JUNE 2018

FX MONTHLY

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QCAM Insight

The euro's high-stakes Italian test

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

Italy's political crisis has eased after the Five Star Movement and the Northern League formed a new government. Spreads of Italian government bonds over German Bunds remain elevated albeit down from their previous peaks and EURUSD has stabilized at around 1.17. Time to pop open the prosecco and celebrate? We think not. Italy's structural problems still pose a threat to the euro.

Optimists hope that the new government in Rome will come to its senses once in power. That certainly is a possibility but we believe it's a remote one. In our judgement, an escalation of tensions leading to a real test for the euro is more likely. The key ingredient in this combustible situation is Italy's poor debt sustainability, with politics acting as an accelerant. The outcome may not result in a breakup of the euro, but we think that a solution will only emerge in response to a crisis.

Italy's structural debt sustainability problem

Italy has made little progress on structural reform since the euro crisis of 2010-12. Yes, the country is running a current account surplus, but that's merely the result of weak domestic demand. Italy's fundamental problem is persistent low growth that is insufficient to stabilize its debt-to-GDP ratio. Annual real GDP growth has averaged 0.7 percent in Italy since 1990 and just 0.1 percent since 2010. The reasons for Italy's poor performance are structural, and they are many: a rapidly aging population, a significant brain drain as well as rigid labor laws and market regulations are just few of the many issues plaguing the economy.

While growth is low, the effective real interest rate on Italian debt is persistently higher, by an average of more than 200 basis points. This means that Italy needs to run a large primary surplus to offset the real interest rate growth gap, thus to stabilize its debt-to-GDP ratio. And since that ratio is already above 100 percent, the primary surplus has to be even larger, approaching 3 percent of GDP. Italy has managed a primary surplus of 1.3 percent of GDP since 2010, but that is clearly not enough. Further belt-tightening is politically almost impossible and probably even counterproductive. There are still savings opportunities but these are more than offset by the need for increased investment. What Italy needs are meaningful structural reforms that boost productivity as well as growth and reduce real interest rates.

Politics as an accelerant

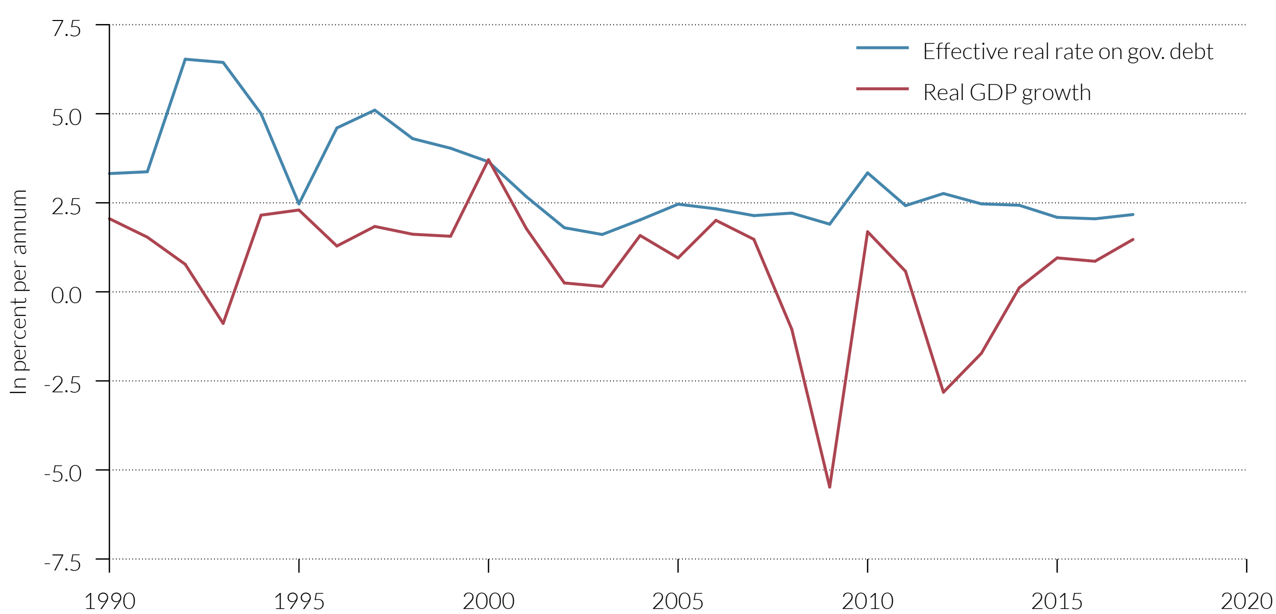
Sooner or later, the structural debt sustainability problem will become an issue for Italy and the euro. The political situation will act as an accelerant. The Five Star Movement and the League make for strange bedfellows and whether their coalition will endure is not at all certain. Their economic pronouncements address some key problems, such as bureaucracy and corruption, but implementation of any measures is unclear. Critical growth obstacles, like the labor laws, have not been addressed, while plans for a flat tax, a basic income for the unemployed and a partial reversal of the pension reform are likely to boost the deficit by 5 percent of GDP and do little for growth. Most probably, the new government will not try to implement its plans all at once. However, it will have to do something to satisfy voters and that will inevitably put the government on a collision course with the EU. This may not happen immediately but chances are high that matters will come to a head over the next twelve months.

A crisis is both a risk and an opportunity

Markets have so far not panicked, hoping that reason will prevail. We think that is not likely to happen, however, with the global business cycle aging, interest rates rising and cracks appearing in many parts of the world. Yes, the Eurozone is in much better shape than it was in 2010-12, but Italy is also a much bigger problem than Greece ever was. And the problem is also not Italy alone. To really function, the Eurozone would have to become a more federal system, an idea that most members currently find difficult to endorse. So far the ECB has kept the euro afloat and no doubt will again do "all it takes" to prevent a break-up of the common currency. But it has limited resources to help Italy alone. It can stretch its asset purchase program a bit more, but not much, and it certainly cannot expand it just for Italy. Under its Outright Monetary Transactions program, the ECB can buy Italian bonds, but that support would require Italy accepting reforms, which is currently unlikely.

So, an escalation leading to a crisis is a real possibility. Ultimately, we think, the prospect of personal economic and financial hardship will probably persuade the citizens of Italy and the rest of the Eurozone to accept reforms that fix both Italy's structural problems and make the currency union more federal, but only after a crisis has brought all parties to their senses.

Italy's real effective interest rate on government debt and real growth



Source: IMF, QCAM Currency Asset Management

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The macro perspective

Decreasing momentum

A further acceleration in economic growth is still in the cards, although leading indicators now also suggest that growth momentum is slackening. At the same time, inflation is rising a bit faster in the US and Europe. Against the backdrop of increasingly strained political developments, a slight chill is in the air as summer begins.

In recent weeks, signs have increased that the strong momentum of accelerating economic growth has begun to flag. For example, consumer sentiment has stagnated, albeit at a high level, and surveys of purchasing managers in both the industrial and the services sectors have even declined slightly. Overall, however, optimism remains the order of the day, so much so that we can still expect strong economic growth in the current quarter and the next.

Good US data

After all, we have been treated to mostly good economic news from the US in recent weeks. And the marked decline in companies' growth estimates seems to have come to a stop. Order books are growing and capacity utilization in industry has also increased. Likewise, spending by private households has again accelerated. This is certainly due, at least in part, to recent higher fuel prices. Nevertheless, real spending has also increased slightly, which is probably due to the still positive labor market developments. In view of the latest sharp increase in corporate profits, this should put the groundwork in place for an increase in the real growth of the entire economy.

On the inflation front, the recent rises in inflation appear to be permanent. With a consumer price inflation rate of 2.4 percent and a 2-percent increase in the US Federal Reserve's closely followed consumer spending deflator, further interest rate hikes in the US appear to be inevitable.

Uncertainty in the rest of the world

Economic indicators in the other industrialized nations have developed a bit more cautiously. For example, the sentiment indicators in the Eurozone have decreased again, albeit modestly. And in Japan, the leading indicators are now stagnating. The UK and Switzerland were able to make a positive contribution to the growth picture, although growth in both countries is still weaker compared to that of the Eurozone.

Looking at the views expressed in the media, we are a bit amazed that the economic assessments of consumers and businesses are not suffering more from the political developments of recent weeks. So far, neither the emerging trade disputes, nor the recent Italian political drama have had any discernable impact on sentiment or on the real economy.

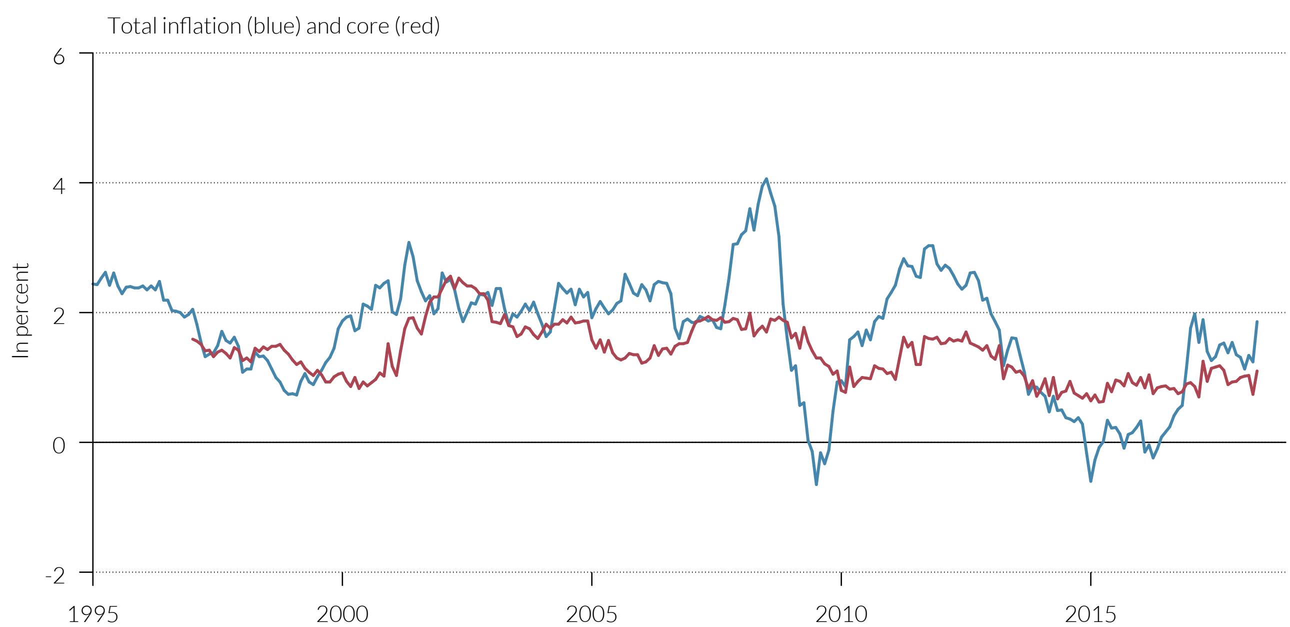
Perhaps it is even positive that the financial markets have been concerned with these issues, because the unusually strong increase in inflation in the Eurozone remained off the radar. The consumer price index rose 1.9 percent year-over-year in May and the core rate climbed sharply to 1.1 percent. The improvement in the labor market is also becoming ever clearer in wages. With an unemployment rate of 8.5 percent, the Eurozone is already 1 percentage point below its historical average since the introduction of the single currency, in 1999. Since then, the Eurozone's monthly unemployment rate has only been lower than it is today 18 percent of the time.

Listless emerging markets

While developments in the industrialized nations are still positive, the economic situation of the emerging economies has deteriorated in recent weeks. India is currently yielding robust data. However, in other major emerging markets, the situation is increasingly precarious. The recent upturns in Brazil and Russia, for example, seem to have faltered again. In Turkey, growth rates are in freefall. And in China, the latest numbers are thought provoking.

According to our estimates, growth resumed in industrial production and construction activity in China. In both areas, however, the growth rates currently amount to just 3 to 4 percent, which are the lowest values reported since these statistics have been tracked. We remain optimistic that the Chinese government can continue to stabilize growth rates at the current level. However, in our opinion, China will not be able to provide any significant positive impetus to the global economy in the coming quarters.

Sharp jump in European inflation goes largely unnoticed



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

Survival of the euro (again)

We had not expected to revisit the question of the survival of the euro so soon after the last crisis. Our conclusion is that as long as the Italian government wants to do "whatever is necessary" to remain in the Eurozone, it will find political support from the other member states.

Democracy means that the people can try something else when they want to. In the case of Italy, the new faces in government have rocked the financial markets by questioning Italy's commitment to the Eurozone.

Perhaps unhappiness with the euro in parts of Italy should not have been such a surprise for anyone tracking the European Commission's regular surveys on attitudes towards the single currency. Support for the single currency project in Italy has fallen from 81 percent in 2000 to 67 percent in 2007 and 59 percent at the end of 2017. This last figure represents the lowest level of support for the single currency in the Eurozone and must be taken note of. The same survey shows support for the single currency at 66 percent in Greece.

Despite their unhappiness with the single currency, in that survey Italians still had a greater degree of trust in the European Central Bank (49 percent) than in Italy's public administration (21 percent) or in Italian political parties (13 percent). Italy's politicians still need to make the case, therefore, that the people should trust them more than the ECB. In Greece, where trust in the Eurozone project was badly dented as a result of a 1930s-style depression, the survey data shows that the Greeks still trust the ECB more than they do their own public administration or their own political parties, and by quite a wide margin.

The Eurozone is likely to be flexible

The majority of Italians are not yet at the point where they want to exchange their euros for the lira. As long as the Italian government wants to stay in the Eurozone, we expect the EU's politicians and its institutions – not least the ECB – to find a way to keep Italy in. The single currency rulebook has always been "updated" in response to each new crisis – we expect the same to happen again.

EUR redenomination risk is always present

Of course, the single currency will face new tests in the future, not least those that may stem from a Eurozone recession that is deep or protracted. The Eurozone will, therefore, always carry the risk that a member state could leave. In contrast, the market does not price California leaving the US dollar area or the Canton of Geneva leaving the Swiss Confederation's single currency – even in a severe recession scenario. Therefore, alternatives to the euro should always benefit whenever existential threats to the Eurozone hit the headlines. If these threats are relatively few and far between, then the key forces acting on the euro should ultimately be the fundamental ones. After each crisis subsides and the Eurozone remains intact, the fundamentals should keep reasserting themselves.

EURCHF shows more haven-related volatility

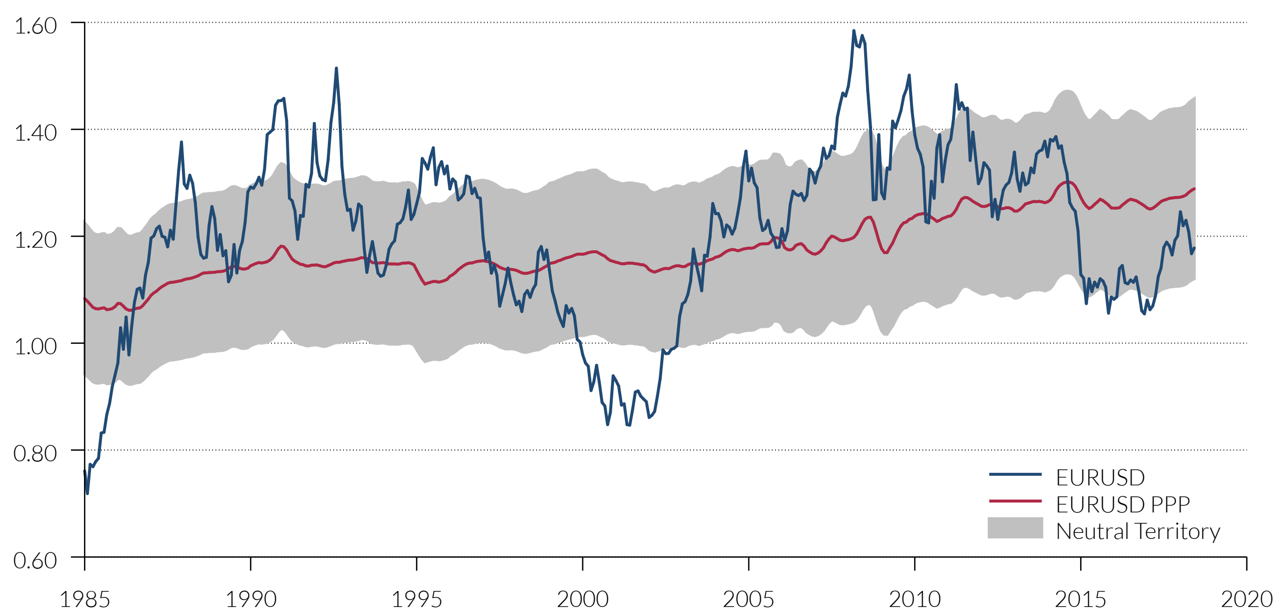
Just as in the case of EURUSD discussed above, the Swiss franc also appreciated against the euro over the past month, as the CHF benefitted from its traditional safe-haven status. We expect uncertainty connected with Italy's political process to continue to be reflected in volatility in EURCHF if the SNB stays on the sidelines. Whenever the fundamentals reassert themselves, however, we would expect the Swiss franc to trend in the direction of its EURCHF purchasing power parity of around 1.22.

EM FX challenged

With the exception of the recent idiosyncratic developments around the Argentinean peso and the Turkish lira, the emerging market currency space is challenged by larger drivers – namely, US monetary and fiscal policy. Even though it has long been communicated that the US Federal Reserve will reduce the size of its balance sheet, the upward move in US interest rates is obviously also raising US dollar borrowing costs for emerging market issuers. What had been less well anticipated by markets, though, is the extent to which the US fiscal deficit would increase under a Trump administration. This new Treasury paper will be in competition with other bonds, including those from the emerging markets. Emerging market countries will therefore have to pay a little more to borrow.

While recent FX weakness in several EM countries has caused their currencies to become cheaper still against the US dollar in terms of purchasing power, creating opportunities for more adventurous investors, we think higher volatility is likely against the backdrop of further Fed tightening.

Concerns about Italy have contributed to a cheaper euro relative to the USD



Source: Thomson Reuters Datastream, Wellershoff & Partners

Economic activity

According to the preliminary estimate of the State Secretariat for Economic Affairs, GDP in Switzerland grew by 0.6 percent in the first quarter of 2018 compared to the previous quarter. The Swiss economy thus remained robust at the beginning of the new year. Looking at the production element of GDP, growth was broadly based, but it was the service sector in particular that proved to be a growth driver. On the expenditure side, overall economic growth in the first quarter was largely driven by capital outlays, making a 0.5 percent contribution to growth. The numbers for foreign trade were surprisingly disappointing, contributing negatively to growth at -0.1 percent for the first time since the beginning of 2017.

Between January and March, the Eurozone recorded its lowest growth for 18 months, 0.4 percent quarter-over-quarter. However, the slower rate of expansion at the beginning of the year is likely due to temporary factors such as the exceptionally cold weather, a particularly strong flu epidemic and strikes in individual Eurozone member states. For the remainder of the year, our early warning indicators certainly signal a continuation of the economic boom in the Eurozone.

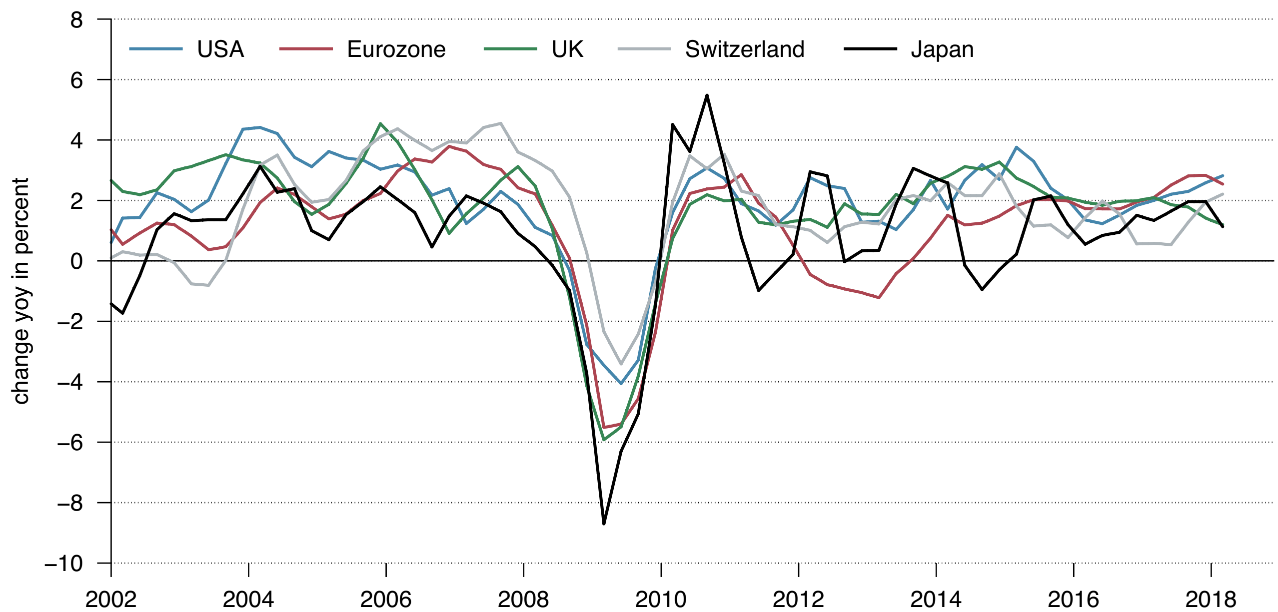
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q2/2017	Q3/2017	Q4/2017	Q1/2018	2/2018	3/2018	4/2018	5/2018
United States	1.7	2.2	2.3	2.6	2.8	4.2	4.0	3.5	3.8
Eurozone	1.0	2.5	2.8	2.8	2.5	3.5	3.2	3.2	3.2
Germany	1.4	2.3	2.7	2.9	2.3	4.0	3.6	3.6	3.6
France	0.7	2.3	2.7	2.8	2.2	2.3	2.3	2.4	2.2
Italy	0.2	1.6	1.7	1.6	1.4	2.0	1.7	1.7	1.5
Spain	1.6	3.1	3.1	3.1	3.0	3.0	2.9	3.1	3.0
United Kingdom	1.8	1.9	1.8	1.4	1.2	2.8	2.3	2.3	2.5
Switzerland	1.5	0.5	1.3	1.9	2.2	2.6	2.7	2.3	2.6
Japan	0.4	1.6	2.0	2.0	1.1	2.8	2.8	2.7	2.8
Canada	1.6	3.8	3.1	3.0	2.3	1.9	1.8	1.6	1.9
Australia	2.4	2.0	2.8	2.4	3.1	3.1	3.3	3.3	3.3
Brazil	1.4	0.8	1.5	2.2	1.6	2.0	2.1	1.5	0.7
Russia	0.1	2.5	2.2	0.9	1.3	0.1	0.5	1.2	-0.3
India	7.7	5.6	6.3	7.0	7.7	6.7	6.5	6.6	6.5
China	7.4	6.9	6.8	6.8	6.8	7.4	7.1	7.1	7.1
Advanced economies[4]	1.4	2.1	2.4	2.4	2.4	4.0	3.8	3.5	3.7
Emerging economies[4]	6.0	5.3	5.6	5.5	5.7	5.6	5.2	5.2	4.9
World economy[4]	3.5	3.8	4.1	4.0	4.1	4.9	4.6	4.4	4.4

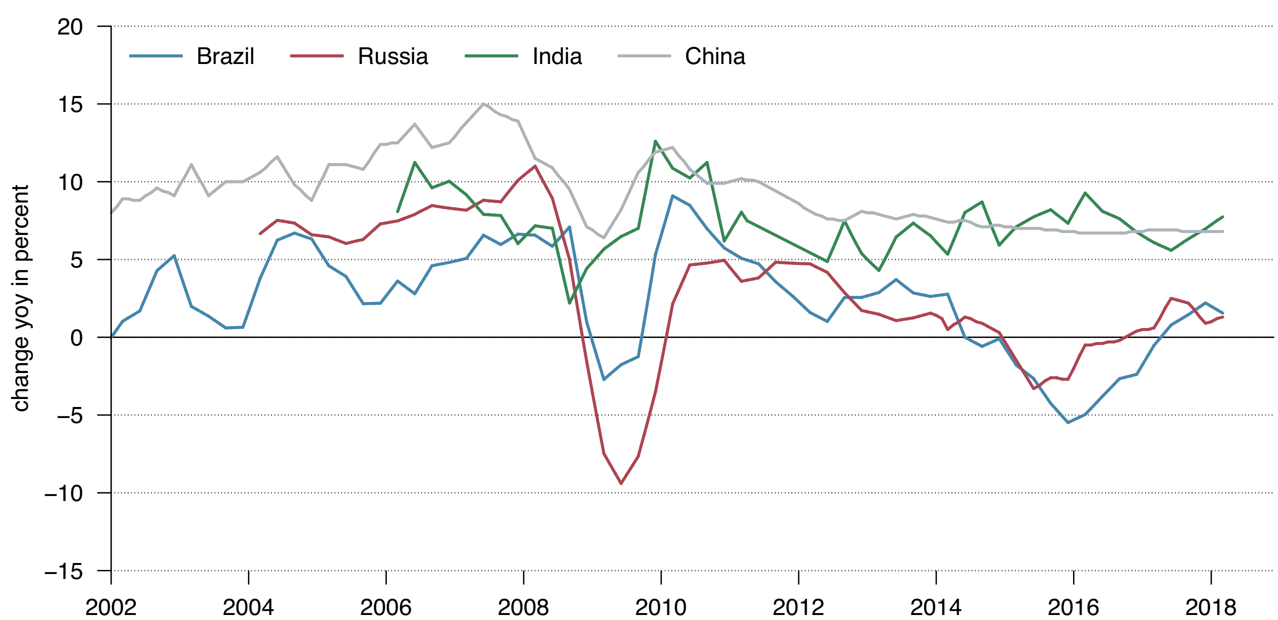
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent.
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6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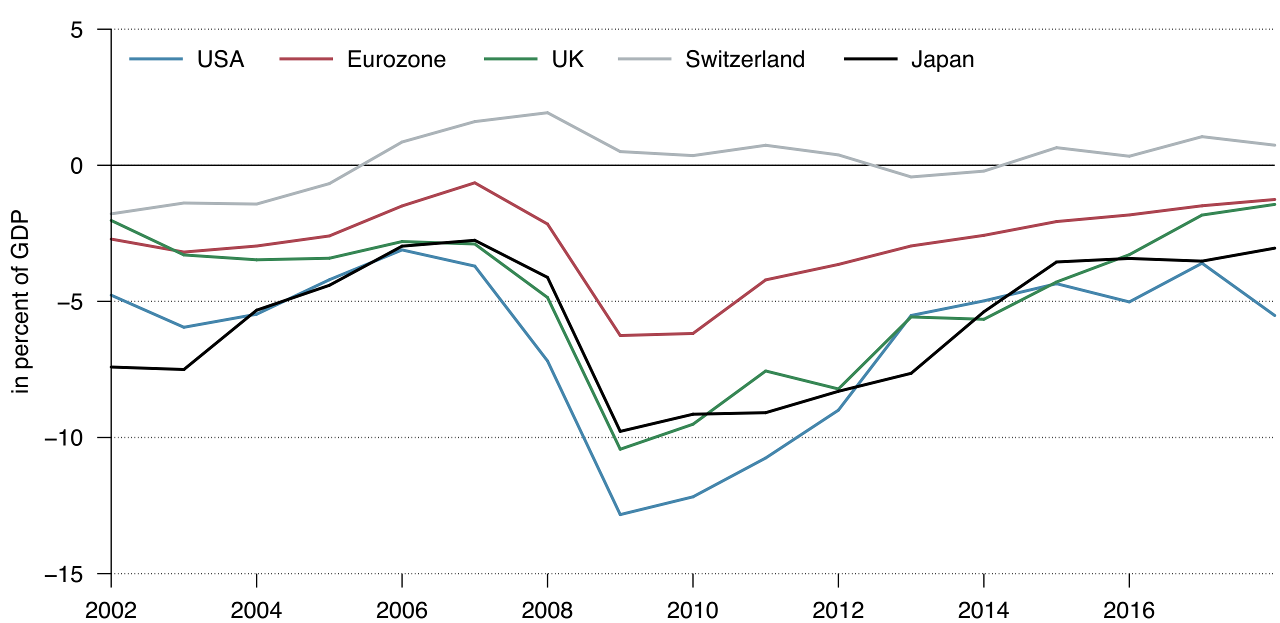
Economic indicators

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	23.4	23.3	-2.3	-2.8	105.5	107.1	-4.7	-5.5	5.6	3.8
Eurozone	16.3	16.4	3.6	4.0	108.9	107.1	-2.2	-1.3	10.7	8.5
Germany	4.7	4.8	8.0	8.3	78.8	68.4	0.7	1.5	6.4	5.2
France	3.4	3.3	-0.6	-0.5	119.2	122.0	-3.5	-2.3	9.7	8.9
Italy	2.6	2.5	1.9	2.2	155.0	153.0	-2.7	-1.8	11.9	11.1
Spain	1.7	1.7	1.5	1.7	114.4	113.5	-5.2	-2.4	21.9	15.9
United Kingdom	3.6	3.4	-5.2	-3.1	113.4	116.8	-4.1	-1.4	5.4	2.5
Switzerland	0.9	0.8	10.0	10.7	42.8	40.8	0.3	0.7	3.2	2.4
Japan	6.3	5.9	2.5	3.7	218.9	225.5	-4.7	-3.0	3.4	2.5
Canada	2.2	2.1	-3.1	-3.2	88.4	86.6	-0.7	-0.8	6.8	5.8
Australia	1.8	1.7	-3.3	-1.9	36.9	41.7	-2.7	-1.7	5.8	5.6
China	14.2	16.1	1.9	1.2	42.0	51.2	-2.4	-4.1	4.0	–
Brazil	2.7	2.4	-2.5	-1.6	71.5	87.3	-7.1	-8.3	9.3	12.9
India	2.8	3.3	-1.3	-2.3	69.0	68.9	-7.0	-6.5	–	–
Russia	2.2	2.0	2.8	4.5	15.5	18.7	-2.1	0.0	5.4	4.9

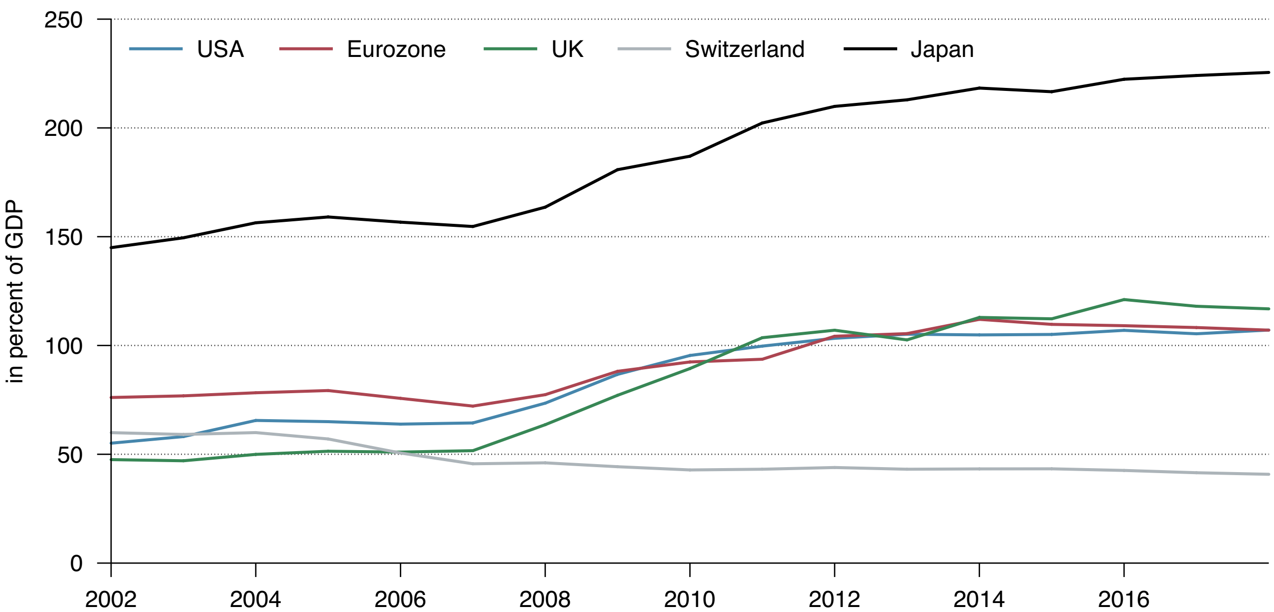
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

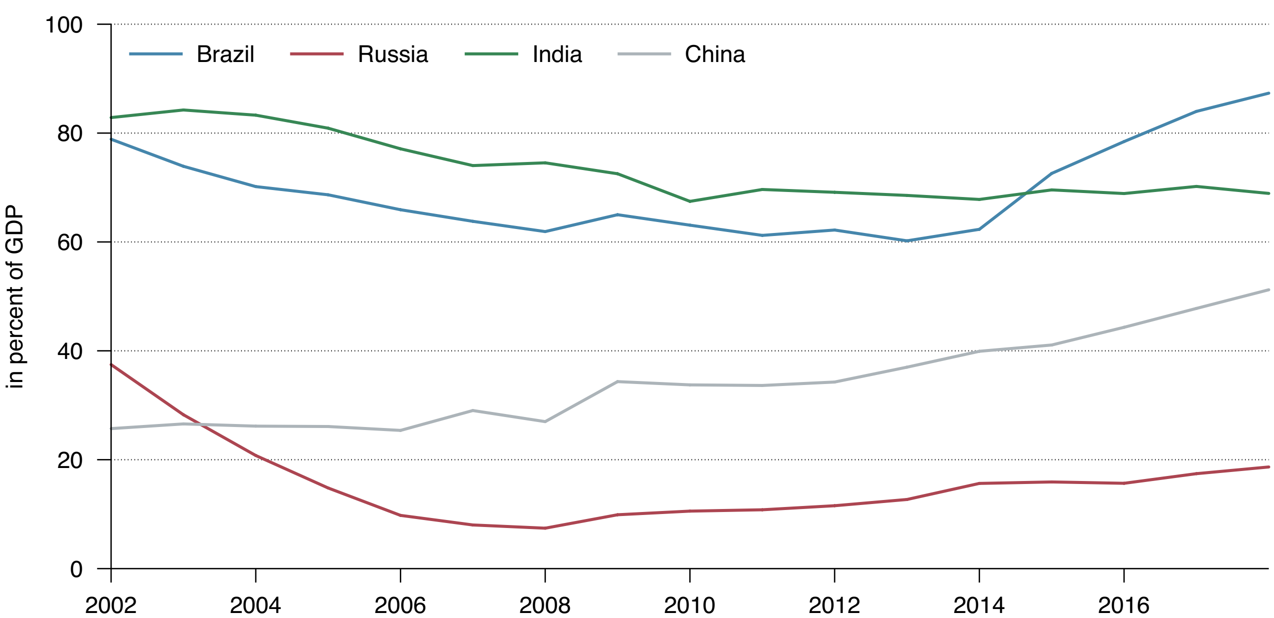


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

In the Eurozone, inflation accelerated with surprising strength in May, according to a first estimate by Eurostat, the European Union's statistics office. At 1.9 percent year-over-year, consumer prices posted their highest growth since April 2017. In addition to the continuing good fundamentals, inflation was probably also boosted by the recent significant surge in energy prices. Increasing by 6.1 percent in May, energy prices rose at more than double the pace of the previous month. The higher prices for energy are also evident at the national level. In France, Spain, Germany and Italy, consumer prices rose noticeably in May.

In the US, inflation momentum, measured against the US Federal Reserve's inflation target for its preferred metric, personal consumption expenditures (PCE), did not accelerate further in April. As it did in March, the PCE also rose by 2 percent in April compared to a year earlier and is thus still within the Fed's targeted range. However, the recent sharp increase in energy prices should ensure that inflation will exceed the Fed's 2-percent target in the coming months.

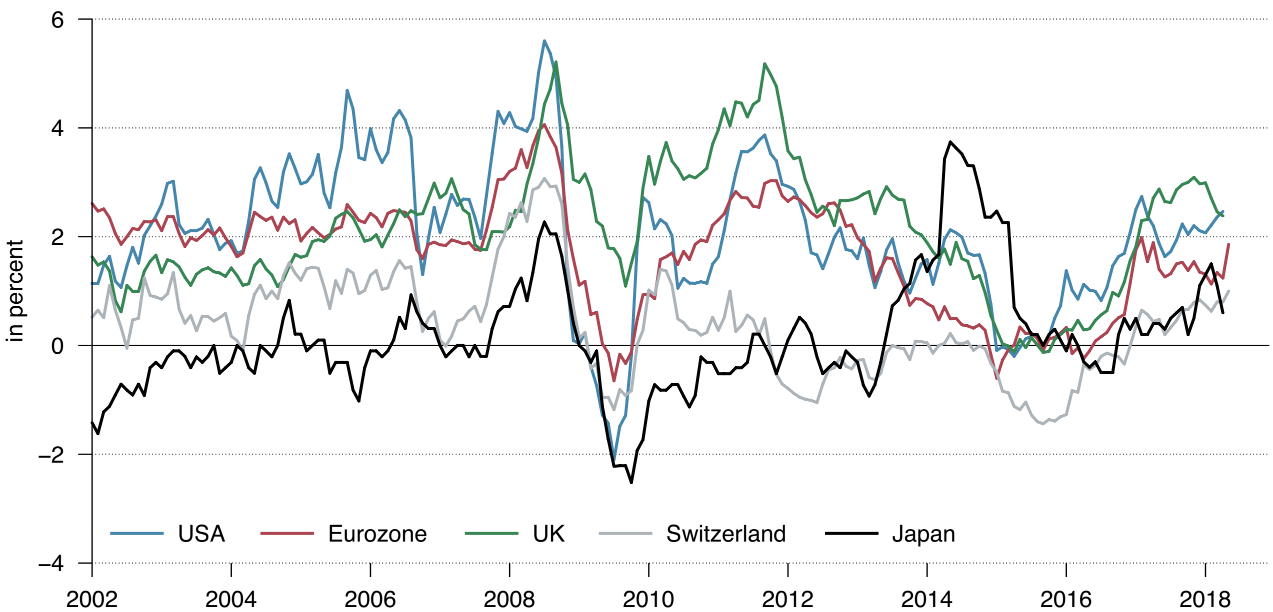
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		2/2018	3/2018	4/2018	5/2018	2/2018	3/2018	4/2018	5/2018
United States	1.6	2.2	2.4	2.5	–	1.8	2.1	2.1	–
Eurozone	1.3	1.1	1.3	1.2	1.9	1.0	1.0	0.7	1.1
Germany	1.3	1.4	1.6	1.6	2.2	1.5	1.7	1.5	1.7
France	1.1	1.2	1.6	1.6	2.0	–	–	–	–
Italy	1.3	0.5	0.8	0.5	1.1	0.6	0.7	0.5	0.8
Spain	1.2	1.1	1.2	1.1	2.1	1.1	1.2	0.8	–
United Kingdom	2.4	2.7	2.5	2.4	–	2.4	2.3	2.1	–
Switzerland	0.0	0.6	0.8	0.8	1.0	0.5	0.6	0.5	0.4
Japan	0.3	1.5	1.1	0.6	–	0.5	0.4	0.3	–
Canada	1.6	2.2	2.3	2.2	–	1.5	1.4	1.5	–
Australia	2.3	1.9	1.9	–	–	2.0	2.0	–	–
Brazil	6.1	2.8	2.7	2.8	–	3.2	2.9	3.0	–
Russia	8.2	2.2	2.3	2.4	2.4	1.9	1.8	1.9	2.0
India	7.6	4.4	4.3	4.6	–	–	–	–	–
China	-0.4	2.1	1.2	0.6	1.5	2.5	2.0	2.0	–
Advanced economies[4]	1.4	1.8	1.9	1.8	2.0	1.5	1.6	1.5	1.6
Emerging economies[4]	3.1	2.7	2.2	1.9	1.9	2.5	2.1	2.1	2.1
World economy[4]	2.2	2.3	2.1	1.9	2.0	1.7	1.6	1.5	1.6

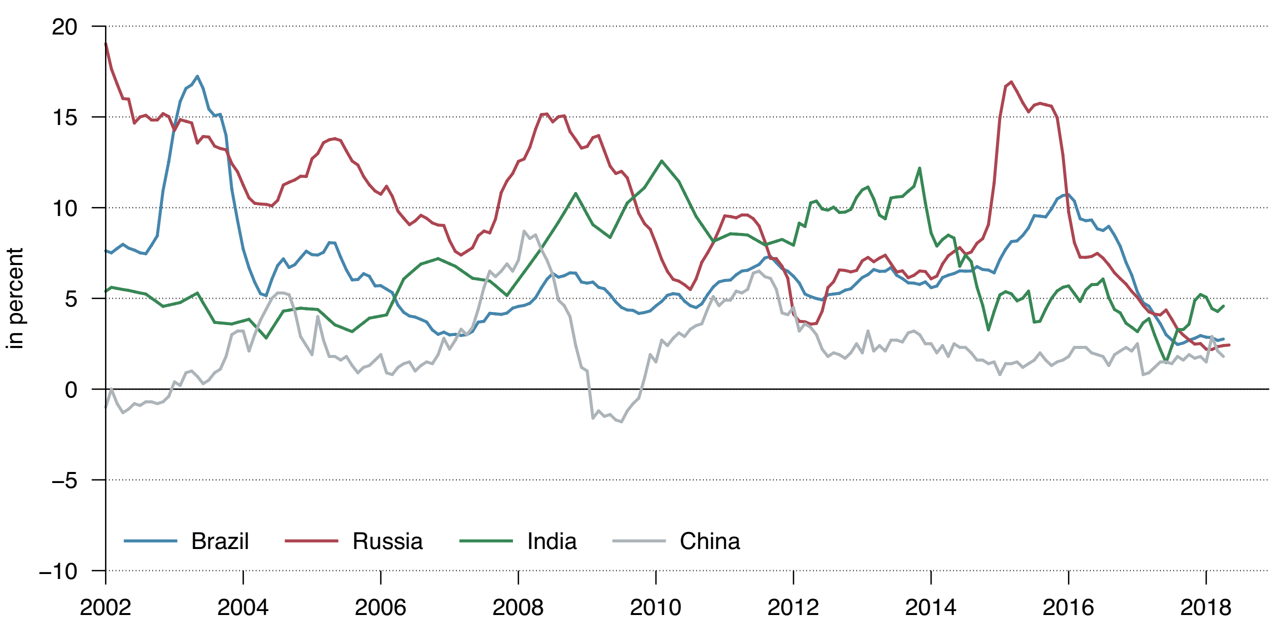
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change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

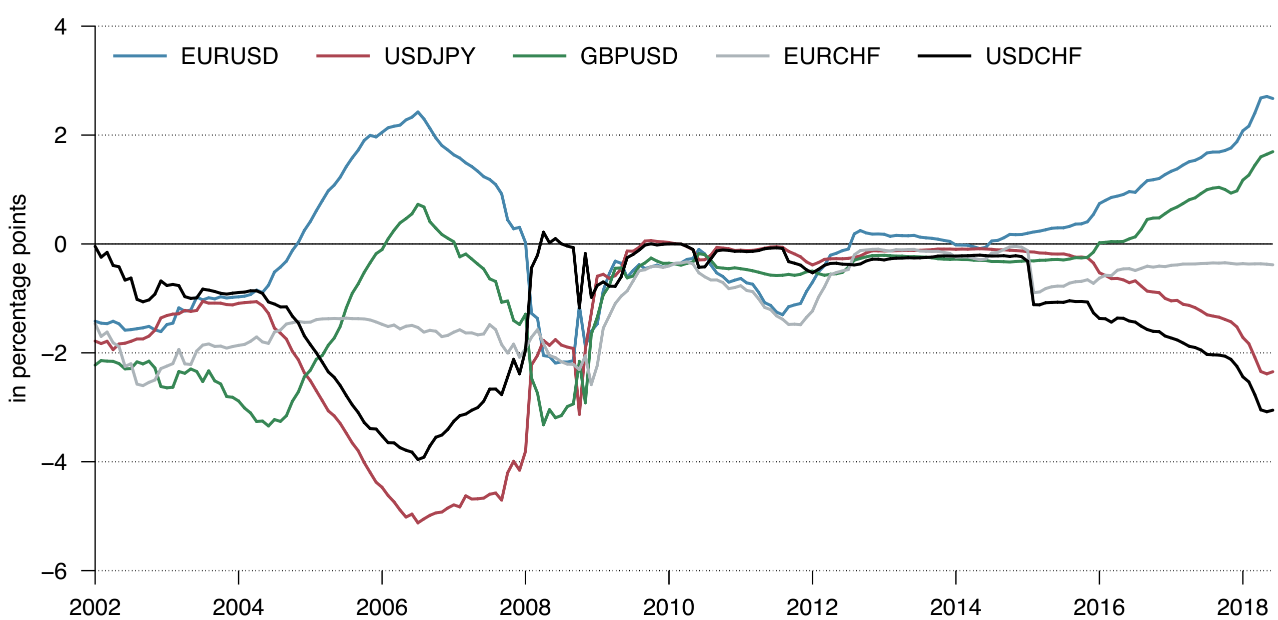
Interest rates

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	1.183	2.66	1.55	0.83	0.13	2.99	1.86	1.10	0.30
USDJPY	110.0	-2.35	-1.24	-0.67	-0.52	-2.63	-1.60	-0.98	-0.79
GBPUSD	1.342	1.69	0.94	0.21	-0.23	1.82	1.11	0.30	-0.19
EURCHF	1.162	-0.40	-0.41	-0.39	-0.62	-0.28	-0.35	-0.41	-0.71
USDCHF	0.982	-3.05	-1.96	-1.22	-0.75	-3.27	-2.22	-1.50	-1.01
GBPCHF	1.318	-1.36	-1.02	-1.01	-0.98	-1.45	-1.11	-1.20	-1.20
CHFJPY	112.0	0.71	0.72	0.56	0.23	0.64	0.62	0.52	0.22
AUDUSD	0.764	0.82	-0.26	-1.23	-2.28	1.20	0.24	-0.72	-1.71
USDCAD	1.297	-0.57	-0.34	0.42	0.48	-0.60	-0.54	0.17	0.25
USDSEK	8.672	-2.76	-1.75	-0.79	0.15	-2.98	-1.97	-0.97	-0.03
USDRUB	62.2	4.08	7.92	9.16	8.29	3.81	7.07	8.56	8.23
USDBRL	3.890	4.88	8.56	11.49	10.34	4.63	7.46	10.02	9.67
USDCNY	6.394	2.03	3.50	3.40	3.08	1.65	2.68	2.96	2.70
USDTRY	4.469	15.56	11.76	10.36	9.69	16.30	11.40	10.24	9.82
USDINR	67.10	7.47	7.47	8.68	7.83	4.47	4.62	6.48	5.93

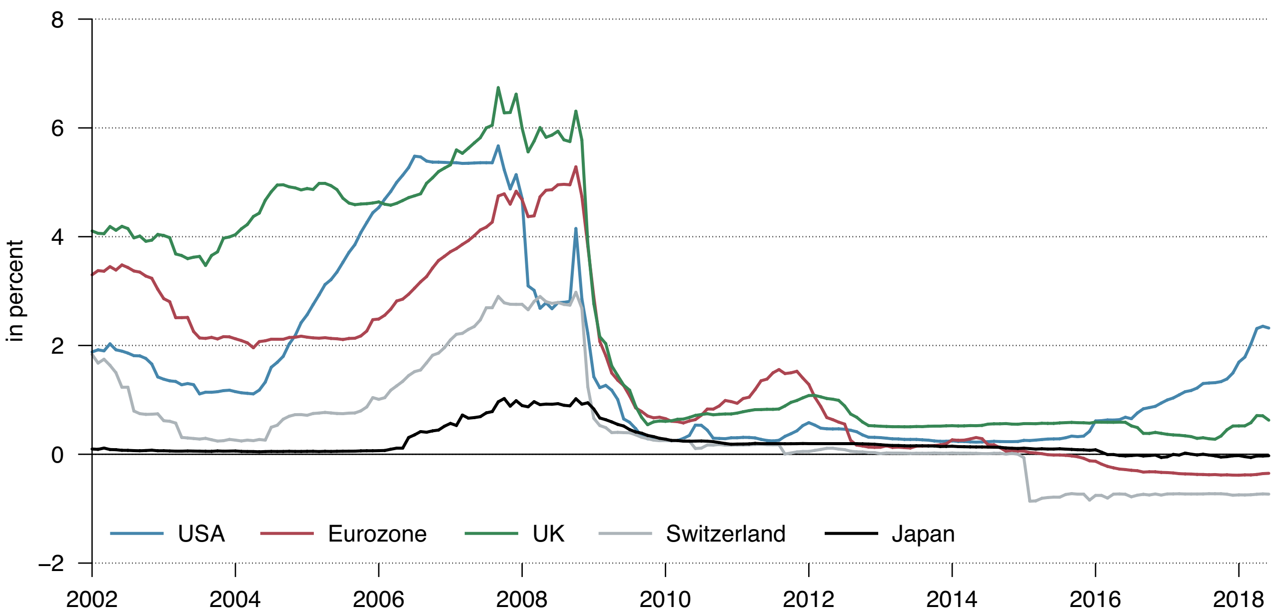
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

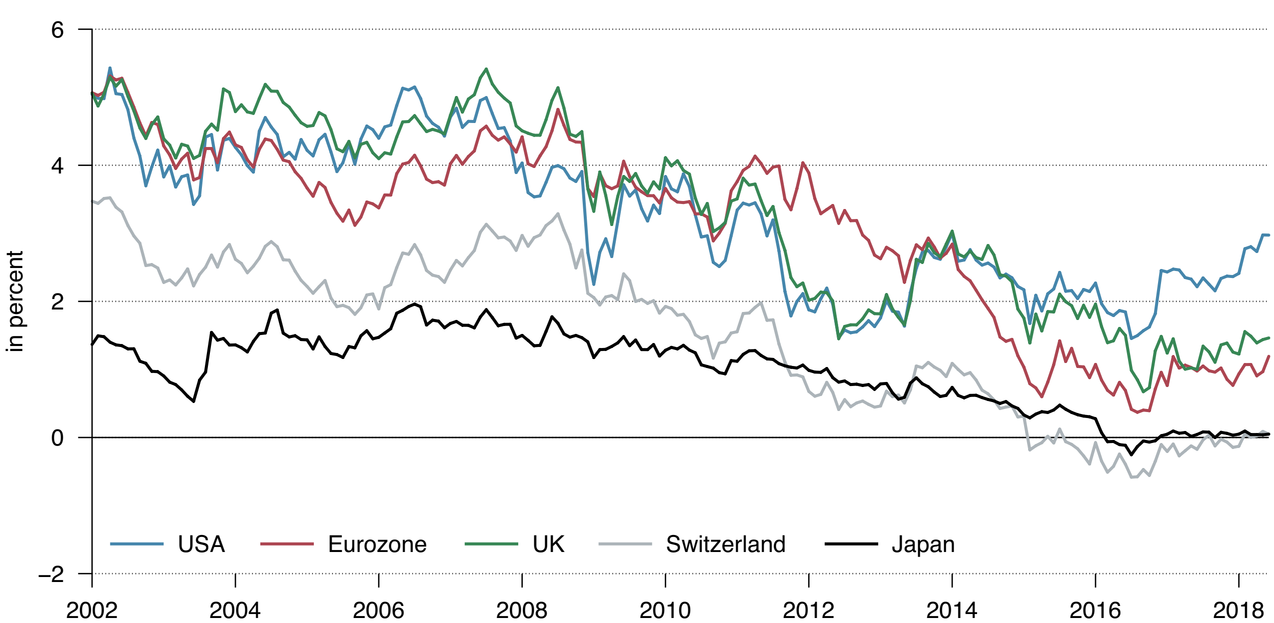


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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FX markets

The political crisis in Italy punished the euro throughout the month of May. In particular after the Five Star Movement and Northern League's initial attempt to form a government was vetoed by the Italian president, the euro went directly into a swoon. In parallel, the common currency temporarily lost almost 4 percent against the US dollar. The euro also came under pressure against the Swiss franc, sliding to 1.14. With EURUSD at around 1.16, the euro has recovered a bit in early June, but April's welcome devaluation of the franc largely vanished. Moreover, the further development of the exchange rate remains particularly uncertain, as the political situation in Italy remains tense.

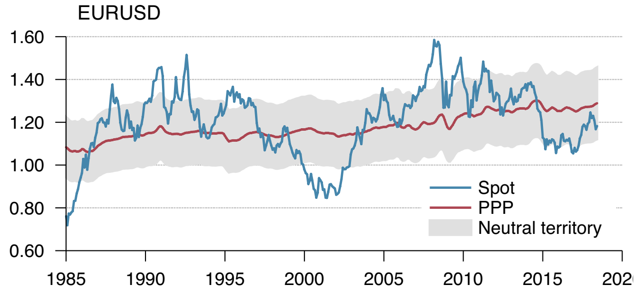
The statements made by the Turkish president last month caused an uproar in the foreign exchange markets. Mr. Erdogan said that he would exert more influence on monetary policy if he emerged victorious from the upcoming June presidential election. As a result, the Turkish lira embarked on a dramatic descent, which could only be arrested by an emergency interest rate hike of 3 percentage points by the Turkish central bank. However, this rate hike will likely prove little more than symbolic if the bank has to take a more aggressive approach to tightening interest rates against the backdrop of the current economic woes.

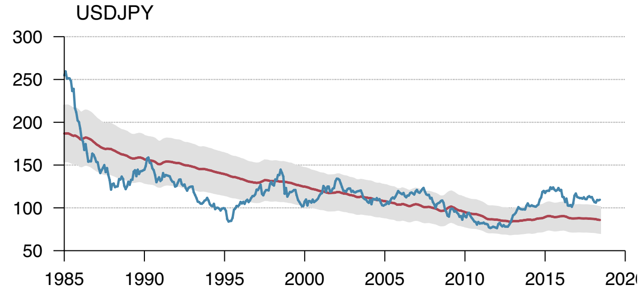
FX overview

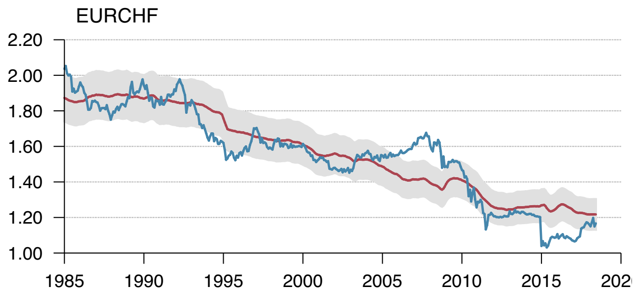
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.183	-1.5	-4.0	5.0	-10.6	1.29	1.12 - 1.46	-8.2
USDJPY	110.0	-2.4	2.8	0.6	13.0	85.8	71 - 100.7	28.2
GBPUSD	1.342	-0.8	-3.2	3.5	-13.6	1.62	1.45 - 1.83	-16.9
EURCHF	1.162	-0.7	-0.8	7.0	-6.0	1.22	1.13 - 1.3	-4.6
USDCHF	0.982	0.8	3.4	1.9	5.1	0.94	0.82 - 1.06	4.0
GBPCHF	1.318	0.0	0.1	5.5	-9.3	1.53	1.32 - 1.73	-13.6
CHFJPY	112.0	-3.1	-0.5	-1.3	7.5	90.9	76.9 - 104.9	23.2
AUDUSD	0.764	-2.3	-2.5	1.1	-19.4	0.73	0.63 - 0.88	4.2
USDCAD	1.297	3.5	1.1	-3.9	27.1	1.20	1.1 - 1.3	7.8
USDSEK	8.672	5.9	5.2	-0.2	31.8	7.30	6.32 - 8.29	18.8
USDRUB	62.2	8.0	9.6	9.2	93.1	42.9	34 - 51.9	44.9
USDBRL	3.890	17.3	19.8	18.9	82.5	2.79	2.25 - 3.33	39.2
USDCNY	6.394	-1.8	0.9	-5.9	4.3	6.42	6.23 - 6.62	-0.5
USDTRY	4.469	17.9	17.2	26.2	138.0	3.20	2.9 - 3.5	39.5
USDINR	67.10	5.1	3.0	4.3	17.6	66.8	62.5 - 71.1	0.5

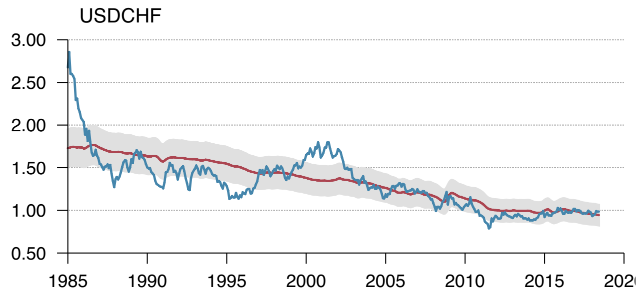
[1] Performance over the respective period of time, in percent.
[2] Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.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

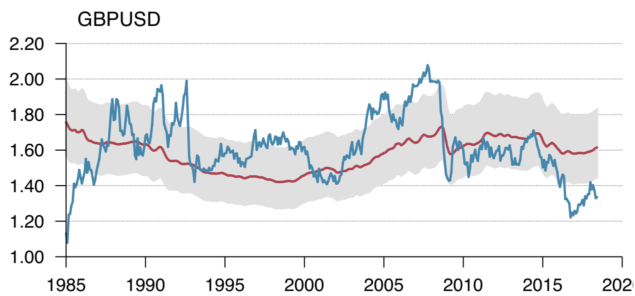
Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

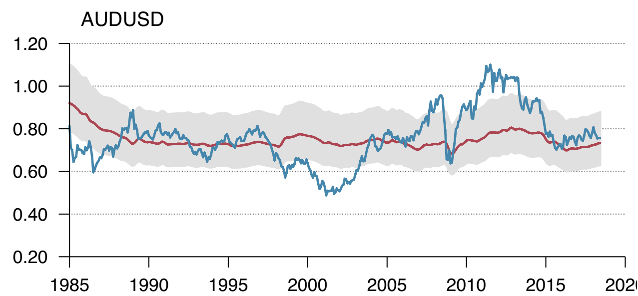


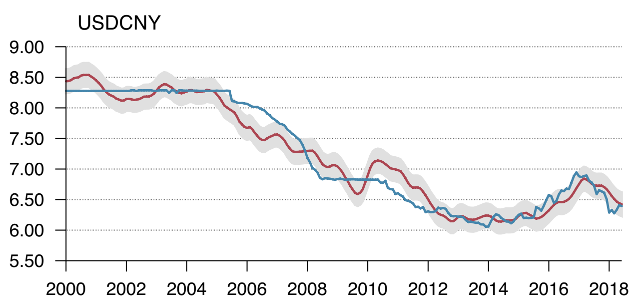


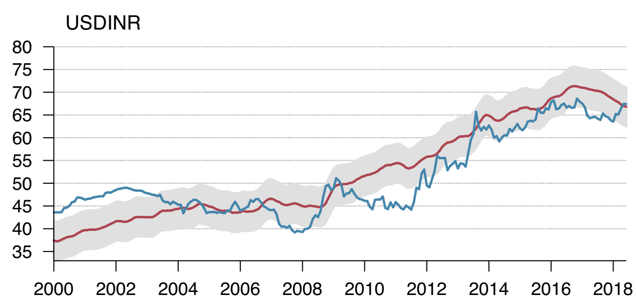


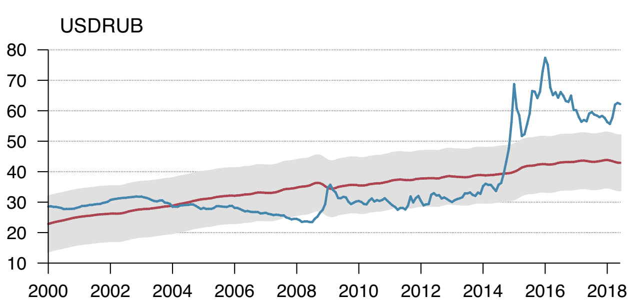


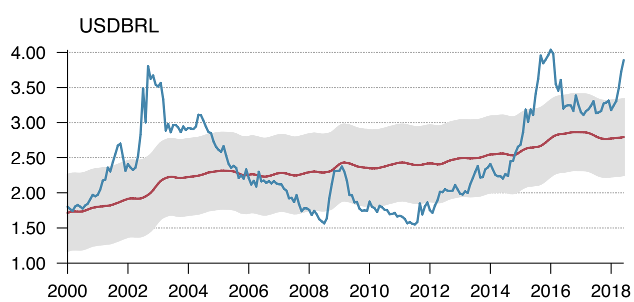












Source: Thomson Reuters Datastream, Wellershoff & Partners

QCAM® Currency Asset Management

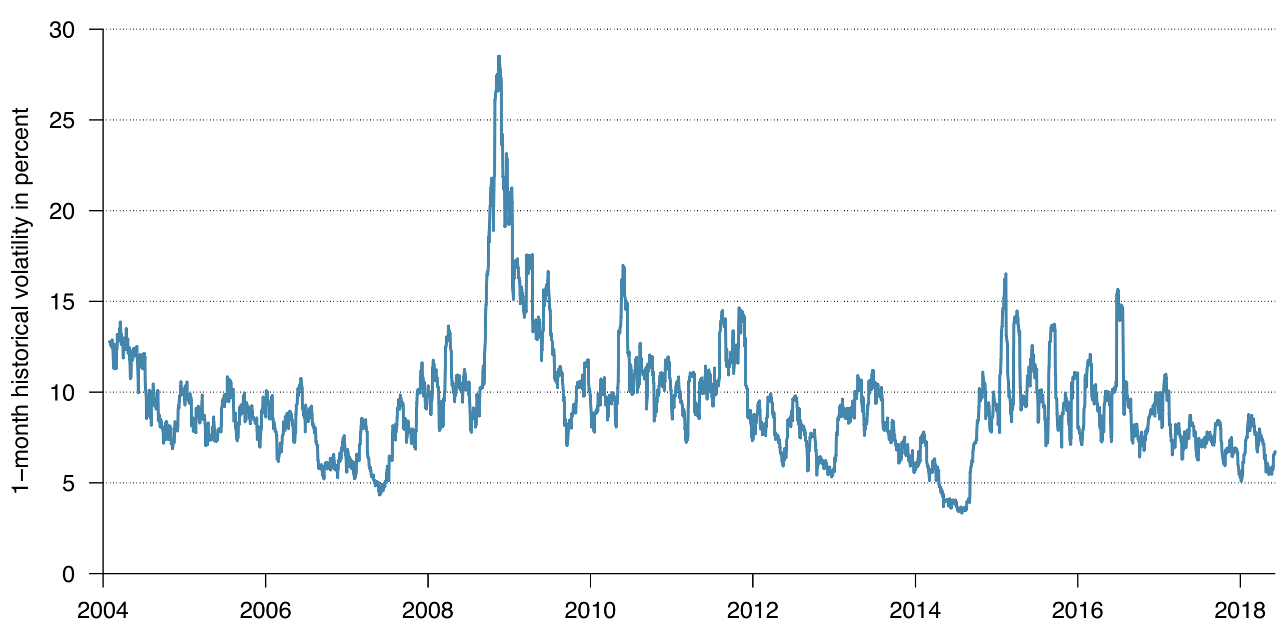
FX volatility

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	1.183	6.9	7.3	8.5	10.5	7.0	7.5	8.7	10.8
USDJPY	110.0	6.6	7.6	9.6	10.8	7.5	8.4	10.0	11.3
GBPUSD	1.342	7.3	7.9	8.5	9.9	7.8	8.2	8.9	10.4
EURCHF	1.162	5.2	5.7	5.8	6.5	5.6	5.8	6.4	7.0
USDCHF	0.982	6.2	6.9	8.7	10.4	7.3	7.4	9.2	10.8
GBPCHF	1.318	7.0	7.3	8.8	10.1	8.0	7.6	9.2	10.6
CHFJPY	112.0	6.5	7.2	9.4	11.5	6.9	7.7	10.2	12.1
AUDUSD	0.764	7.7	8.2	10.0	12.2	8.1	8.8	10.5	12.7
USDCAD	1.297	7.5	7.5	7.9	9.6	7.7	7.5	8.2	10.0
USDSEK	8.672	9.5	9.5	9.8	12.4	9.0	9.7	10.2	12.7
USDRUB	62.2	16.7	13.2	16.4	14.7	11.9	13.6	16.6	15.8
USDBRL	3.890	12.9	17.1	15.2	15.5	10.9	16.3	15.6	16.1
USDCNY	6.394	3.0	4.2	3.8	3.3	3.5	4.6	4.7	4.8
USDTRY	4.469	21.0	19.4	12.7	13.1	13.8	17.1	13.9	14.3
USDINR	67.10	4.6	5.9	7.6	9.4	4.1	6.7	8.8	10.4

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

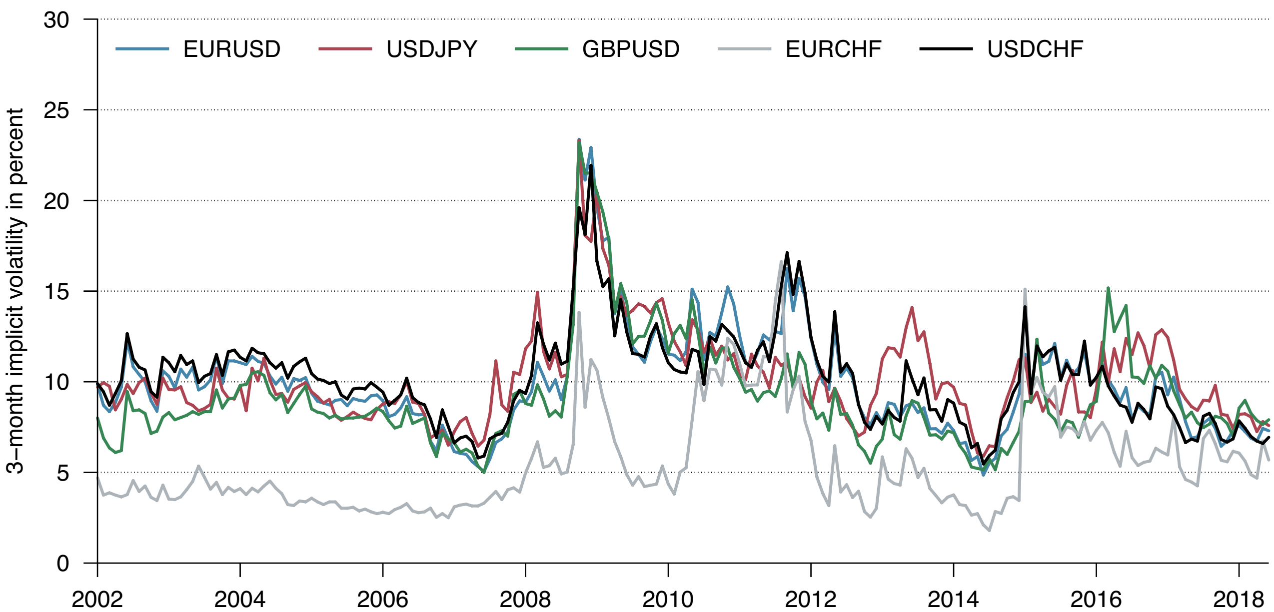
QCAM volatility indicator[3]



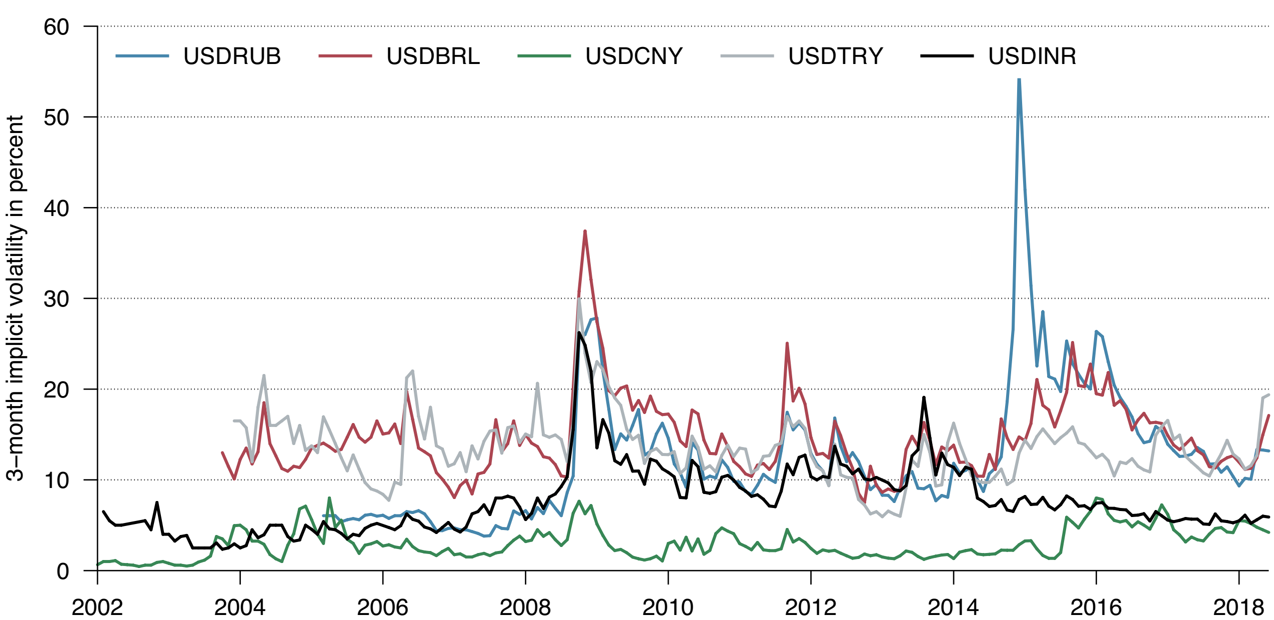
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implicit volatility



Implicit volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

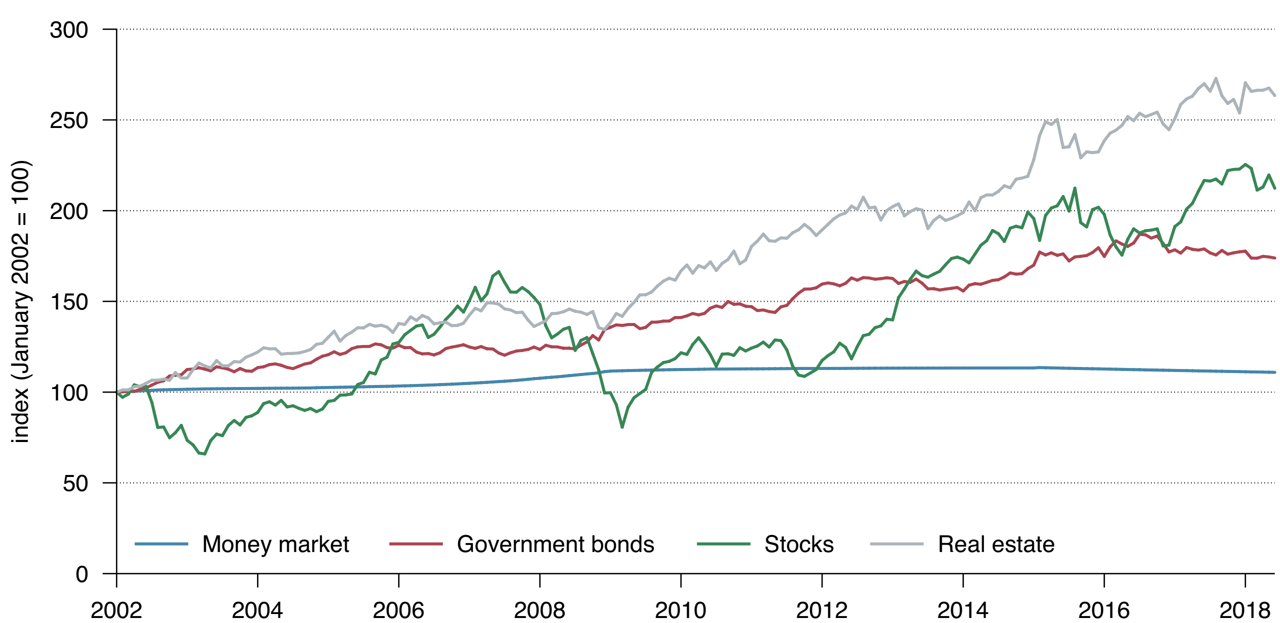
Financial markets

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	-0.3	-0.2	-0.7	-2.1	-0.3	-0.2	-0.7	-2.1
Swiss government bonds	-2.1	0.2	-2.8	9.0	-2.1	0.2	-2.8	9.0
Swiss corporate bonds	-1.3	-0.1	-1.6	9.0	-1.3	-0.1	-1.6	9.0
Swiss equities (SMI)	-5.8	-1.7	-0.4	29.2	-5.8	-1.7	-0.4	29.2
European equities (Stoxx600)	1.6	4.1	2.6	54.2	0.9	3.3	9.8	44.9
UK equities (Ftse100)	2.4	8.0	7.3	45.4	2.4	8.0	13.3	31.9
Japanese equities (Topix)	-0.6	5.3	14.4	87.4	2.7	5.9	15.9	74.3
US equities (S&P 500)	4.5	-0.1	16.1	87.0	3.7	-3.4	13.9	78.0
Emerging markets equities	0.1	-4.2	16.2	33.9	-0.7	-7.3	14.0	27.5
Global equities (MSCI World)	3.0	0.4	13.7	64.8	2.1	-2.9	11.5	56.8
Swiss real estate	-2.6	-1.0	-3.5	30.9	-2.6	-1.0	-3.5	30.9
Global real estate	-0.2	5.4	4.1	33.1	-1.0	2.0	2.1	26.7
Commodities	2.1	2.4	9.9	-31.4	1.3	-1.0	7.8	-34.7
Brent oil	15.6	17.7	58.9	-26.2	14.7	13.8	55.9	-29.7
Gold	-0.4	-1.8	0.3	-6.1	-1.2	-5.0	-1.6	-10.6

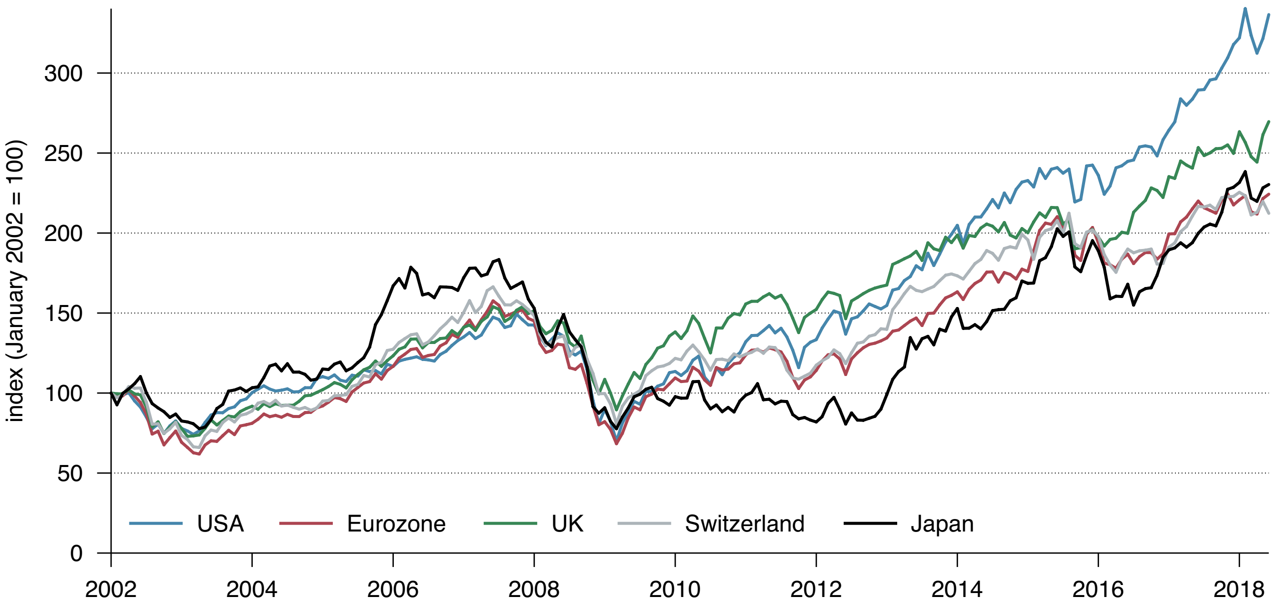
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

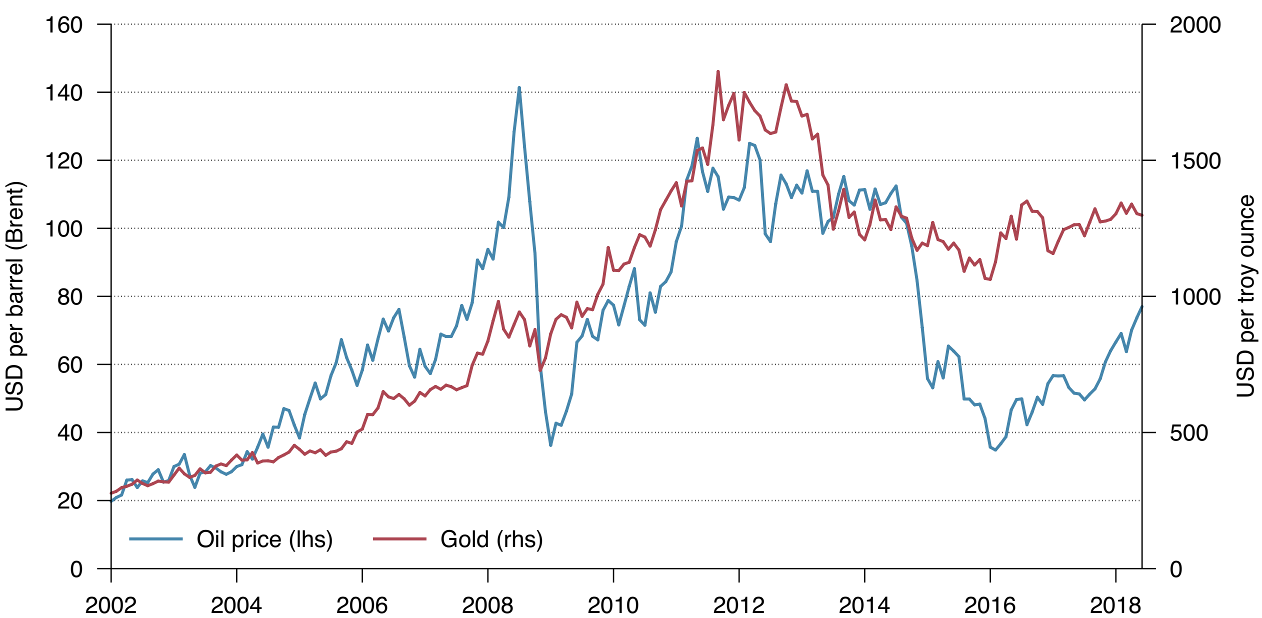


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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

80 USD

In May this year, for the first time since 2014, a barrel of Brent crude oil cost more than USD 80. This is an increase of more than 50 percent since May 2017. In recent months, the price of oil has risen steadily. The jump over the 80-dollar mark came after President Trump announced the US withdrawal from the nuclear deal with Iran, renewing sanctions on Iranian oil.