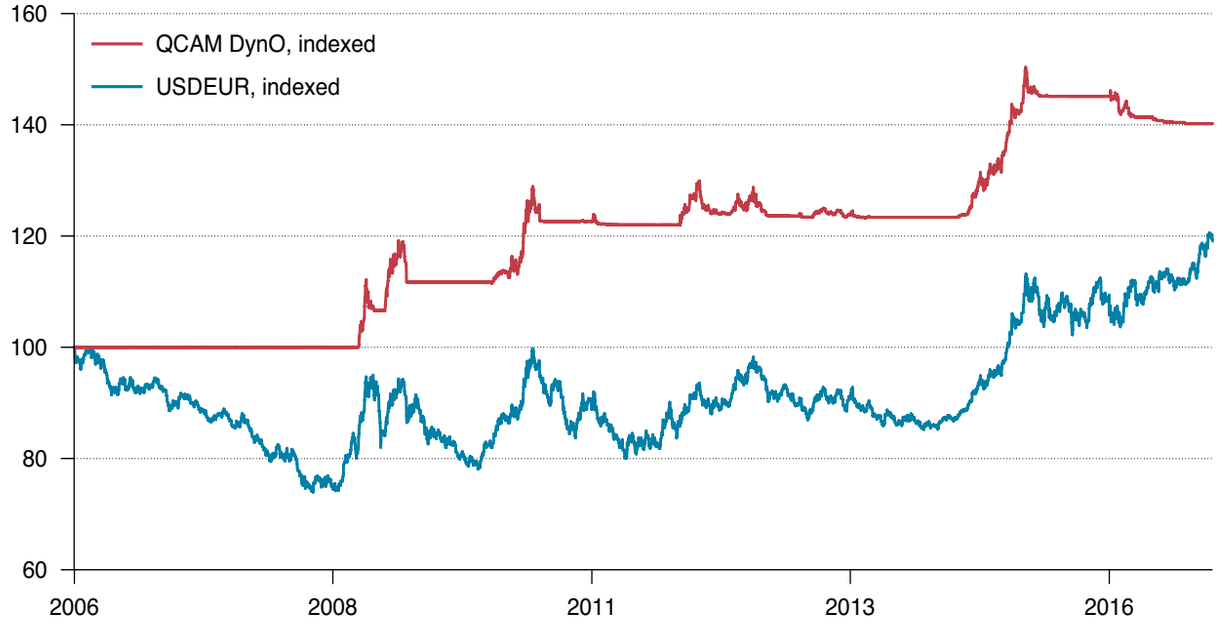
QCAM's approach is based on an advancement of the constant proportional portfolio insurance (CPPI) method. It is designed to generate profits in "trendy" markets and to keep losses as low as possible when markets move sideways. To achieve this, rule-based alpha strategies are applied that focus on momentum, sentiment and macro factors.

The graph shows the performance of QCAM's dynamic overlay for the EURUSD currency pair against the benchmark of a 0% hedge ratio. The strategy's target was met: the drawdowns were significantly lower compared to those of the 0% hedged portfolio while in trend-driven market phases, a good part of the portfolio's foreign currency's appreciation could be captured.

Bottom line

Dynamic overlay can be an effective tool for yield optimization. In a first step, it requires a clear analysis of the investor's holdings to determine whether such an approach is advisable. The next step is to carefully assess the capabilities of the dynamic overlay manager.

Comparison 0% hedge, QCAM DynO



Source: Thomson Reuters Datastream, QCAM, Wellershoff & Partners

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The macro perspective

Political risks cloud the global sentiment upturn

The major sentiment indicators are agreed: the world's big economies are all experiencing an upturn, simultaneously, the likes of which we haven't seen since 2010. And this is not just since Donald Trump's election. Meanwhile political developments threaten to disrupt this positive momentum.

Sentiment indicators at multi-year highs

The economic pick-up that started in the middle of 2016 continues to gather steam. Looking at the latest sentiment indicators worldwide, an impressive picture emerges. With only a few exceptions, sentiment has risen among consumers and producers in all of the world's largest economies.

In many cases, sentiment indicators have climbed to multi-year highs. In the United States, for example, the sentiment indicators point to an annual growth rate of roughly 3 percent. This is not only a two-year high; it is also twice what Wellershoff & Partners' models project as the trend growth rate for the American economy.

In the Eurozone, the economic sentiment indicators have risen to their highest levels since the financial crisis low-point in 2007-2008. And Great Britain's robust leading indicators are a bit surprising in view of the many *Brexit*-related uncertainties.

Brazil and Russia end their recessions

At nearly the same time, the emerging markets have been witnessing an economic upswing of their own. For some time now, it is not only China – which was already contributing positively at the end of 2015 – that is returning the emerging economies as a group to growth. In the fourth quarter of 2016, the Russian economy left its recession behind, while the recession-plagued Brazilian economy is slowly ceasing to contract. Finally, the Indian economy also shows signs that the shock from November's monetary reform is slowly fading.

Inflation rising everywhere

Simultaneous to these developments, inflation rates around the world – at least in the industrialized nations – are also noticeably increasing. The reason is not (yet) to be found in the robust economic data, but rather in the development of the crude oil price, which, after two years, is now rising. With an annual rate of 2.5 percent posted in January 2017, inflation in the United States is now above its long-term average.

While not yet above average in the Eurozone, the rise in inflation there is no less impressive. In just two years, the region's inflation rate has clambered from a negative value to fully 1.8 percent in January 2017. The end of oil's restraining hand on inflation also reached Switzerland in January, which saw the country's first positive inflation rate in the past two years.

Central bankers unruffled

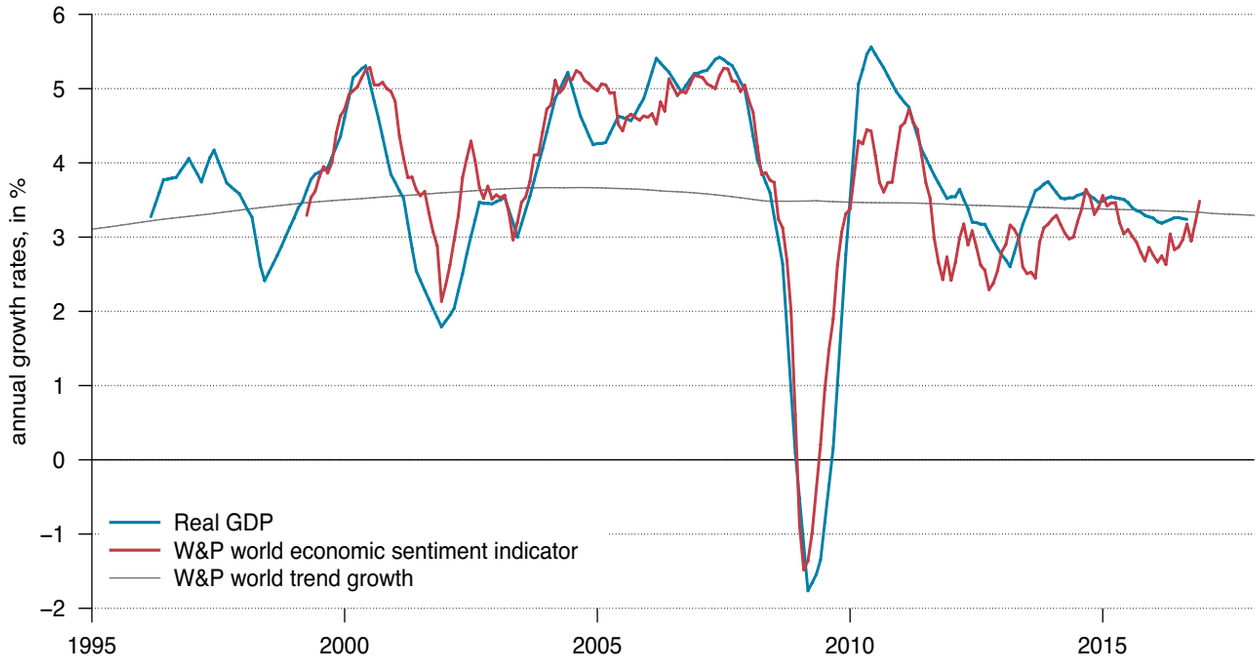
Except in the United States, the core inflation rate, which ignores the effects of energy prices, has hardly risen anywhere lately. This provides many central bankers with sufficient reason not to feel compelled to react to the

strengthening economy, nor – for now – to modify their existing monetary policies. Core inflation is also causing no loss of sleep for the US Fed although it has risen for two straight years and, at 2.2 percent, is above the rate's long-term average. But we think that even if US central bankers appear in no hurry to act right now, this calm could change quickly. The US labor market is running about as well as it last did before the financial crisis, a development that only increases short-term inflation potential, in our view. What's more, if the global economic upturn now underway were to heat up commodity prices again, inflation rates would indeed likely rise, and not just in the United States.

Political spoilers loom

Today, even the political arena carries substantial inflation risk. Despite the fact that Donald Trump has not made it sufficiently clear during his election campaign whether he wants to limit free trade through the imposition of tariffs or taxes or other trade barriers, the result of such actions will be the same: costs for US consumers and producers will certainly rise. This could easily exacerbate the problem of inflation. Thus, politics may prove to be the factor that spoils the party and smothers the promising basis of what would otherwise be a quite favorable economic environment.

Sentiment indicators are up in all the biggest economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

The harder they come, the harder they'll fall

The roles of the major currencies are now clearly delineated. The US dollar and the Swiss franc are the strong currencies while the Japanese yen and the British pound are the weak ones, with the euro somewhere in between. These roles, however, are not set in stone.

Currency markets have been characterized by large price movements in recent years. Consider, for example, the sharp devaluation of the Japanese yen between 2013 and mid-2015 or the collapse of the British pound in the summer of 2016, a blow that sterling has still not recovered from today. While the yen's slide can be traced to the monetary policy of the Bank of Japan, in Britain it was a decisive political event – the Brexit referendum – that triggered the pound's descent.

Currencies as political playthings?

Politics has loomed large thus far in 2017. In the month since his inauguration, US President Donald Trump has repeatedly sent the world, and the media, into a spin. In Europe, France's presidential election, in particular, is casting its nervous shadow ahead as the vote grows nearer. And Swiss voters' clear rejection of an important tax reform package has deeply wounded the country's grand alliance of politics and business.

While the reaction of foreign exchange traders to the Swiss vote was subdued, as expected, it is also true that politics in America and Europe is driving the markets more and more.

Greenback fantasies

US policy in particular is currently working hard to promote its vision of a bright future for the US dollar. The Trump administration's economic policies will not only boost growth, so the argument runs, but also trigger massive inflows of money into "the land of opportunity." Thus, they say, the dollar will get only stronger. Add the familiar narrative about how the divergent monetary policies of the Fed and the ECB reinforce the dollar and the picture of ongoing US dollar strength is complete.

But despite the appeal of this tidy storyline, the dollar has in fact backpedalled a bit since the beginning of the year. Without over-interpreting this slippage, perhaps it suggests a growing realization that the Trump agenda will not only produce good news for the US economy and the dollar. Too isolationist perhaps? Or perhaps the story wobbles because the dollar's value has already benefitted quite enough from these fantasies. A look at purchasing power parities certainly makes this view seem plausible. The dollar's PPP overvaluation versus the yen is now almost 30 percent, versus the pound over 20 percent and the euro an ample 15 percent.

Thus, we have a clear demarcation among the major currencies. Two strong ones versus two weak ones – the dollar and the franc on one side, the pound and the yen on the other. The euro is significantly undervalued versus the dollar but it continues to outperform the pound and the yen.

What PPP deviation signals

The clarity of the role distribution among the major cur-

rencies can also be seen in the graph, below, which tracks the average absolute deviations from purchasing power parity for all nine exchange rates between the dollar, euro, yen, pound and franc. We have normalized this deviation signal by applying a scale of between 0 and 5 points, where 0 implies a very small and 5 a very large average deviation.

The PPP deviation signal is currently scratching at the threshold of 4 points. In the past it has only broken through this barrier twice – in the mid-1990s and again the early 2000s. It was similarly high in 2015, shortly after the Swiss National Bank unpegged the franc from the euro. But the signal was not as pronounced as it is today even prior to the global financial crisis of 2007-8.

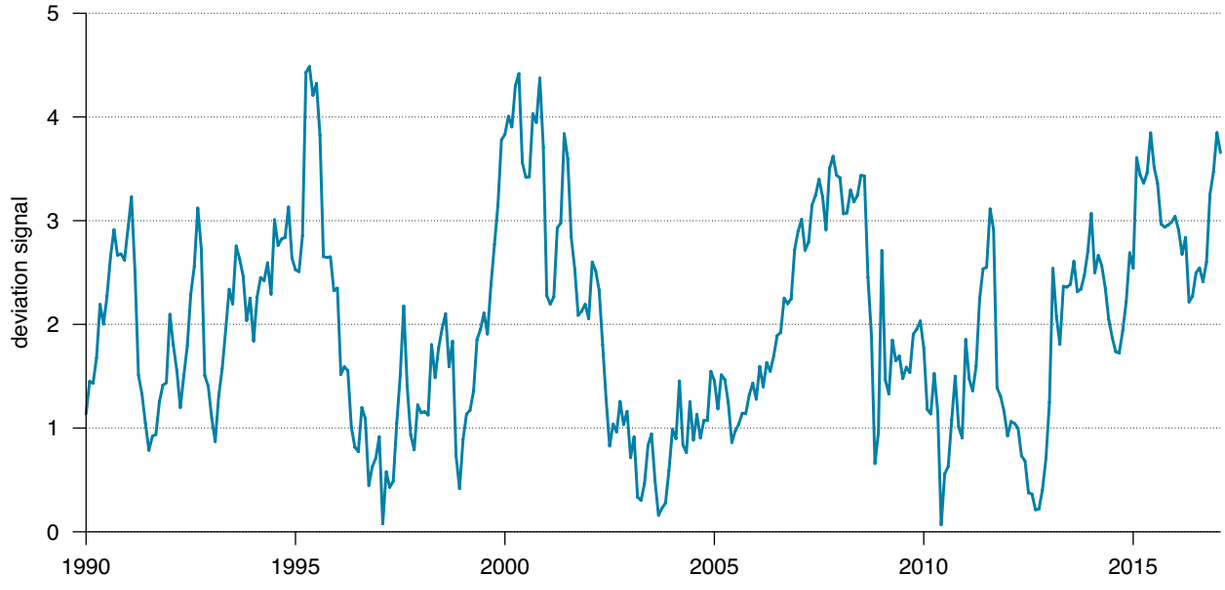
The air is getting thinner

We find it striking, looking at strong PPP deviation signals in the past, that when the eventual correction did take place, it was not gradual; rather in each case the correction was abrupt. Within a few months, typically, much of the deviation was corrected.

It is also worth noting that the buildup of large PPP deviations in the past has usually been accompanied by a long period of buoyant stock markets and lower levels of risk aversion among investors generally. The large PPP deviation at the start of this century coincided with the Internet bubble. This dynamic was also on hand in the run-up to the global financial crisis. Today, we again find ourselves in an extended period of equity market strength. And the months since Donald Trump's election, despite their disruptions, have delivered no major setbacks to the stock markets.

This should sound a signal of caution, in our view. Indeed, it is probably a good time to recall Jimmy Cliff's lyric from our title, "The harder they come, the harder they'll fall, one and all."

Today, the PPP deviation signal is stronger than prior to the global financial crisis



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Economic activity

The US economy grew by an annualized 1.9 percent in the fourth quarter of 2016, and leading indicators suggest there is yet more potential for US growth in the quarters ahead. US consumer sentiment indexes are posting record highs. The University of Michigan's Consumer Sentiment Index for January has only been higher about 8 percent of the time since the index started, in 1952. And the mood in the US industrial and service sectors is also developing positively. The ISM Manufacturing Index, for example, reached 56 points in January, well above its five-year average of around 53.

The Eurozone saw its economy grow by 1.7 percent year-over-year in the fourth quarter of 2016, nearly matching US growth for the period. This marks the fifteenth consecutive quarter of growth for the Eurozone, something that often goes unremarked, we note. In France, in particular, economic climate indicators have clearly brightened over the past three months. It remains to be seen how the coming elections will impact this development.

Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q1/2016	Q2/2016	Q3/2016	Q4/2016	11/2016	12/2016	1/2017	2/2017
United States	1.5	1.6	1.3	1.6	1.9	1.8	2.4	2.7	2.8
Eurozone	0.9	1.7	1.6	1.8	1.7	1.9	1.9	2.1	2.2
Germany	1.2	1.8	1.7	1.7	1.7	2.8	2.6	2.9	2.9
France	0.7	1.2	1.1	0.9	1.1	0.9	1.1	1.3	1.2
Italy	0.2	1.0	0.8	1.0	1.0	0.6	0.4	0.5	0.7
Spain	1.3	3.4	3.4	3.2	–	2.1	2.3	1.8	2.1
United Kingdom	1.7	1.8	2.0	2.3	2.2	2.0	2.2	2.4	2.2
Switzerland	1.5	1.1	2.0	1.3	–	1.0	0.9	1.2	1.2
Japan	0.4	0.3	0.9	1.1	1.6	1.8	1.7	1.9	2.0
Canada	1.4	1.3	1.1	1.3	–	1.1	1.1	1.1	1.3
Australia	2.1	2.5	3.1	1.8	–	2.3	2.4	2.5	2.6
Brazil	1.6	-5.4	-3.6	-2.9	–	-0.8	-0.8	-1.4	-2.1
Russia	0.2	-1.2	-0.6	-0.4	–	2.5	3.6	3.7	4.7
India	7.6	7.9	7.1	7.3	–	6.2	6.7	7.3	7.1
China	6.6	6.7	6.7	6.7	6.8	7.2	7.1	7.4	7.3
Advanced economies[4]	1.2	1.6	1.7	1.5	–	1.4	2.0	2.0	–
Emerging economies[4]	5.5	4.8	4.8	4.9	–	4.7	4.7	5.0	–
World economy[4]	3.4	3.2	3.3	3.2	–	2.9	3.2	3.5	–

[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.

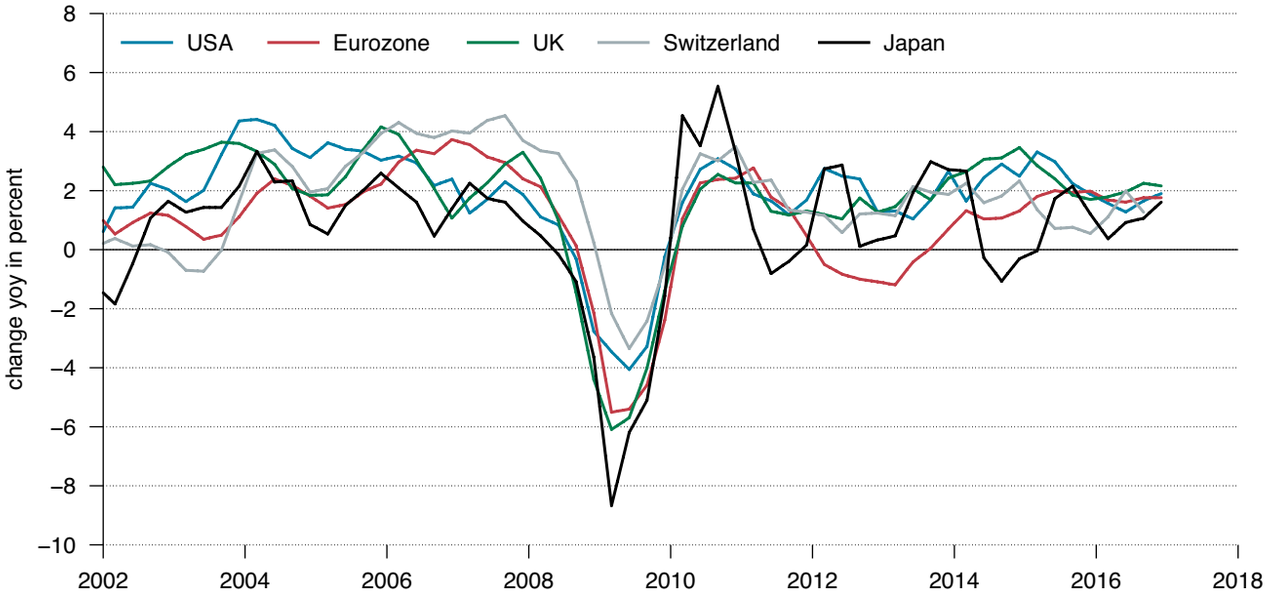
[2] Year-on-year growth rate, in percent.

[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.

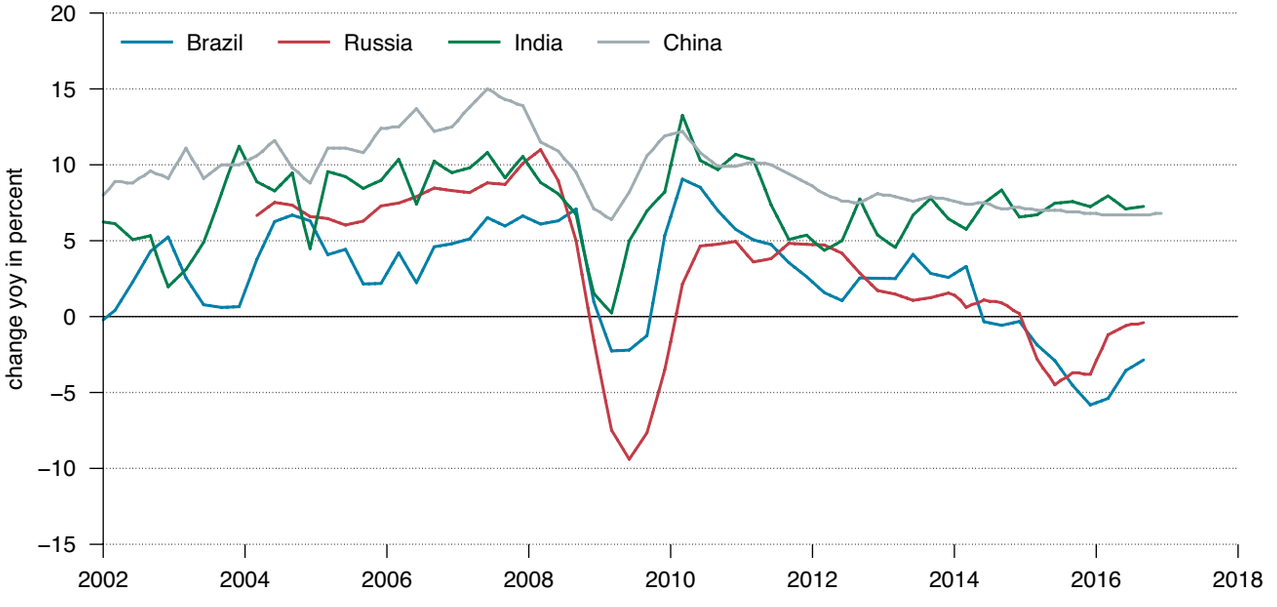
[4] Calculations are based on nominal GDP weights derived from purchasing power parity exchange rates.

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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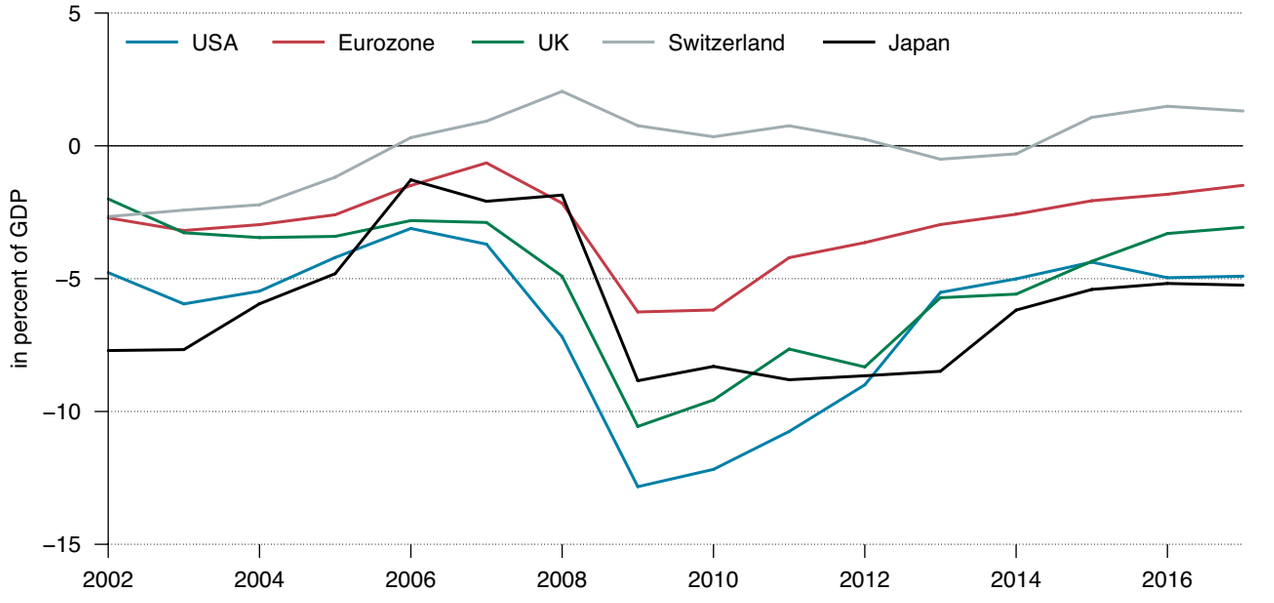
Economic indicators

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	23.0	24.4	-2.5	-2.6	113.3	116.9	-5.8	-4.9	6.4	4.8
Eurozone	16.7	15.6	3.2	4.0	108.1	108.3	-2.6	-1.5	11.2	9.6
Germany	4.8	4.5	7.8	8.8	80.5	71.7	0.2	0.5	6.6	5.9
France	3.5	3.2	-0.9	-0.8	117.1	124.1	-3.9	-3.0	9.8	9.7
Italy	2.7	2.4	1.5	3.0	152.2	159.5	-2.7	-2.4	11.8	11.9
Spain	1.7	1.6	1.2	1.7	110.4	119.1	-6.6	-3.6	23.4	18.4
United Kingdom	3.7	3.3	-4.7	-4.8	109.6	113.1	-5.5	-3.1	6.4	4.8
Switzerland	0.9	0.9	10.3	9.2	45.0	41.7	0.4	1.3	3.1	3.7
Japan	6.5	6.4	2.0	3.8	225.6	237.5	-6.8	-5.2	3.7	3.1
Canada	2.3	2.0	-3.2	-3.1	88.1	90.5	-1.8	-2.3	7.0	6.8
Australia	1.9	1.7	-3.8	-3.9	34.3	43.2	-3.0	-2.5	5.7	5.7
China	13.6	15.5	2.4	1.6	40.0	49.9	-1.6	-3.3	4.1	–
Brazil	2.9	2.5	-2.9	-1.3	67.6	82.4	-6.4	-9.1	8.4	12.0
India	2.7	3.1	-2.1	-2.0	68.6	67.2	-7.2	-6.6	–	–
Russia	2.4	1.8	3.2	3.5	14.9	17.9	-1.9	-1.5	5.4	5.3

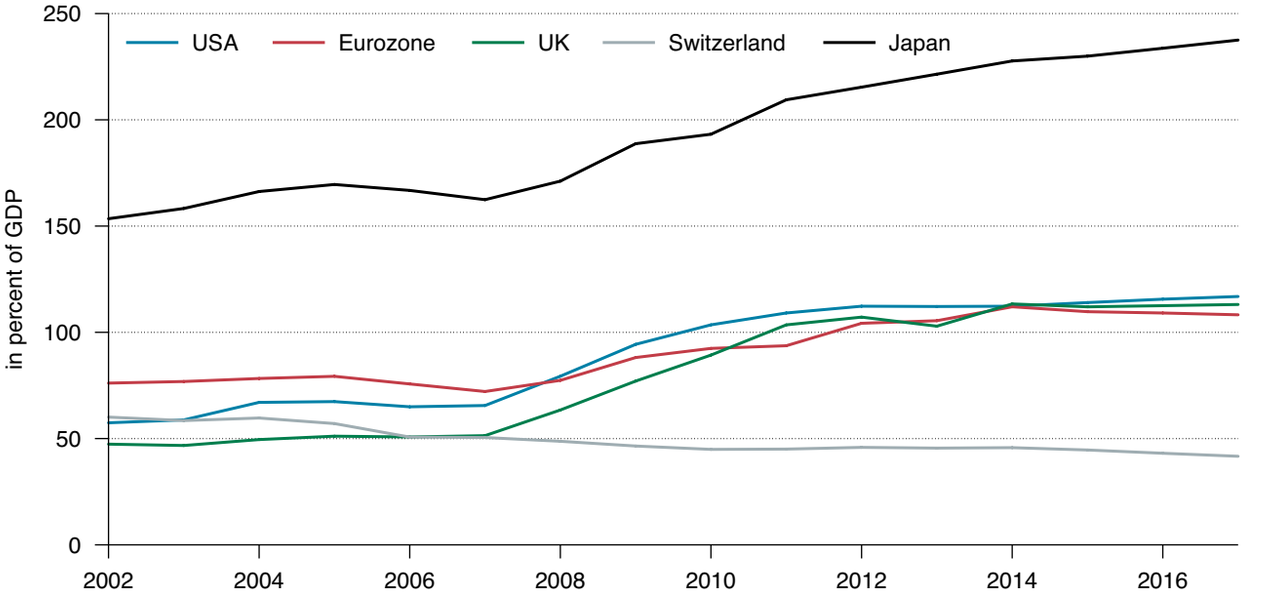
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

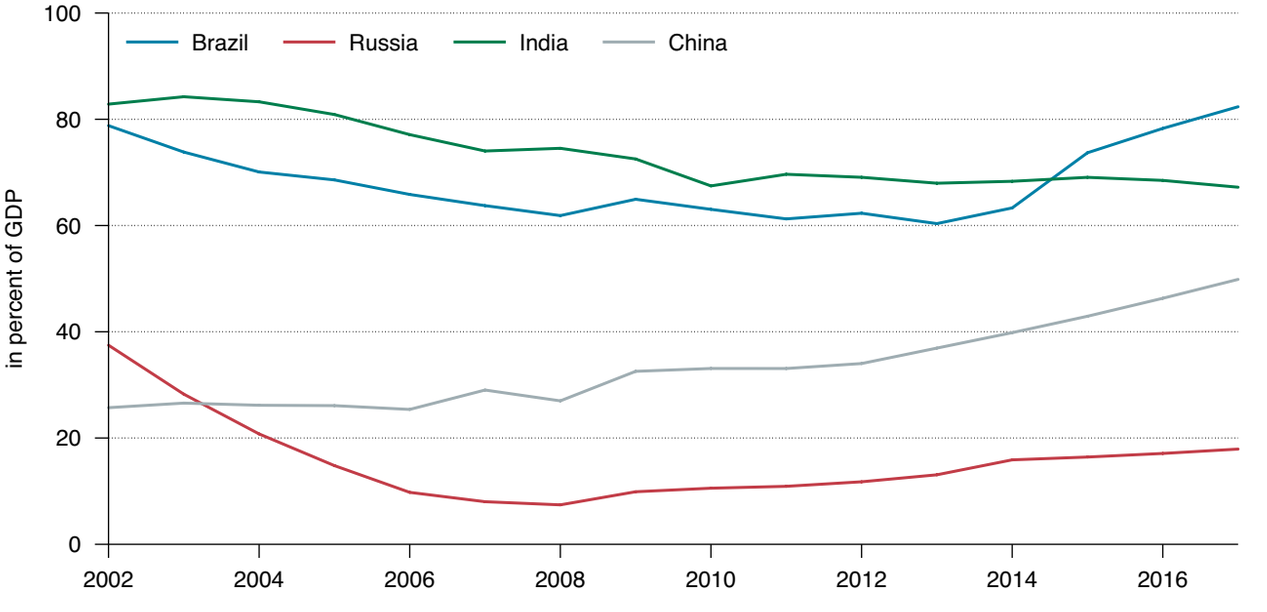


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

In the United States, year-over-year consumer price inflation rose from 2.1 percent in December to 2.5 percent in January. Although this exceeds its 2 percent target rate, the Fed might not feel compelled to react, as it relies on an alternative metric for inflation, *personal consumption expenditures*, which is currently growing at an annual rate of 1.6 percent.

A more pronounced rise in inflation was also observed in the Eurozone. While still 1.1 percent in December, inflation hit 1.8 percent in January. Although the core inflation rate remains stuck at 0.9 percent, the recent uptick in headline inflation strengthens the voices calling for a rapid exit from the ECB's expansive monetary policy.

In Switzerland, a spell was broken in January as, for the first time since August 2014, inflation moved into positive territory. According to the expectations of the Swiss National Bank, the inflation rate in Switzerland is likely to be around 0.1 percent this year, taking into account energy price base effects – an assessment supported by Wellershoff & Partners` proprietary inflation models.

Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		10/2016	11/2016	12/2016	1/2017	10/2016	11/2016	12/2016	1/2017
United States	1.8	1.6	1.7	2.1	2.5	2.1	2.1	2.2	2.3
Eurozone	1.5	0.5	0.6	1.1	1.8	0.8	0.8	0.9	0.9
Germany	1.4	0.8	0.8	1.7	1.9	1.1	1.3	1.6	1.5
France	1.2	0.4	0.5	0.6	1.4	0.5	0.5	–	–
Italy	1.5	-0.2	0.1	0.5	0.9	0.2	0.4	0.6	–
Spain	1.5	0.7	0.7	1.6	3.0	0.8	0.8	1.0	–
United Kingdom	2.3	0.9	1.2	1.6	1.8	1.2	1.4	1.6	1.6
Switzerland	0.1	-0.2	-0.3	0.0	0.3	-0.3	-0.3	-0.3	-0.2
Japan	0.3	0.2	0.5	0.3	–	0.2	0.1	0.0	–
Canada	1.6	1.5	1.2	1.5	–	1.6	1.5	1.6	–
Australia	2.4	1.4	1.4	1.5	–	1.5	1.4	1.3	–
Brazil	6.2	7.9	7.0	6.3	5.4	6.9	6.6	6.2	5.6
Russia	9.2	6.1	5.8	5.4	5.0	6.4	6.2	6.0	5.5
India	8.0	4.2	3.6	3.4	3.2	–	–	–	–
China	2.8	2.1	2.3	2.1	2.5	1.8	1.9	1.9	2.2
Advanced economies[4]	1.5	1.1	1.1	1.5	–	1.4	1.4	1.4	–
Emerging economies[4]	3.7	2.7	2.5	2.2	–	3.0	3.0	2.9	–
World economy[4]	2.5	1.9	1.8	1.8	–	1.8	1.8	1.8	–

[1] Average annual consumer price inflation, in percent.

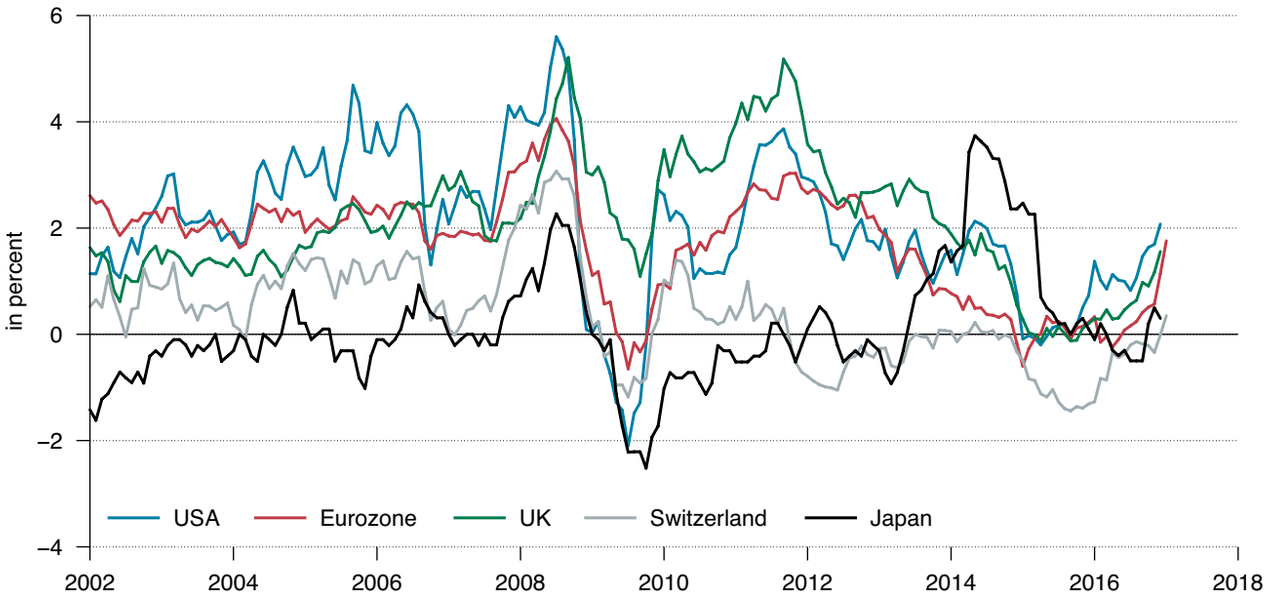
[2] Year-on-year change of the consumer price index (CPI), in percent.

[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.

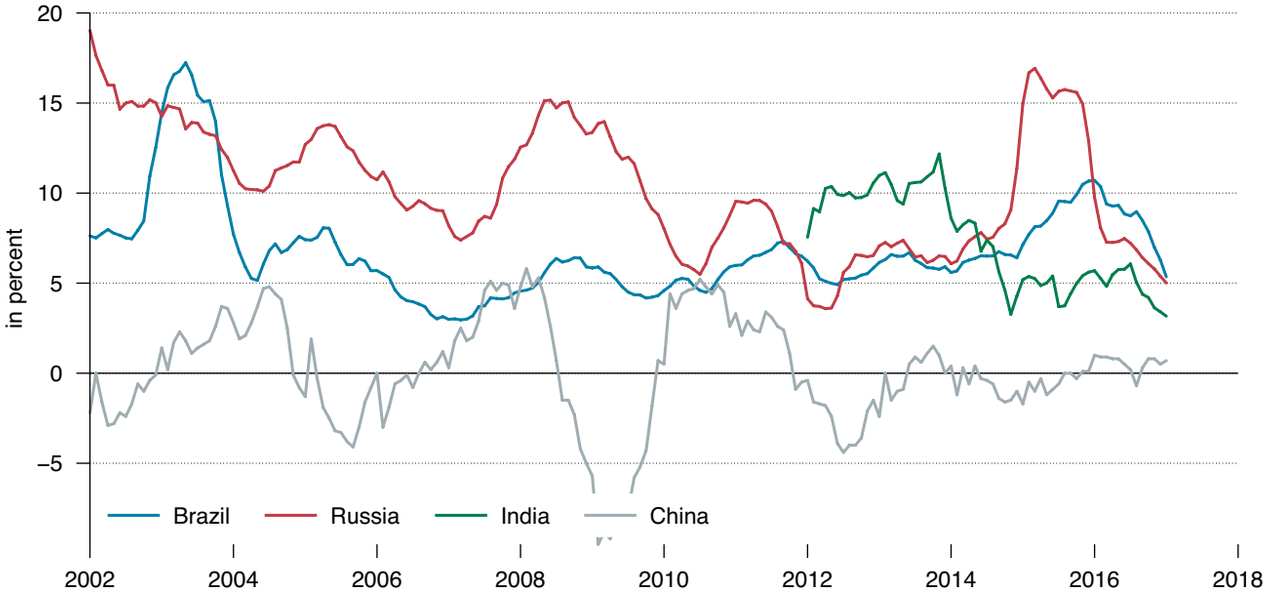
[4] Calculations are based on nominal GDP weights derived from purchasing power parity exchange rates.

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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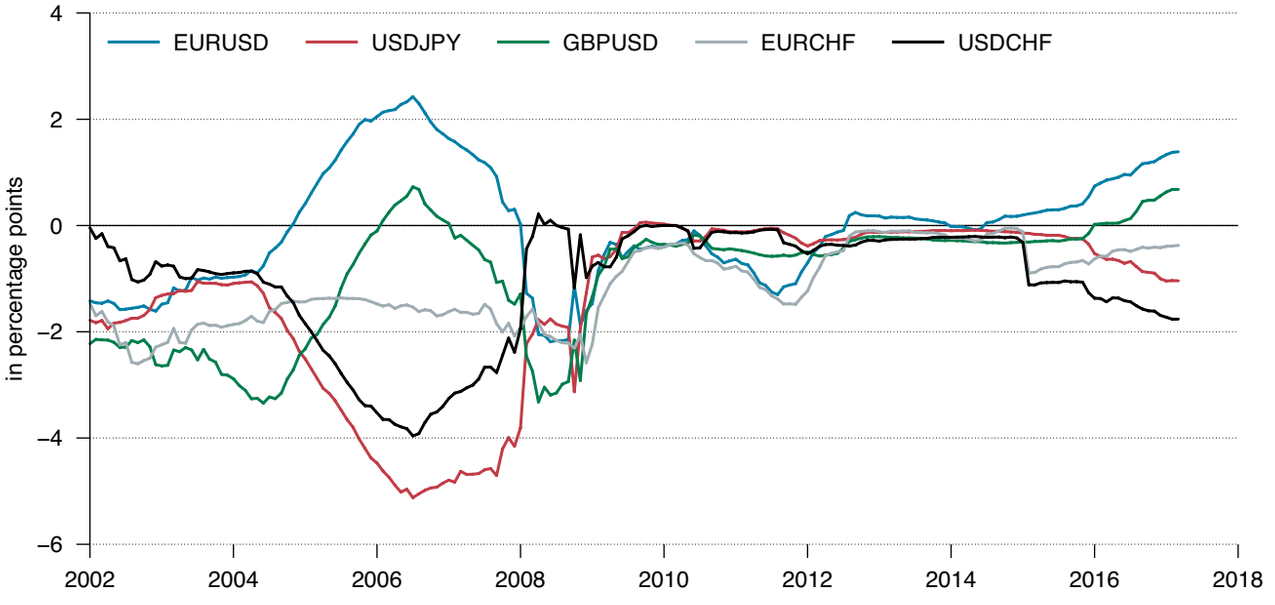
Interest rates

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	1.057	1.35	0.75	0.35	-0.11	1.82	1.14	0.55	-0.02
USDJPY	114.6	-1.04	-0.62	-0.30	-0.79	-1.58	-1.04	-0.58	-0.97
GBPUSD	1.245	0.68	0.03	-0.16	-0.56	0.96	0.14	-0.14	-0.57
EURCHF	1.066	-0.41	-0.65	-0.36	-0.80	-0.40	-0.63	-0.44	-0.89
USDCHF	1.008	-1.76	-1.40	-0.71	-0.70	-2.22	-1.78	-0.99	-0.87
GBPCHF	1.256	-1.08	-1.37	-0.87	-1.26	-1.26	-1.64	-1.13	-1.44
CHFJPY	113.7	0.72	0.78	0.41	-0.09	0.64	0.74	0.41	-0.11
AUDUSD	0.768	-0.45	-1.33	-1.99	-2.58	0.19	-0.69	-1.38	-2.12
USDCAD	1.309	-0.08	0.23	0.71	0.48	-0.48	-0.12	0.45	0.28
USDSEK	8.938	-1.64	-1.16	0.08	0.36	-1.91	-1.35	-0.08	0.27
USDRUB	57.3	9.01	10.13	9.16	7.77	7.94	9.92	8.68	7.93
USDBRL	3.062	10.91	13.57	10.67	9.99	8.80	13.17	10.34	9.83
USDCNY	6.868	3.18	2.39	3.60	2.61	2.26	2.12	3.29	2.34
USDTRY	3.681	10.24	11.06	8.85	9.49	10.28	10.66	8.70	9.69
USDINR	66.89	7.47	7.47	8.75	7.30	5.42	6.07	6.54	4.64

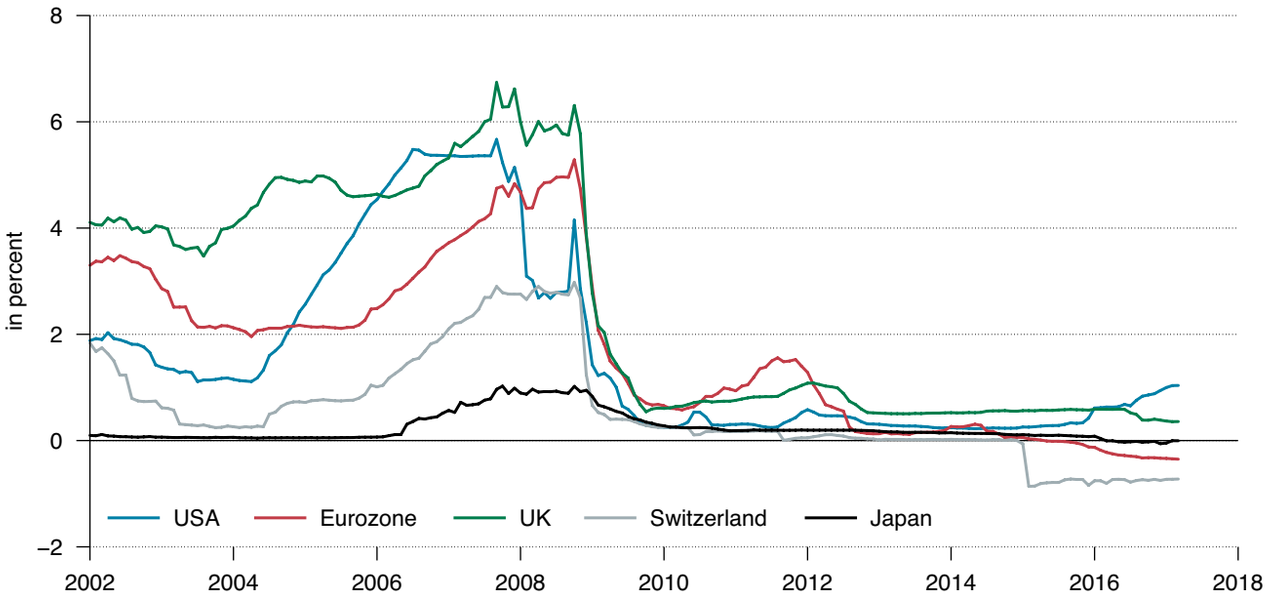
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

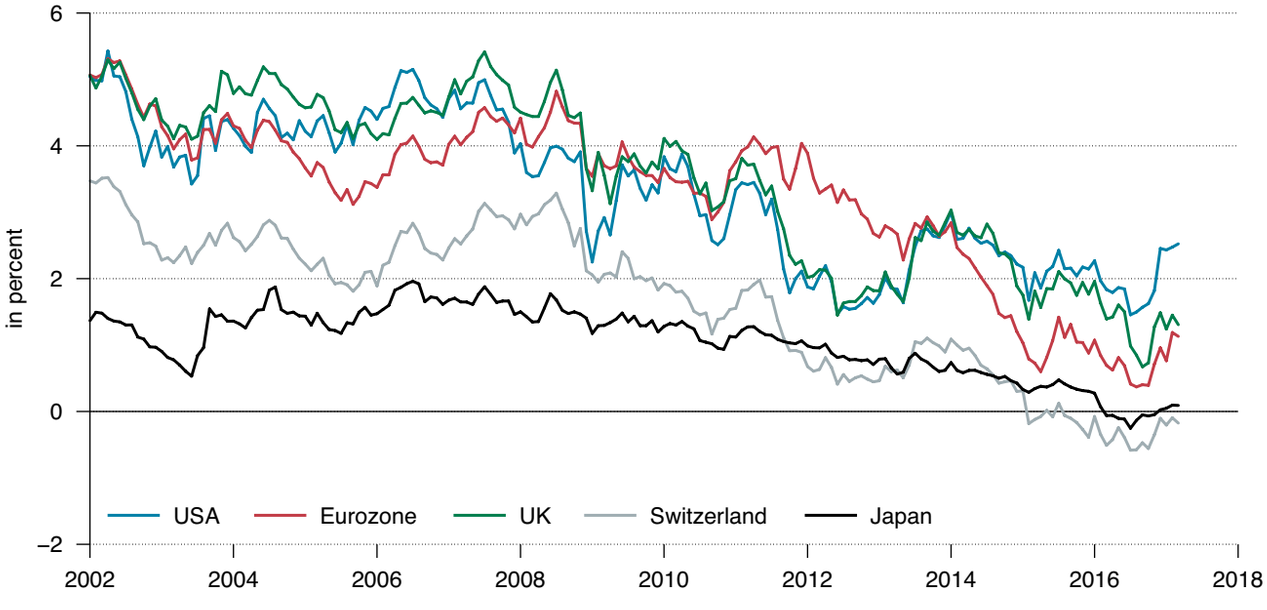


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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FX markets

From Donald Trump's election in early November through the end of December 2016, the US dollar appreciated by 6.5 percent on a trade-weighted basis. The surge reflects the growth fantasies unleashed by candidate Trump's campaign promises, as well as expectations of rising interest rates. In the meantime, the US dollar has actually slipped a bit so far in 2017. That said, the dollar remains emphatically overvalued in purchasing power parity terms and thus has further potential for devaluation. Such a slide could be triggered, for example, by the import tariffs proposed by Donald Trump. If, as a result, prices were to move notably upward, this would burden the US dollar in the medium term.

The Swiss franc came under significant appreciation pressure in January and the Swiss National Bank intervened to the tune of more than 11 billion Swiss francs in the last four weeks, according to Wellershoff & Partners' proprietary calculations. One possible reason behind this strong appreciation pressure could be the growing risk-sensitivity to be found among market participants. They seem to give more weight to the risks from France's elections than to the record of steady economic growth in the Eurozone. From a broader perspective, the uncertainties surrounding the Trump administration's future policy measures could also be linked to this issue.

FX overview

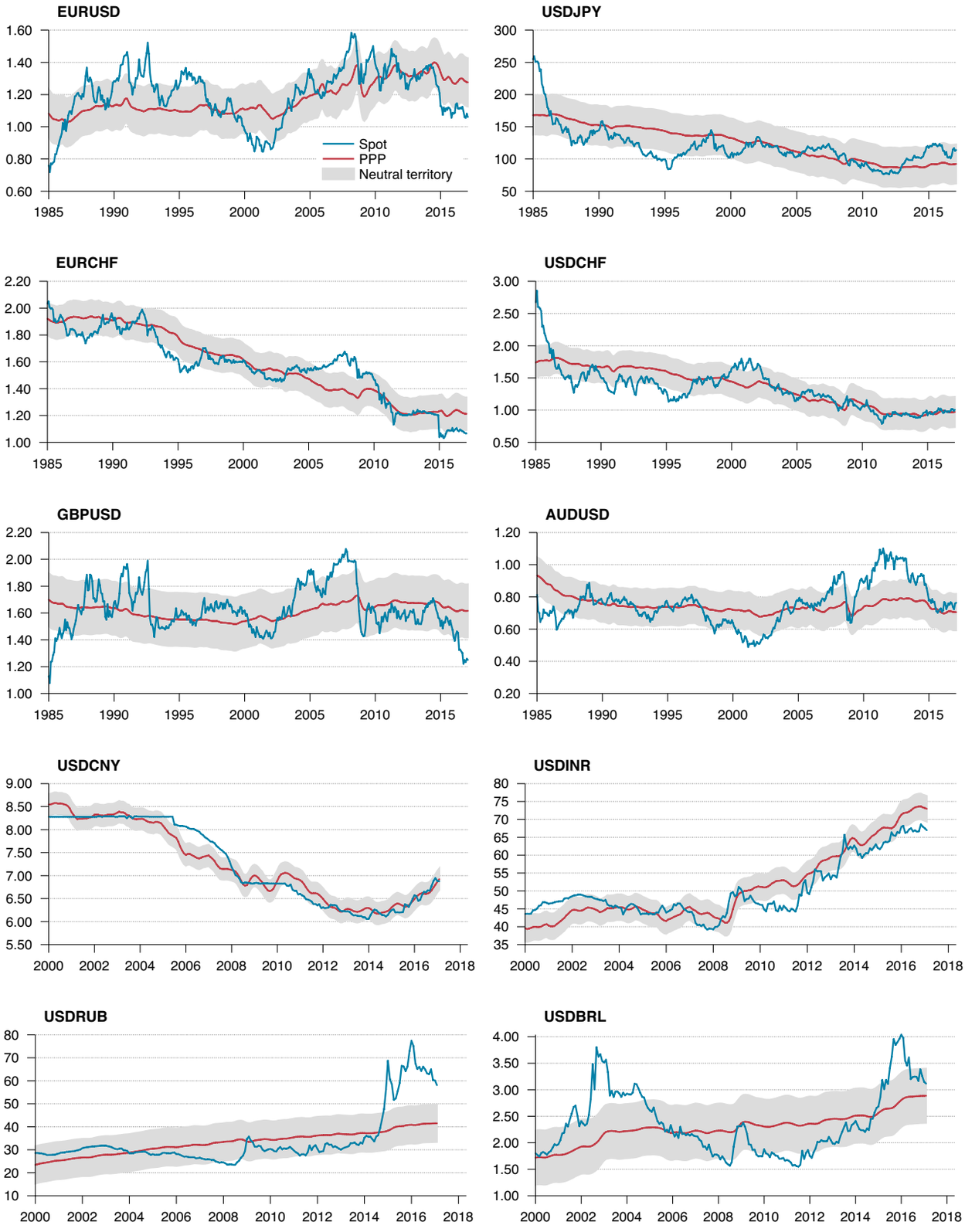
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.057	0.2	-0.9	-5.1	-18.9	1.28	1.13 - 1.43	-17.1
USDJPY	114.6	-1.7	4.8	0.7	45.4	92.2	61.8 - 122.6	24.3
GBPUSD	1.245	0.8	0.1	-13.0	-20.9	1.62	1.42 - 1.81	-23.0
EURCHF	1.066	-0.5	-0.5	-3.2	-11.7	1.21	1.09 - 1.33	-12.1
USDCHF	1.008	-0.8	0.4	2.0	8.9	0.97	0.74 - 1.21	3.9
GBPCHF	1.256	0.0	0.6	-11.2	-13.9	1.54	1.27 - 1.82	-18.7
CHFJPY	113.7	-0.9	4.3	-1.3	33.5	89.4	74.2 - 104.5	27.2
AUDUSD	0.768	6.1	2.8	8.3	-28.3	0.71	0.59 - 0.82	8.9
USDCAD	1.309	-2.4	-2.5	-5.8	30.8	1.21	1.14 - 1.28	8.1
USDSEK	8.938	-1.6	-2.9	5.1	32.3	7.37	6.44 - 8.30	21.3
USDRUB	57.3	-6.1	-11.1	-26.4	90.0	41.5	33.4 - 49.6	38.1
USDBRL	3.062	-5.9	-10.0	-24.6	77.2	2.89	2.37 - 3.40	6.1
USDCNY	6.868	-1.2	0.0	5.4	9.0	6.92	6.69 - 7.15	-0.8
USDTRY	3.681	4.6	9.9	23.9	108.1	2.74	2.52 - 2.96	34.3
USDINR	66.89	-1.4	-1.3	-2.2	35.7	73.0	69.4 - 76.5	-8.3

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

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

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

Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners



Source: Thomson Reuters Datastream, Wellershoff & Partners

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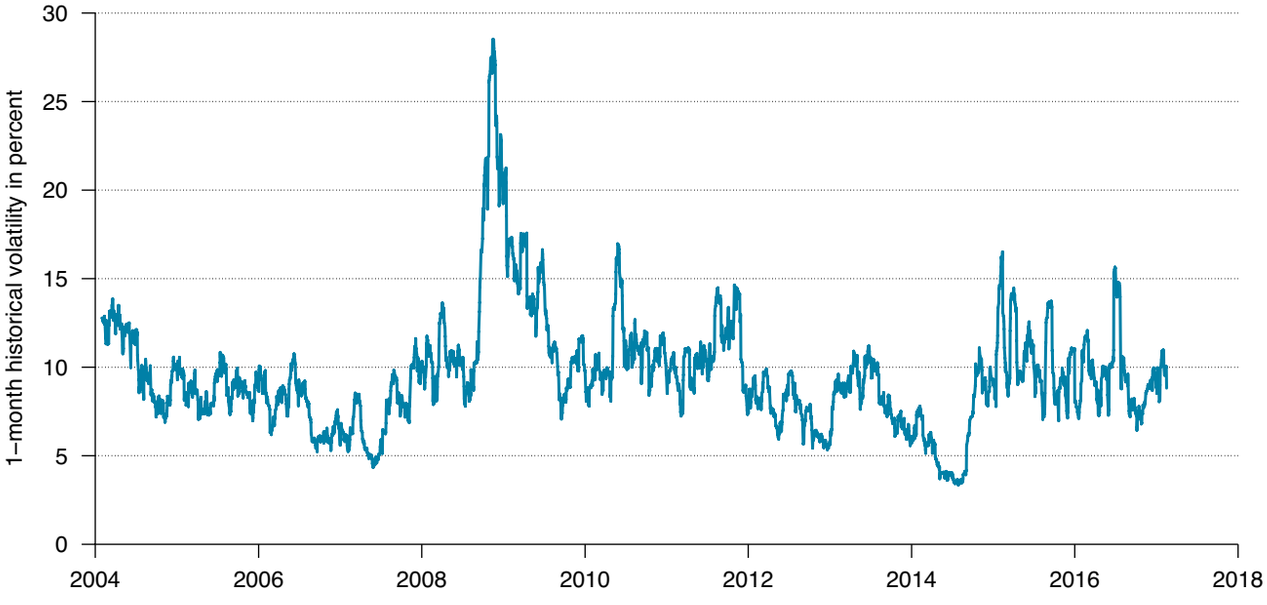
FX volatility

FX volatility overview

	Current exchange rate	Volatility 3 months[1]				Volatility 12 months[1]			
		Historical	Implied	Ø 5 years[2]	Ø 10 years[2]	Historical	Implied	Ø 5 years[2]	Ø 10 years[2]
EURUSD	1.057	9.1	10.2	8.9	10.5	8.6	9.9	9.4	10.8
USDJPY	114.6	11.8	11.2	9.9	11.0	11.8	10.8	10.4	11.3
GBPUSD	1.245	10.5	10.2	8.3	9.8	12.9	10.8	8.9	10.3
EURCHF	1.066	4.5	7.5	5.4	6.3	5.3	7.4	6.4	6.7
USDCHF	1.008	7.9	8.6	9.3	10.6	8.1	9.5	9.9	10.9
GBPCHF	1.256	9.3	9.9	8.8	10.2	12.4	10.3	9.3	10.6
CHFJPY	113.7	9.0	10.5	10.6	11.6	10.9	10.5	11.3	12.1
AUDUSD	0.768	9.3	9.6	10.3	12.5	11.1	10.2	11.0	12.9
USDCAD	1.309	7.5	8.3	7.9	9.9	9.1	9.0	8.4	10.2
USDSEK	8.938	9.6	9.9	10.4	12.5	10.0	10.6	11.0	12.8
USDRUB	57.3	16.6	13.1	16.1	13.8	17.2	13.9	16.4	14.9
USDBRL	3.062	12.9	13.7	14.7	15.5	16.9	14.5	15.2	15.9
USDCNY	6.868	3.4	4.9	3.1	3.1	2.7	6.5	4.0	4.7
USDTRY	3.681	16.3	14.9	11.6	13.3	12.8	15.2	12.9	14.6
USDINR	66.89	3.7	5.6	8.9	9.6	4.0	6.7	10.0	10.5

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

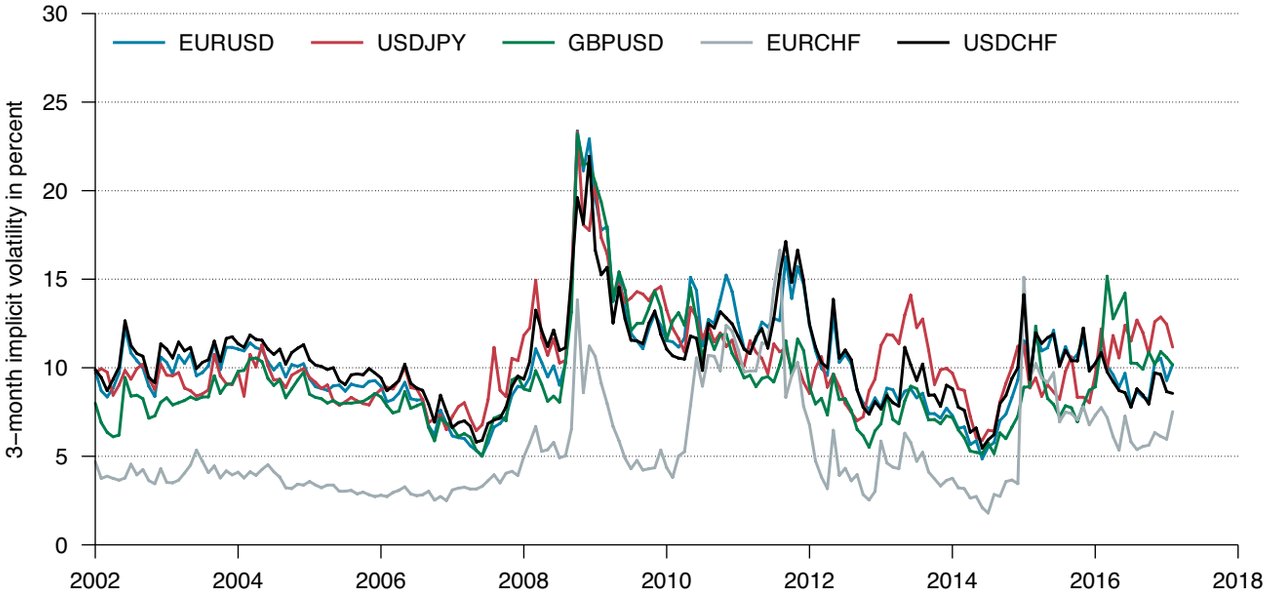
QCAM volatility indicator[3]



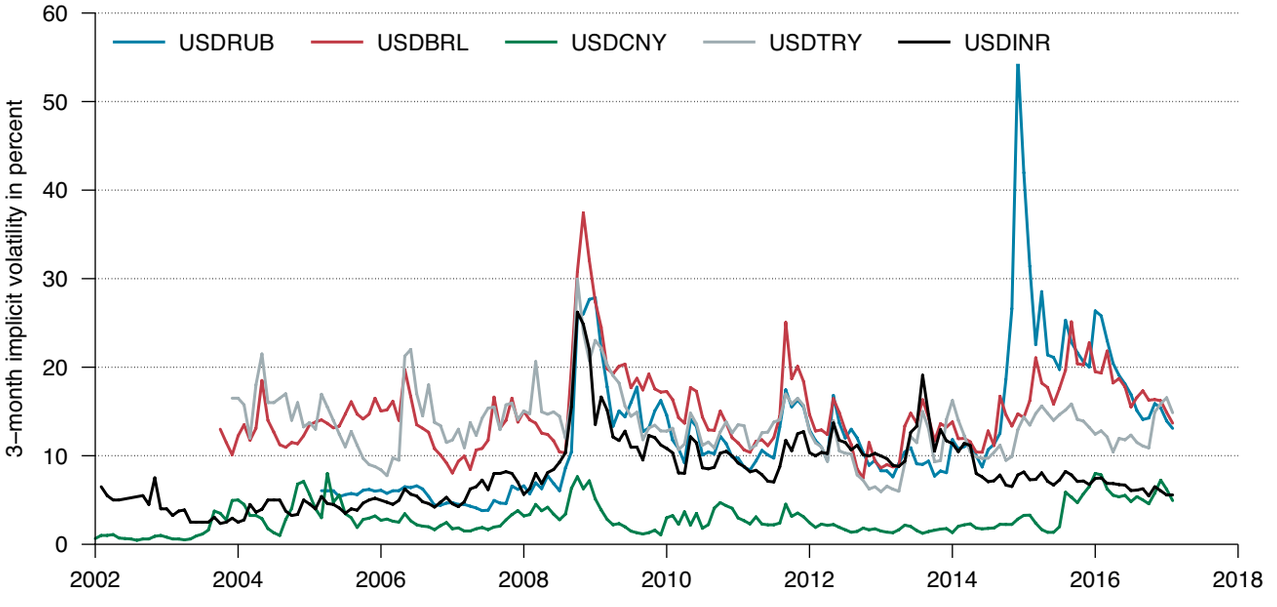
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implicit volatility



Implicit volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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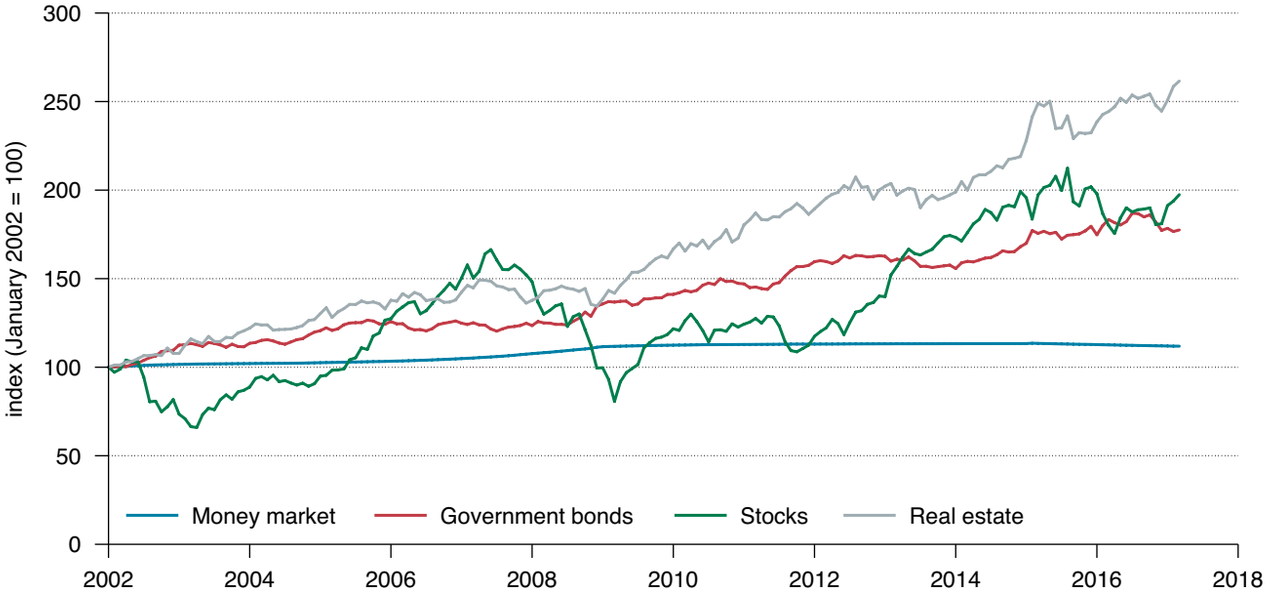
Financial markets

Performance overview

	Performance in either local curreny or USD[1]				Performance in CHF[1]			
	YTD	3 months	1 year	5 years	YTD	3 months	1 year	5 years
Swiss money market	-0.1	-0.2	-0.7	-1.1	-0.1	-0.2	-0.7	-1.1
Swiss government bonds	-0.5	-0.2	-1.9	11.7	-0.5	-0.2	-1.9	11.7
Swiss corporate bonds	0.0	0.2	-0.9	11.9	0.0	0.2	-0.9	11.9
Swiss equities (SMI)	3.2	6.5	12.6	60.0	3.2	6.5	12.6	60.0
European equities (Stoxx600)	2.9	9.3	20.1	65.8	2.0	8.4	15.9	46.2
UK equities (Ftse100)	2.3	7.8	29.5	48.5	2.6	8.2	13.7	27.9
Japanese equities (Topix)	2.3	9.3	22.4	112.8	3.8	5.0	24.5	61.4
US equities (S&P 500)	5.2	8.0	26.6	92.1	4.4	8.8	29.5	111.1
Emerging markets equities	9.3	11.7	32.3	2.1	8.5	12.5	35.3	12.2
Global equities (MSCI World)	4.9	7.9	23.8	62.2	4.1	8.7	26.6	78.3
Swiss real estate	4.3	6.7	8.8	33.8	4.3	6.7	8.8	33.8
Global real estate	1.7	6.8	14.4	50.2	1.0	7.6	17.0	65.1
Commodities	1.7	7.6	19.1	-38.9	1.0	8.5	21.9	-32.9
Brent oil	-1.4	20.1	72.3	-53.3	-2.1	21.0	76.2	-48.7
Gold	6.0	0.0	1.0	-28.7	5.2	0.7	3.3	-21.6

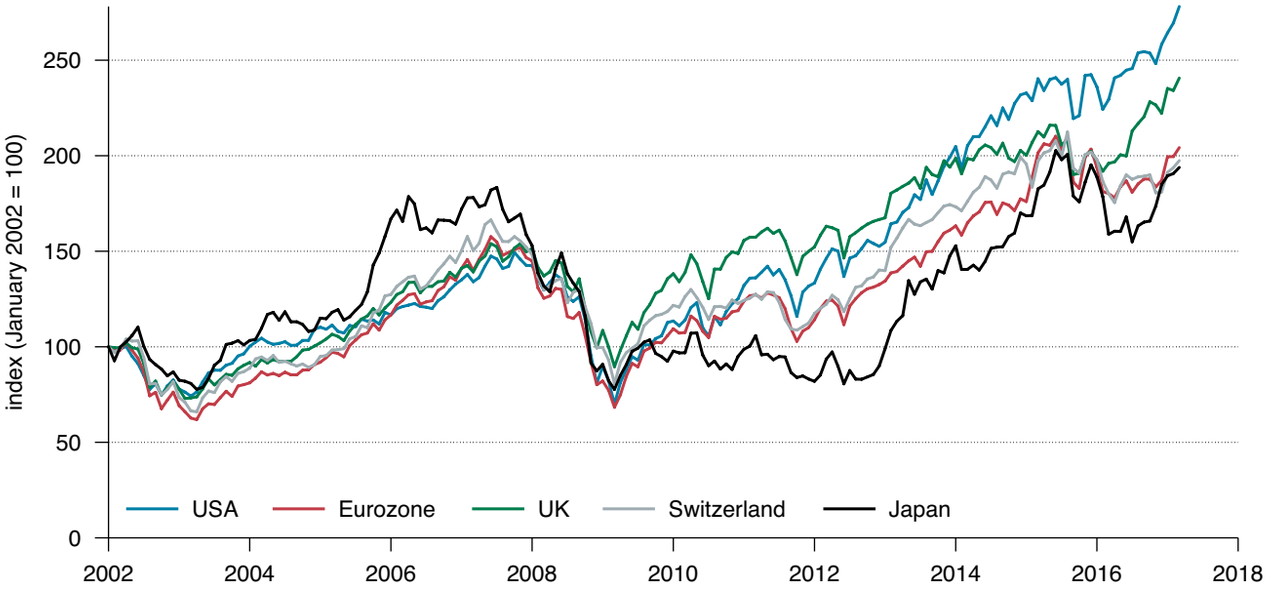
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

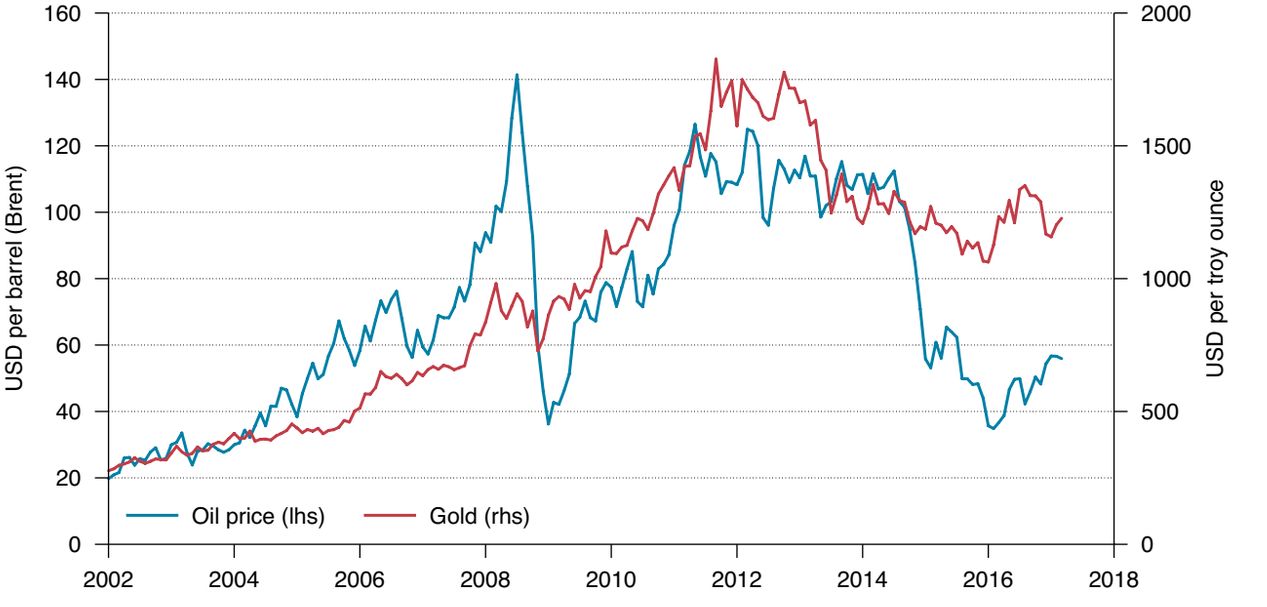


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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Number of the month

8 percent

The Consumer Sentiment Index from the University of Michigan reached 98.5 points in January. Since its introduction in 1952, the monthly index has only recorded a higher value 8 percent of the time. We routinely question such highs. After all, the air grows thinner at higher elevations and the potential for disappointment grows ever larger.