JULY 2018

FX MONTHLY

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

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QCAM Insight

Our review and outlook

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QCAM Currency Asset Management AG

Financial markets started 2018 with high expectations but soon were grounded by a different reality. What changed and what lies ahead for the second half? In our judgment, the divergences and tensions that marked the first half of the year will persist, continuing to influence currency markets and support the USD.

Encouraged by the prospect of strong and synchronized global growth, financial markets, most notably equities, surged at the start of the year. But the rally only lasted a few weeks. Today, most equity markets are flat year-to-date, with some emerging markets down sharply. Bond markets initially sold off as equities rallied, but they then stabilized and even recouped some earlier losses. The only asset class that performed well was commodities, thanks to oil. Gold disappointed, behaving more like a stock than a safe-haven asset. Less relevant but no less spectacular was the deflation of the bitcoin bubble. In currency markets, the USD ended its yearlong slide and gained ground against most currencies, most notably the EUR and emerging markets currencies. A common theme across all financial markets was the return of volatility, as evidenced in the rise of the VIX.

Divergence and tensions

In our view, the disappointing market performance had five partly related causes.

First was the fear that the US Federal Reserve (Fed) would have to tighten more, which, combined with larger US fiscal financing needs, resulted in a USD funding squeeze. Second came the realization that global growth was not strengthening as expected but instead was diverging, with the biggest negative growth surprise coming from the Eurozone, while the US economy fared markedly better. Political and balance-of-payments tensions soured the mix even more for some emerging markets, notably Argentina, Brazil and Turkey. More pressure was delivered by Donald Trump's trade crusade and the US exit from the Iran nuclear deal. The final negative news came from Europe, where the new Italian government is on collision course with the EU and disagreements over immigration policy as well as Euro-area reforms spoiled the newfound optimism that followed the French elections last year.

What lies ahead?

At the risk of oversimplifying, the outlook for the second half of the year can be divided into two scenarios. The optimistic view is that the negative news is largely priced in and fundamentals remain solid, with the US reviving the global growth momentum. The cautious view is that fundamentals are more likely to deteriorate than to improve and that the sources of volatility remain in place. We are not expecting recession or a financial crisis but we do believe that the probability of the second scenario is greater. We would point to three risk areas that are worth keeping an eye on:

Donald Trump is unlikely to calm down in the run-up to the US mid-term election. In fact, his rising approval ratings will probably encourage him to be even more aggressive in pursuit of his America First agenda. That means more trade tensions with China and Europe and more pressure on Iran and its trading partners. Emerging market tensions spread to China. To be sure, China is unlikely to be derailed. However, the looming trade conflicts, Fed rate hikes and a slowing domestic economy are hurting Chinese equities and the RMB. This could lead to broader China worries, similar to 2015. Finally, Europe could well deliver more negative surprises. In particular, the new Italian government is just getting started and unlikely to shelve its spending and tax cut promises.

The USD is not supreme but currently less handicapped

While the USD has its own burdens—notably the twin deficits—our outlook that global growth imbalances and risk issues will not disappear remains supportive for the greenback in the second half of the year. The USD's upside potential is biggest where the risks are also the largest, notably versus the EUR, the GBP and emerging market currencies. The JPY has underperformed in recent months due to weak economic data, but those effects are likely to fade, while the JPY has upside potential if global risk aversion were to rise again. A similar logic applies to the CHF, especially if tensions in the Eurozone resurface.

China's equity market and currency performance

Source: Bloomberg, QCAM Currency Asset Management

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The macro perspective

Summer sunshine warms the real economy

The moods of companies and consumers continue to suggest that growth rates in the industrialized nations will remain above average. Coupled with this, we note the forecasted slow increase in inflation. Together, this continues to narrow the scope for expansionary monetary policies.

The sun is smiling benignly on the economies of the industrial nations. We can once again bask in the glow of another month of good leading indicators. The US and the Eurozone remain on track for growth, and labour markets are creating ample employment.

The mood of American companies has been particularly striking. After three months of slightly weaker values in the US, the past two months have seen confirmation of an upward trend again. The optimistic expectations for the future, however, are also paired with the expectation of significantly rising input and output prices.

US inflation is becoming an issue

This is a development that cannot leave the US Federal Reserve completely unruffled, because in recent months, consumer prices have already risen significantly. Higher prices are not only evident in the traditional basket of US household goods, which are now rising at an annual rate of nearly 3 percent, but are also apparent in the wider deflator of household spending, which has recently risen to 2.3 percent.

The Fed has focused on the latter over the past few years and has tied the achievement of its inflation target to this indicator. Now, the price growth rates have surpassed their goal, which would not be problematic, if it were only a temporary development. However, the trend in these statistics has clearly been upward in recent months.

This raises the question of how long the Fed will continue to operate with negative real money market rates, given good growth prospects and overshooting inflation. Historically, real interest rates of about 3 percent would be normal toward the end of an economic cycle. Currently, these are still below zero in the US. This illustrates why it is likely that US money market rates will continue to rise significantly.

Eurozone growth remains strong

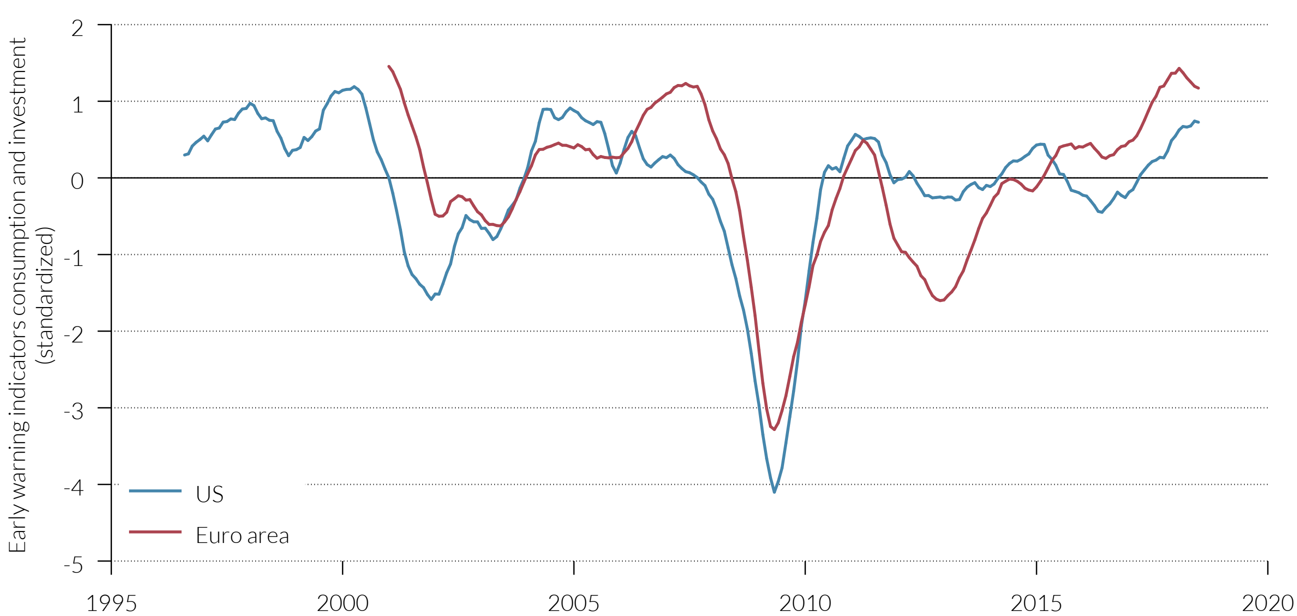
In the Eurozone, too, the sentiment surveys of companies and consumers remain well above average. However, when looking at the graph, the combined early warning indicators for investment and consumption in the Eurozone show that they have weakened in recent months, albeit from very high levels. The scale of the representation indicates how many standard deviations higher or lower we can expect growth to be compared to trend growth. At more than one standard deviation above trend, and despite weakening indicators, the Eurozone's growth outlook remains strong, at levels last seen prior to the financial crisis.

On the European inflation front, the recent data shows emphatically that the move by the European Central Bank (ECB) to announce the end of its bond buying programs was not made too early. Over the past month, headline consumer inflation was at 2.0 percent, where-by the real money market interest rate of over -2.0 percent for our European neighbours remains at extremely low levels.

Switzerland's economic picture is not quite as positive. Here, too, the indicators point to good growth but any real acceleration seems rather unlikely in view of anaemic external activity due to weak pharmaceutical exports and the ongoing and already very high levels of construction activity. At the same time, inflation is also on the rise in Switzerland. In the meantime, we have arrived at 1.0 percent consumer price inflation, as we had previously envisaged. Real interest rates in Switzerland are thus at historical lows, an unusual development, we find, given the country's full employment, solid job growth and overheating real estate markets.

Meanwhile, political resistance to the policies of the Swiss National Bank (SNB) is growing more concrete. In a comment that can only be described as historic, Finance Minister Ueli Maurer of the Swiss People's Party described the size of the balance sheet as being at "the limit of the bearable" and announced an effort to influence balance sheet policies through politics, while meeting the Austrian minister of Finance, Hartwig Löger.

Consumption and investment climate cools slightly



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

Positioning for trade wars

As the drumbeat of trade wars grows louder, markets are trying to identify the currencies that might emerge as winners or losers. Ultimately, FX trends reflect fundamentals, and that includes the overall demand for, and supply of, goods, services and assets denominated in a particular currency. This FX story is bigger than just trade numbers.

One argument cited for the US economy weathering a trade war better than other large economies is that trade represents a smaller percentage of GDP in the US than it does in the Eurozone or China. By calculating the total value of their respective imports and exports of good and services as a percentage of GDP, the chart on the next page ranks the selected economies by vulnerability to trade disruptions .

The US dollar in a trade war

We see from the chart that the US economy is indeed more insulated on this score relative to most of its trading partners. Total trade in goods and services amounted to around 27 percent of GDP for the US, compared to 38 percent for China and 87 percent for the Eurozone. But ultimately, from a country perspective, net flows matter since deficits need to be financed externally. And here the US economy exhibits an overall net deficit in goods and services of around 3 percent of GDP, whereas China and the Eurozone have surpluses of 2 percent and 4 percent, respectively. In dollar terms, this means that the US economy needs to find financing from the rest of the world for more than half a trillion dollars per year, net, because America consistently imports more than it exports. Textbook economics teaches that economies that run large trade deficits for years on end will tend to have depreciating currencies relative to economies that enjoy years of trade surpluses.

One ironic consequence of the Trump administration's recent tax cuts is that they will further stimulate imports and thereby enlarge the US trade deficit. It is also worth bearing in mind that the US dollar currently finds itself in a position of strength. The purchasing power parity of EURUSD is around 1.30. Part of this strength probably reflects the fact that the US economy recovered from the financial crisis before the Eurozone managed to find its way forward. The current business cycle in the US is older than the one in the Eurozone, which has led the Federal Reserve to hike US interest rates well before the European Central Bank was prepared to take such steps in the Eurozone. The Eurozone has also not helped confidence in its currency by maintaining negative interest rates—even on benchmark EUR sovereign bonds—and uncertainty surrounding a long list of well-known euro fault lines, including Italy's competitiveness within a single-currency straightjacket.

Thus, the US dollar may temporally benefit relative to the euro during periods of risk-aversion, especially if the main worries of the day centre on the Eurozone. But it does not follow that an economy that runs a chronic trade deficit, like the US does, should see its currency strengthen over time.

New FX flow charts

One consequence of the Trump administration's bullying approach, threatening everyone with painful tariffs, is that the US will likely be bypassed in supply chains where easy and competitive alternatives exist. This will result in FX flows following new and different routes, creating new winners and new losers. For example, China has started looking to Brazil to replace imports of US soybeans, which is good for CNYBRL. German car manufacturers need to think if it makes sense to produce cars for the Chinese market in South Carolina, which is potentially good for CNYEUR, for example. The US tariffs are simply going to accelerate a trend that has already been underway for some time, namely, more trading among emerging market countries in their own currencies.

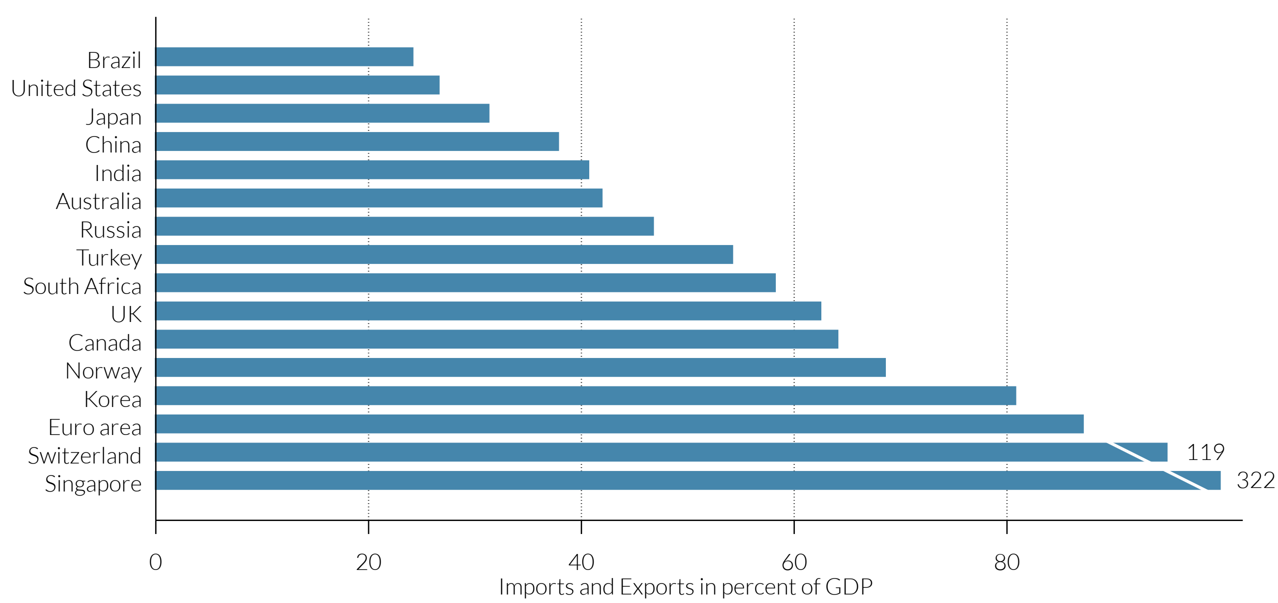
According to the Bank for International Settlements, in 2004 the daily average FX trading volume in the Chinese renminbi (CNY) was the equivalent of USD 2 billion. By 2016, that had increased a hundredfold to USD 202 billion. In the same time frame, trade volume in the Brazilian real rose from USD 5 billion to USD 51 billion. Trade volume in the Russian rouble almost quintupled, from USD 12 billion to USD 58 billion, while Indian rupee saw a near tenfold increase in trade volume, from USD 6 billion to USD 58 billion.

CNY as a shock absorber

The Chinese renminbi weakened in the first half of this year, sliding from around 6.26 to the USD to around 6.7, a depreciation of some 6.5 percent. This was a reminder that a flexible exchange rate can act as a shock absorber for exporters facing lower demand. While in the past the Chinese monetary authorities had closely tracked the purchasing power parity of USDCNY, they have lately sent the signal that they can use the CNY to mitigate some of the impact of the Trump tariffs.

If the renminbi were to depreciate by too much, China would risk being labelled a "currency manipulator" as defined in US law, which could result in further US sanctions against China. It is worth recalling, though, that during his election campaign Trump said that he would label China a currency manipulator from Day One. In a way, his is now acting as if he has already made that decision. Thus, the Chinese authorities might now have reason to fear further threats a bit less.

Countries ranked by exports and imports of goods and services in percent of GDP



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Economic activity

After the strong growth momentum of the past year, the pace of economic growth in the industrialized nations slowed somewhat at the beginning of the year. The growth dip in the first quarter of 2018 may have only been temporary. In any case, leading indicators are still signalling strong growth rates for the third quarter.

In the US and the Eurozone, the decline in economic sentiment since the beginning of the year lately seems to have come to a halt. Thus, the signs are good that, after a disappointing first quarter, growth in both economic areas is accelerating again. In the UK, too, the economy looks likely to regain growth momentum in the coming months. Nonetheless, a very large question mark looms over the fate of investments in the UK as the countdown to Brexit proceeds. It remains to be seen in the coming months whether the decline in business investment in the first quarter was merely a hiccup or the start of a downward trend. We note that temporary factors that suppressed growth between January and March are likely to fade over the summer, allowing growth to re-accelerate in the months ahead.

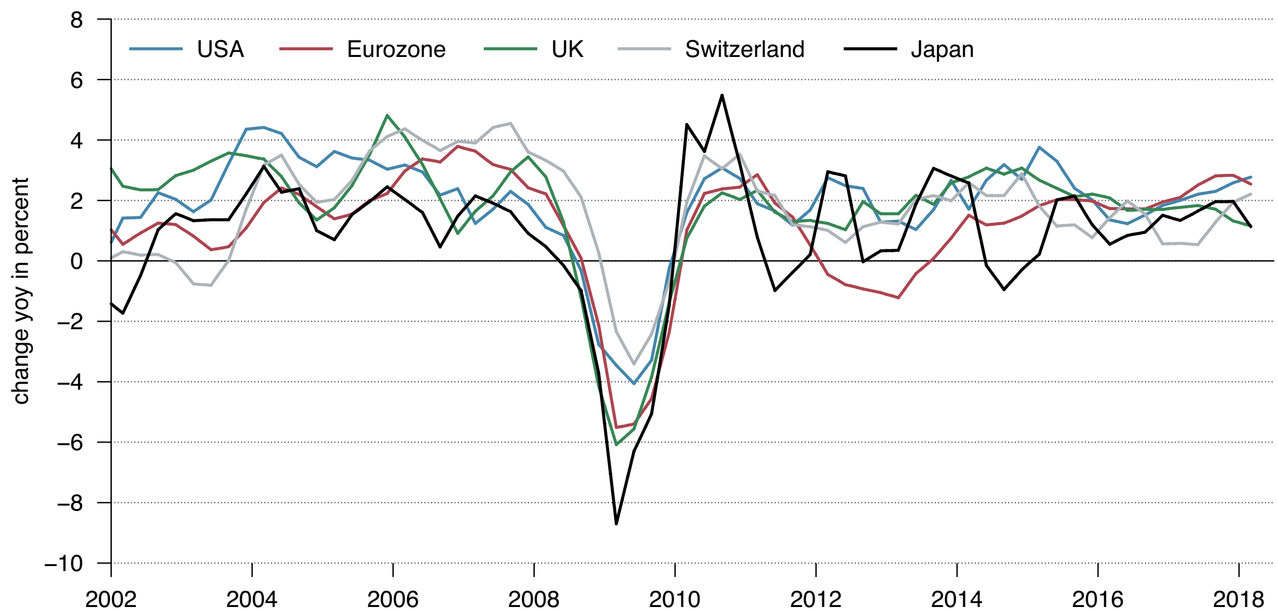
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q3/2017	Q4/2017	Q1/2018	Q2/2018	3/2018	4/2018	5/2018	6/2018
United States	1.7	2.3	2.6	2.8	–	4.0	3.5	3.8	4.0
Eurozone	1.0	2.8	2.8	2.5	–	3.2	3.2	3.2	3.2
Germany	1.4	2.7	2.9	2.3	–	3.6	3.6	3.6	3.5
France	0.7	2.8	2.8	2.2	–	2.3	2.4	2.2	2.3
Italy	0.2	1.7	1.6	1.4	–	1.7	1.7	1.5	1.7
Spain	1.6	3.1	3.1	3.0	–	2.9	3.1	3.0	3.0
United Kingdom	1.8	1.7	1.3	1.2	–	2.3	2.3	2.5	2.5
Switzerland	1.5	1.3	1.9	2.2	–	2.7	2.3	2.6	2.5
Japan	0.4	2.0	2.0	1.1	–	2.8	2.8	2.8	2.8
Canada	1.6	3.1	3.0	2.3	–	1.8	1.6	1.9	1.7
Australia	2.4	2.8	2.4	3.1	–	3.3	3.3	3.3	3.3
Brazil	1.4	1.5	2.2	1.6	–	2.1	1.5	0.7	0.2
Russia	0.1	2.2	0.9	1.3	–	0.5	1.2	-0.3	-0.6
India	7.7	6.3	7.0	7.7	–	6.5	6.6	6.5	6.7
China	7.4	6.8	6.8	6.8	–	7.1	7.1	7.1	7.0
Advanced economies[4]	1.4	2.4	2.4	2.3	–	3.7	3.5	3.7	3.8
Emerging economies[4]	6.0	5.6	5.5	5.7	–	5.2	5.2	5.0	5.2
World economy[4]	3.5	4.1	4.0	4.1	–	4.6	4.4	4.4	4.6

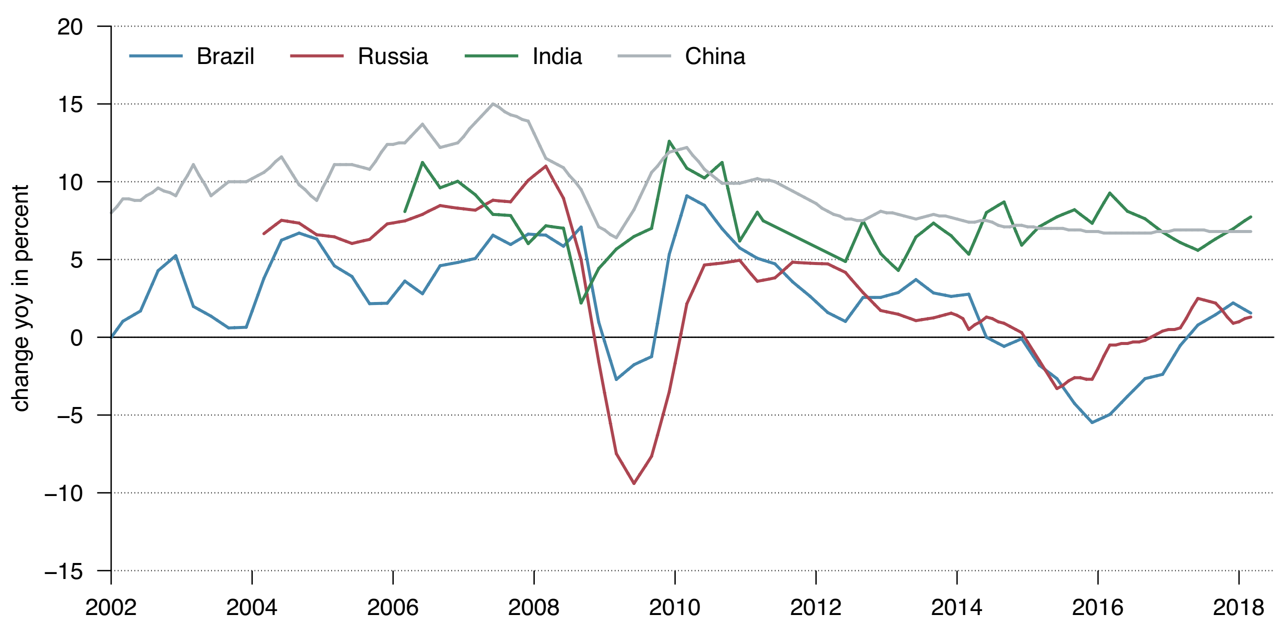
1 Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
2 Year-on-year growth rate, in percent.
3 Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6 months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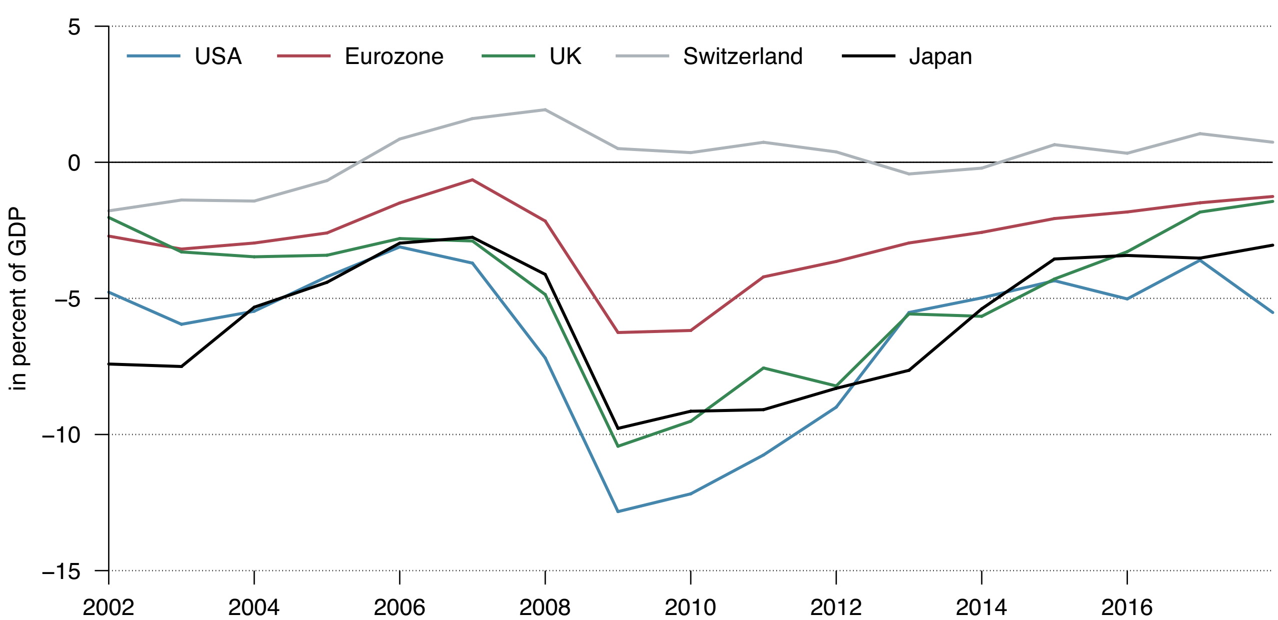
Economic indicators

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	4.0
Eurozone	16.3	16.4	3.6	4.0	108.9	107.1	-2.2	-1.3	10.7	8.4
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	11.0
Spain	1.7	1.7	1.5	1.7	114.4	113.5	-5.2	-2.4	21.9	15.8
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	2.2
Canada	2.2	2.1	-3.1	-3.2	88.4	86.6	-0.7	-0.8	6.8	6.0
Australia	1.8	1.7	-3.3	-1.9	36.9	41.7	-2.7	-1.7	5.8	5.4
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	12.7
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	4.7

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

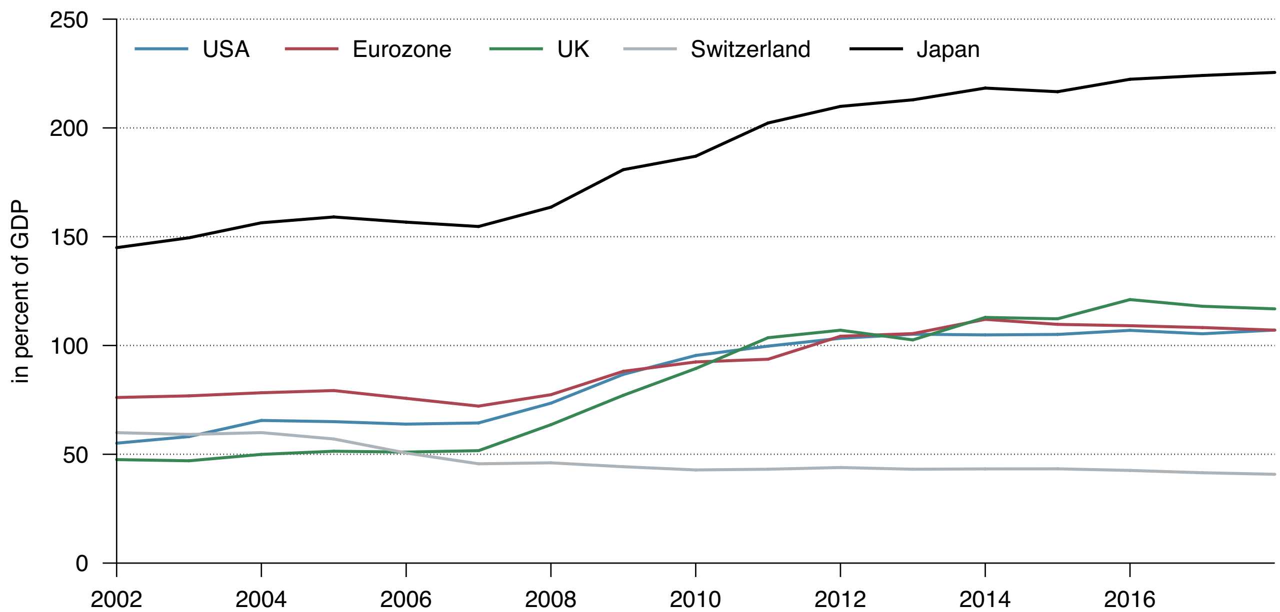
Budget deficits in advanced economies



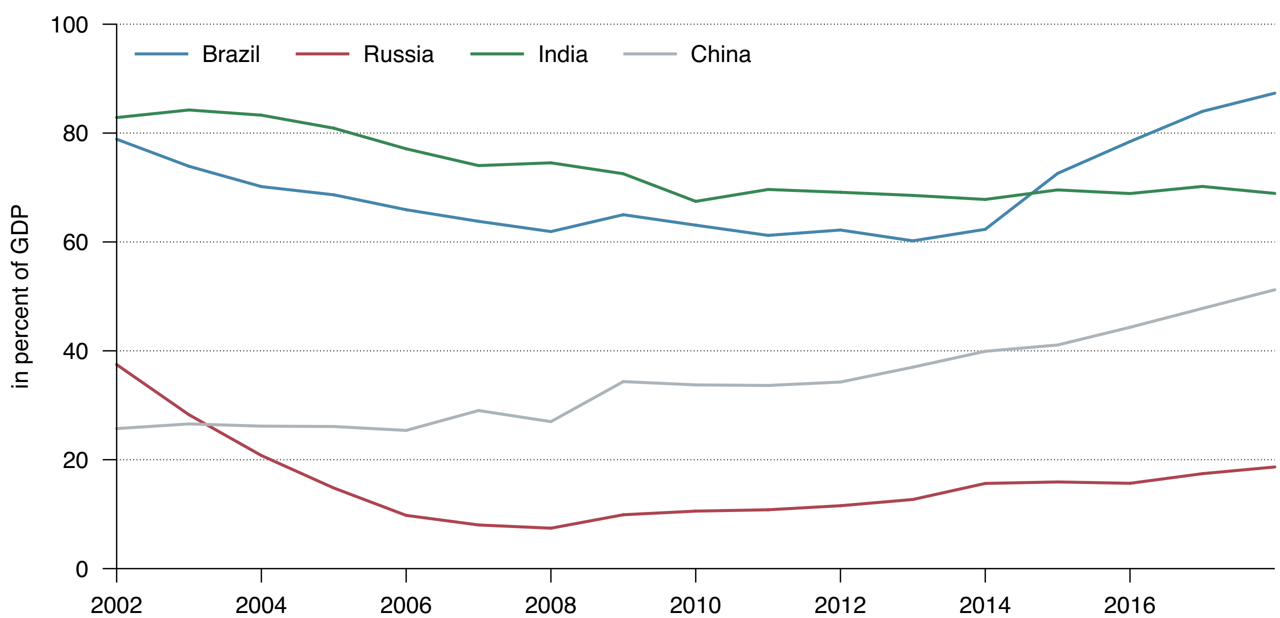
Source: Thomson Reuters Datastream, Wellershoff & Partners

Currency Asset Management

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

The notable increase in the price of oil in recent months is now clearly reflected in inflation data. After failing to show any inclination to climb in many industrialized countries, higher energy prices have finally lifted inflation rates closer to central banks' target levels.

In the US, inflation rose to 2.3 percent in May, as measured by Fed's preferred inflation metric, personal consumption expenditures. The core rate rose to 2 percent. Overall inflation is already above the target of the US monetary authorities, while the core rate has reached the target for the first time in about six years. That said, the Fed recently announced that it is willing to tolerate inflation temporarily overshooting its target. However, should inflation continue to pick up in the coming months, the Fed is likely to tighten the reins of monetary policy faster than financial markets currently expect.

In Switzerland, too, the price of oil in June led to shaper price increases. At 1.1 percent, consumer prices registered their fastest growth in more than eight years. This puts inflation in the middle of the target range that the SNB equates with price stability.

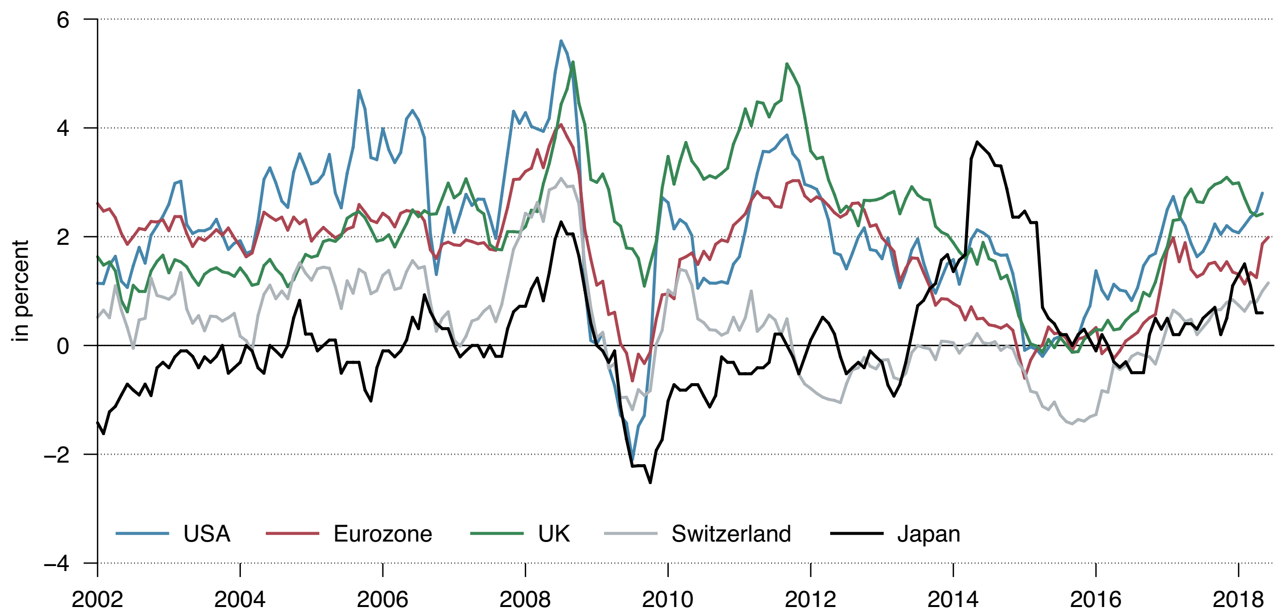
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		3/2018	4/2018	5/2018	6/2018	3/2018	4/2018	5/2018	6/2018
United States	1.6	2.4	2.5	2.8	–	2.1	2.1	2.2	–
Eurozone	1.3	1.3	1.3	1.9	2.0	1.0	0.8	1.1	1.0
Germany	1.2	1.6	1.6	2.2	2.1	1.7	1.5	1.7	1.7
France	1.0	1.6	1.6	2.0	2.1	–	–	–	–
Italy	1.3	0.8	0.5	1.0	1.4	0.7	0.5	0.8	0.9
Spain	1.2	1.2	1.1	2.0	2.3	1.2	0.8	1.1	–
United Kingdom	2.4	2.5	2.4	2.4	–	2.3	2.1	2.1	–
Switzerland	0.0	0.8	0.8	1.0	1.1	0.6	0.5	0.4	0.5
Japan	0.3	1.1	0.6	0.6	–	0.4	0.3	0.3	–
Canada	1.6	2.3	2.2	2.2	–	1.4	1.5	1.3	–
Australia	2.3	1.9	–	–	–	2.0	–	–	–
Brazil	6.0	2.7	2.8	2.9	4.4	2.9	3.0	2.7	–
Russia	8.1	2.3	2.4	2.4	2.3	1.8	1.9	2.0	2.3
India	7.6	4.3	4.6	4.9	–	–	–	–	–
China	2.3	2.1	1.8	1.8	1.5	2.0	2.0	1.9	1.9
Advanced economies[4]	1.4	1.9	1.8	2.2	2.2	1.6	1.5	1.6	1.6
Emerging economies[4]	4.6	2.7	2.6	2.7	2.8	2.1	2.1	2.0	2.0
World economy[4]	2.8	2.3	2.2	2.5	2.6	1.6	1.5	1.6	1.6

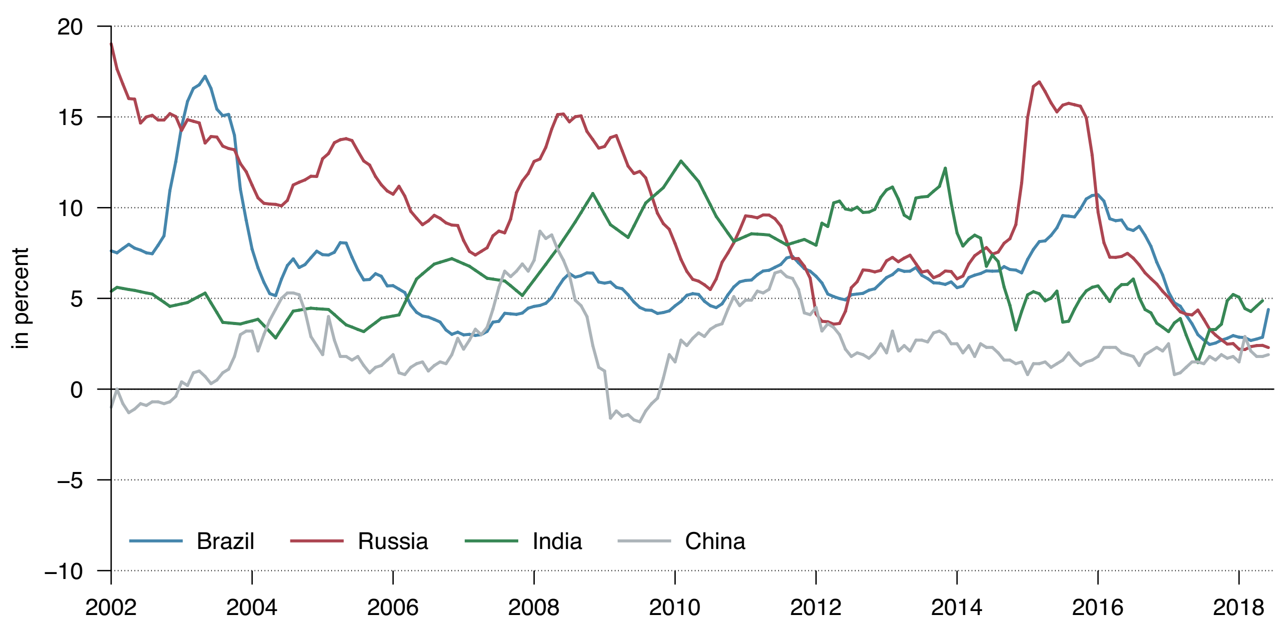
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change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

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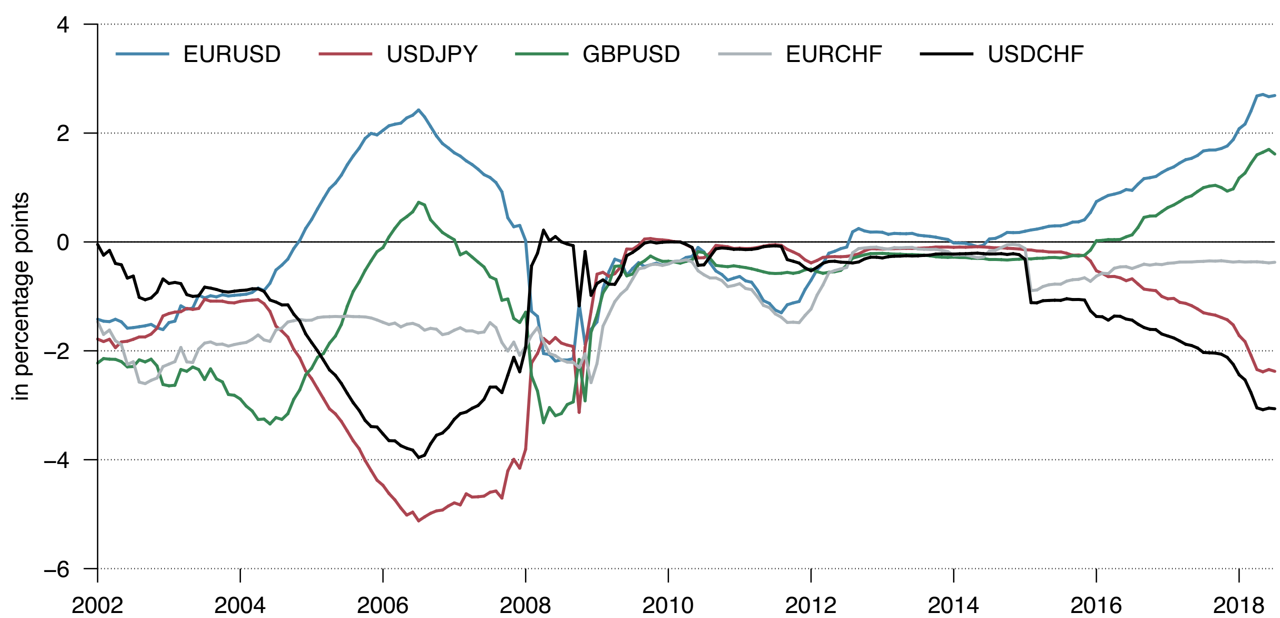
Interest rates

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	1.172	2.67	1.68	0.88	0.17	3.02	1.95	1.15	0.34
USDJPY	111.3	-2.38	-1.32	-0.71	-0.52	-2.66	-1.64	-1.02	-0.79
GBPUSD	1.327	1.61	1.01	0.25	-0.18	1.77	1.10	0.33	-0.15
EURCHF	1.164	-0.39	-0.35	-0.40	-0.61	-0.28	-0.29	-0.41	-0.70
USDCHF	0.993	-3.06	-2.03	-1.28	-0.78	-3.29	-2.24	-1.55	-1.04
GBPCHF	1.318	-1.45	-1.02	-1.03	-0.96	-1.52	-1.14	-1.22	-1.19
CHFJPY	112.0	0.69	0.71	0.57	0.26	0.63	0.60	0.53	0.25
AUDUSD	0.746	0.83	-0.20	-1.17	-2.23	1.25	0.18	-0.67	-1.66
USDCAD	1.312	-0.47	-0.12	0.39	0.47	-0.59	-0.23	0.15	0.24
USDSEK	8.753	-2.74	-1.85	-0.86	0.10	-2.95	-2.04	-1.04	-0.08
USDRUB	62.1	3.62	7.60	9.11	8.30	3.52	7.15	8.51	8.21
USDBRL	3.838	4.88	7.87	11.57	10.34	4.74	6.77	9.96	9.61
USDCNY	6.622	1.35	3.02	3.34	3.09	1.23	2.66	2.92	2.70
USDTRY	4.706	17.23	11.73	10.55	9.68	18.23	11.41	10.44	9.81
USDINR	68.82	7.47	7.47	8.70	7.84	4.47	4.62	6.47	5.94

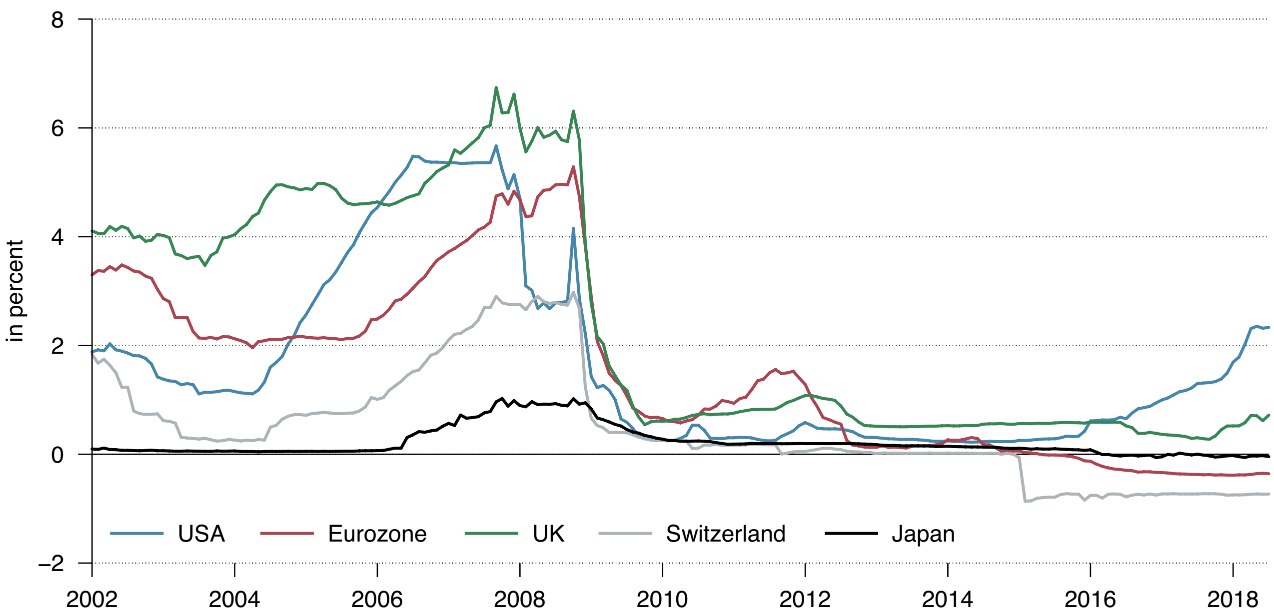
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

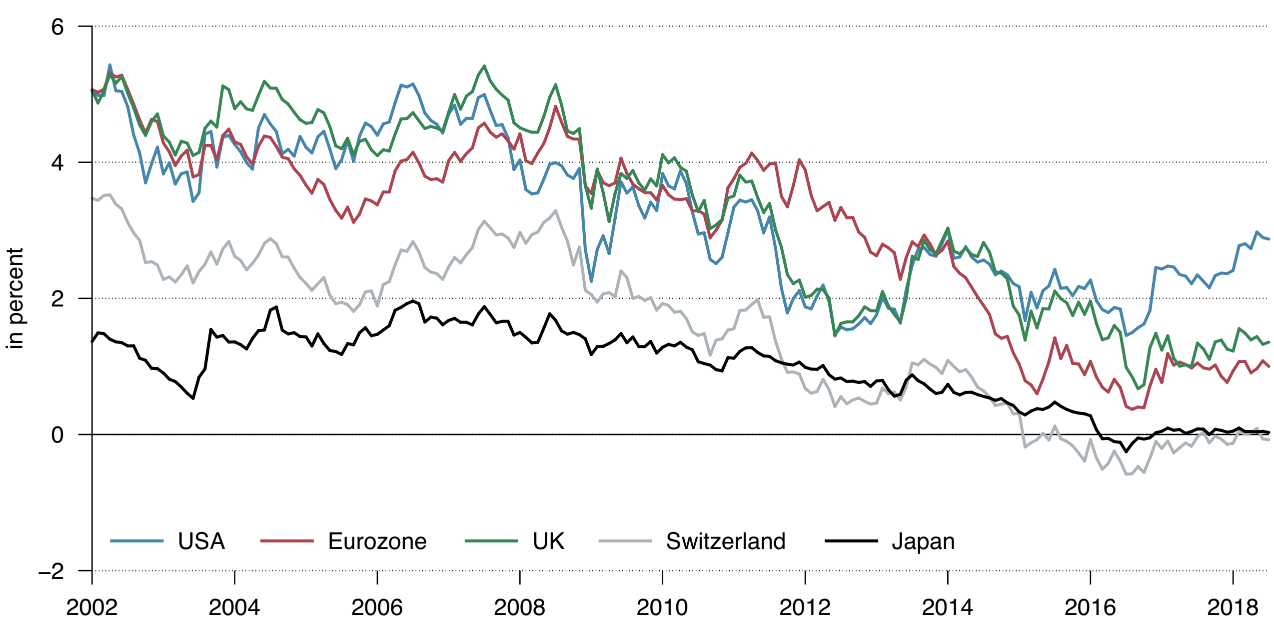


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

QCAM®
Currency
Asset
Management

FX markets

Looking at the major currencies, movements on the foreign exchange markets in June were noticeably smaller than in the previous months. The Swiss franc was down slightly against the US dollar and the euro at the end of June. By contrast, the franc was up slightly against the Japanese yen and the British pound. In view of our purchasing power parity estimates, the franc is only overvalued against a few major currencies following its broad decline in recent months. In addition to the Swedish krona and Norwegian krone, this short list still includes the Japanese yen.

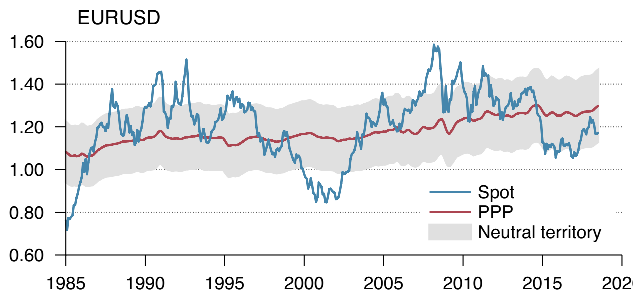
The currencies of individual emerging markets came under significant pressure in recent weeks. In addition to the Turkish lira, which entered into a devaluation spiral in the wake of the Turkish president's statements on monetary policy, the Brazilian real, the Russian ruble and the Argentine peso also struggled with devaluation pressures. The current losses of emerging market currencies are likely due not only to domestic problems, but also to the changing interest rate environment in the US. In view of the recent US rate hikes, investors are increasingly withdrawing capital from typically risky emerging market investments.

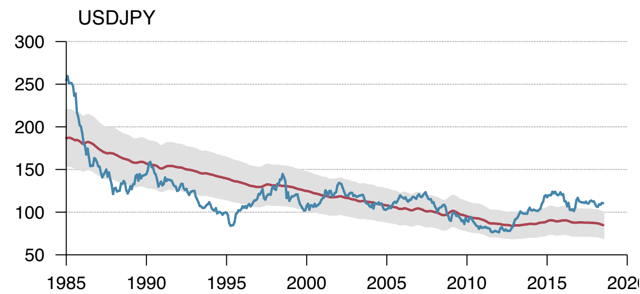
FX overview

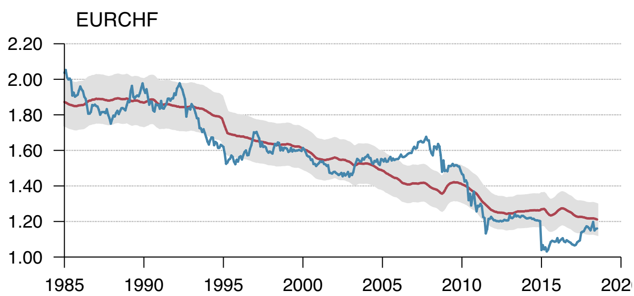
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.172	-2.4	-5.4	2.9	-8.8	1.30	1.13 - 1.47	-9.7
USDJPY	111.3	-1.2	4.2	-2.6	11.1	84.9	70.1 - 99.6	31.1
GBPUSD	1.327	-1.9	-6.6	3.1	-11.2	1.63	1.46 - 1.85	-18.8
EURCHF	1.164	-0.5	-1.8	5.7	-6.4	1.21	1.13 - 1.3	-3.9
USDCHF	0.993	1.9	3.8	2.7	2.7	0.93	0.82 - 1.05	6.4
GBPCHF	1.318	-0.1	-3.1	5.9	-8.9	1.52	1.32 - 1.73	-13.6
CHFJPY	112.0	-3.1	0.5	-5.2	8.2	90.9	76.9 - 104.9	23.2
AUDUSD	0.746	-4.6	-4.0	-1.7	-18.7	0.74	0.64 - 0.89	0.6
USDCAD	1.312	4.7	4.4	1.9	24.8	1.19	1.09 - 1.29	10.3
USDSEK	8.753	6.9	5.1	3.7	29.5	7.22	6.24 - 8.19	21.3
USDRUB	62.1	7.9	-2.7	3.1	88.7	43.4	34.4 - 52.4	43.1
USDBRL	3.838	15.7	13.0	17.7	69.0	2.81	2.27 - 3.35	36.6
USDCNY	6.622	1.7	5.4	-2.6	8.0	6.41	6.22 - 6.61	3.3
USDTRY	4.706	24.1	13.6	30.3	140.4	3.27	2.96 - 3.57	44.1
USDINR	68.82	7.8	5.5	6.6	14.7	–	–	–

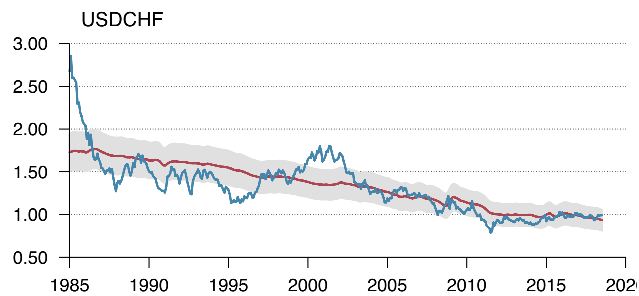
1 Performance over the respective period of time, in percent.
2 Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by +/- 1 standard deviation of the historical variation around the PPP value.
3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

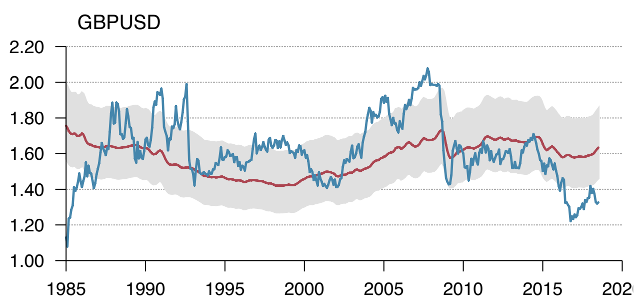
Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

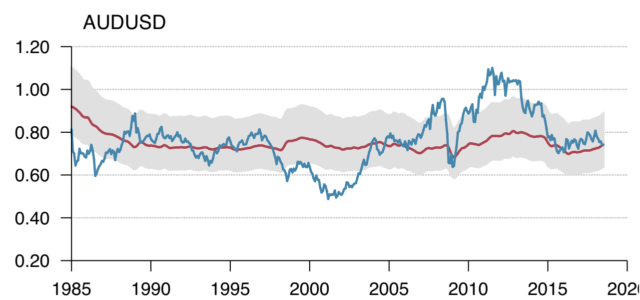


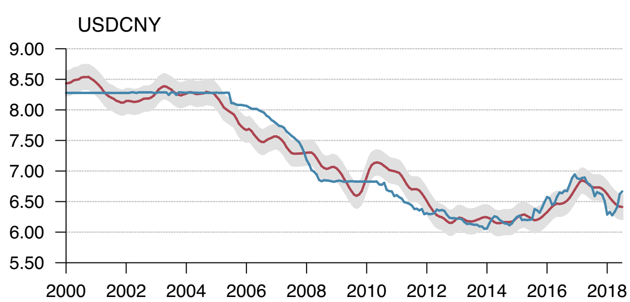


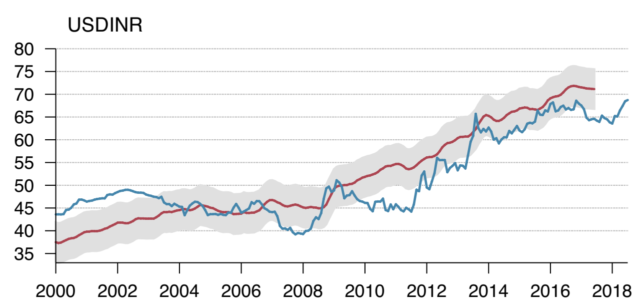


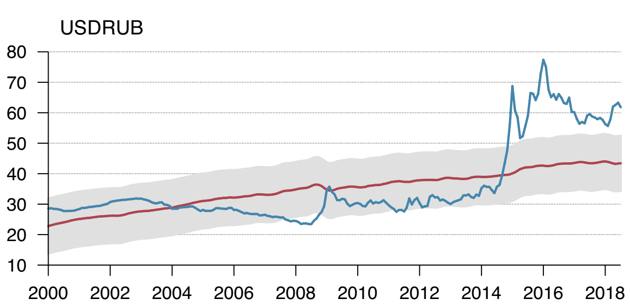


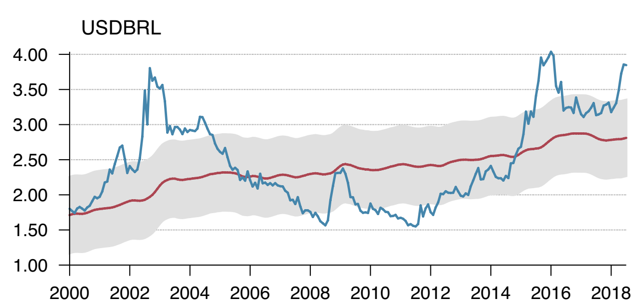












Source: Thomson Reuters Datastream, Wellershoff & Partners

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	1.172	7.5	6.8	8.4	10.4	7.1	7.3	8.7	10.8
USDJPY	111.3	6.1	7.1	9.5	10.8	7.4	8.0	9.9	11.3
GBPUSD	1.327	7.8	7.7	8.5	9.9	7.8	8.2	8.9	10.4
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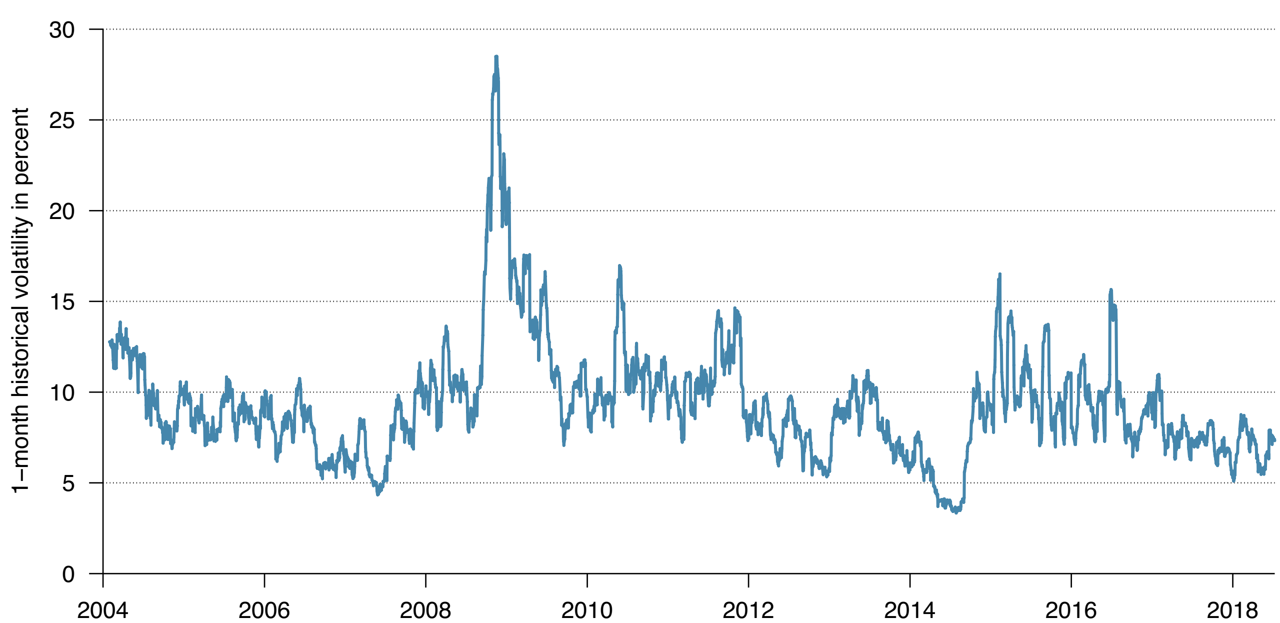
USDTRY	4.706	23.7	18.4	12.9	13.1	15.1	17.6	14.0	14.3
USDINR	68.82	5.2	6.1	7.5	9.4	4.3	6.8	8.8	10.4

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

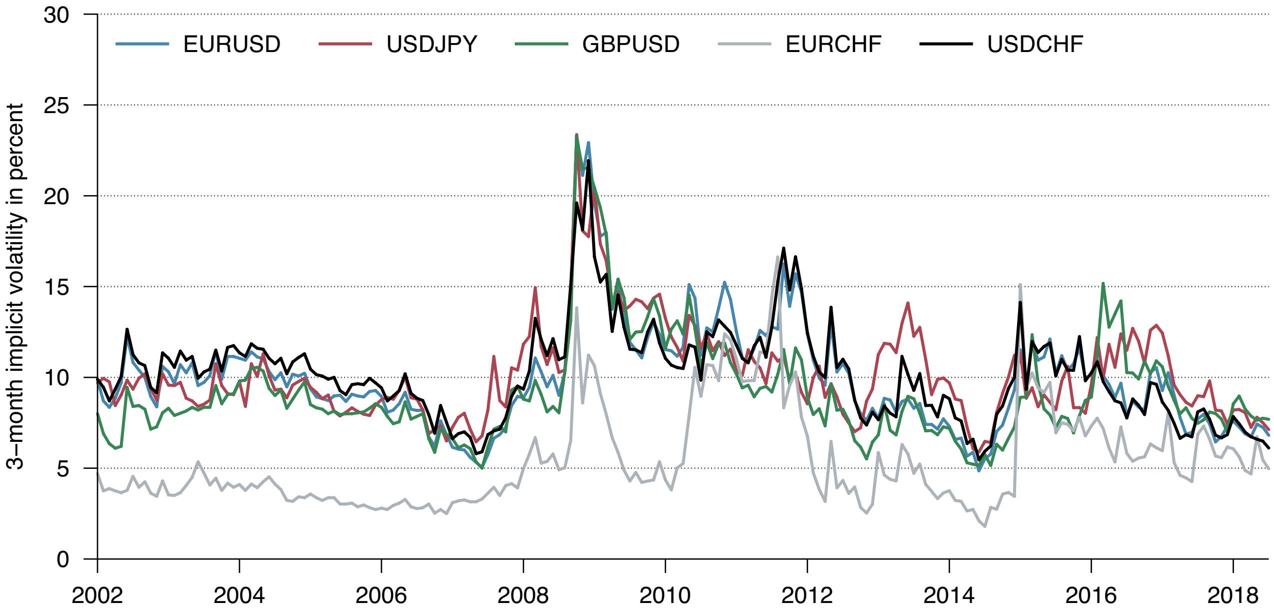
QCAM volatility indicator[3]



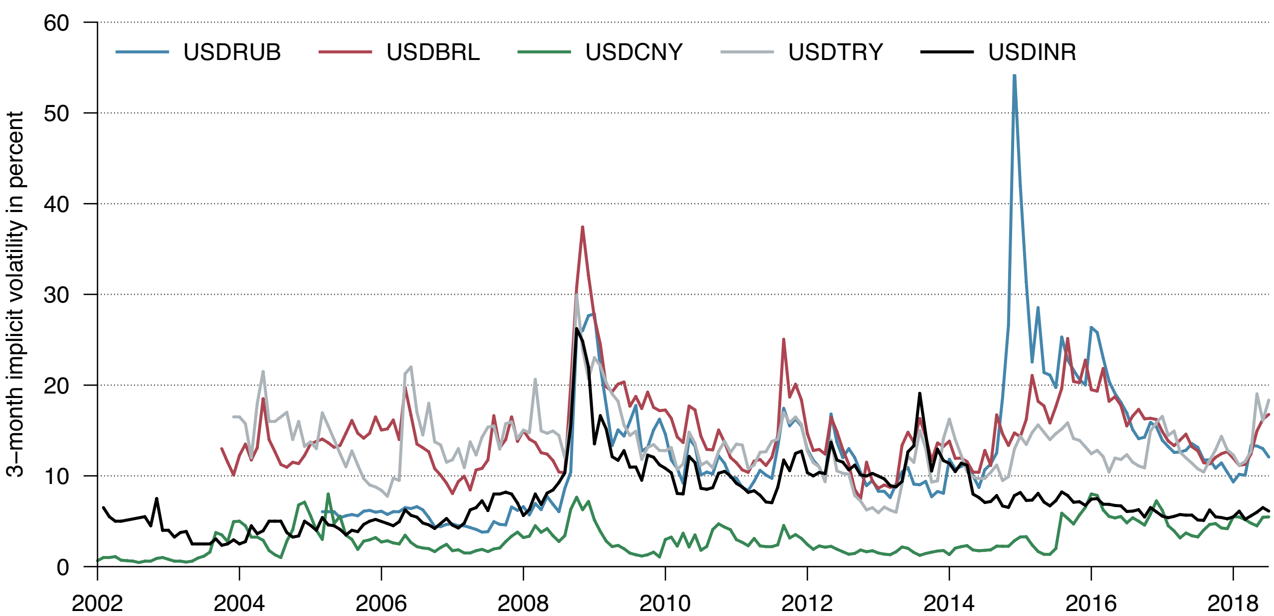
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implicit volatility



Implicit volatility



Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

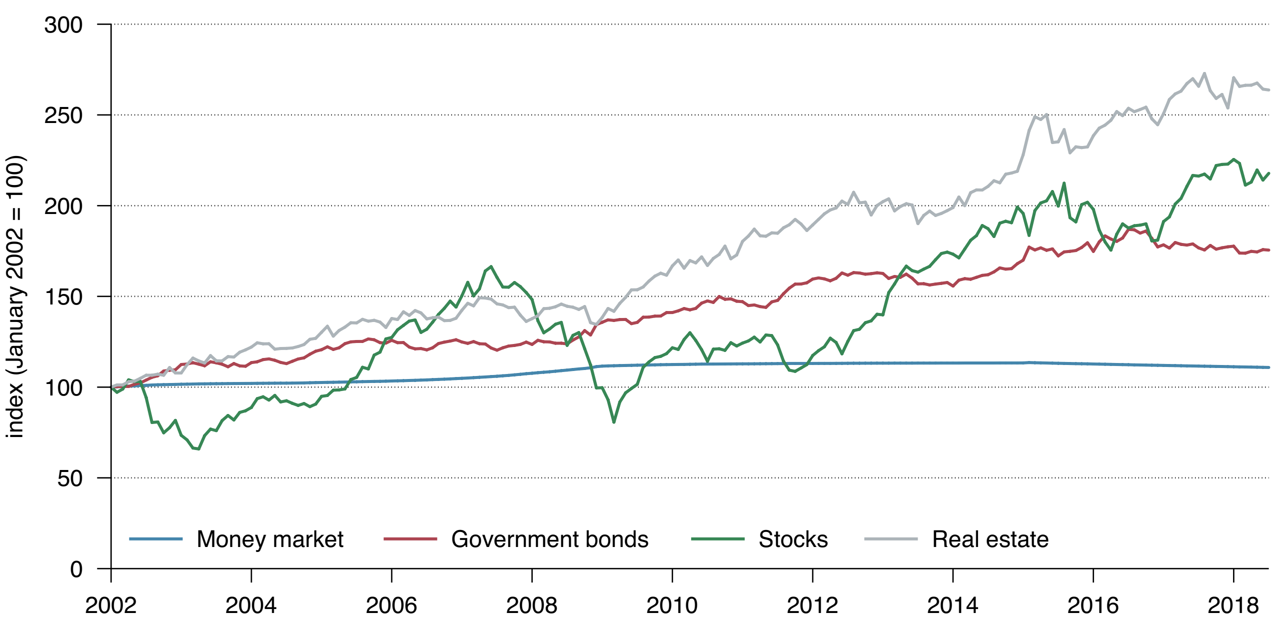
Financial markets

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	-0.4	-0.2	-0.7	-2.1	-0.4	-0.2	-0.7	-2.1
Swiss government bonds	-1.2	0.1	-0.1	11.9	-1.2	0.1	-0.1	11.9
Swiss corporate bonds	-0.7	-0.3	0.0	10.6	-0.7	-0.3	0.0	10.6
Swiss equities (SMI)	-3.4	2.1	1.4	29.2	-3.4	2.1	1.4	29.2
European equities (Stoxx600)	1.9	4.4	4.7	53.7	1.3	2.6	10.7	44.3
UK equities (Ftse100)	2.4	7.2	8.7	42.1	2.4	3.9	15.1	30.3
Japanese equities (Topix)	-4.5	-0.3	8.5	59.1	-1.4	-0.8	14.4	47.5
US equities (S&P 500)	5.6	6.3	17.4	85.0	3.6	2.4	14.2	77.1
Emerging markets equities	-5.6	-7.4	9.5	30.7	-7.4	-10.7	6.6	25.1
Global equities (MSCI World)	3.0	3.4	14.1	61.7	1.1	-0.4	11.1	54.8
Swiss real estate	-2.5	-2.2	-2.7	38.2	-2.5	-2.2	-2.7	38.2
Global real estate	1.6	5.9	9.0	32.8	-0.4	2.1	6.1	27.1
Commodities	-2.7	-3.9	4.1	-33.3	-4.6	-7.4	1.4	-36.2
Brent oil	18.4	8.5	66.7	-27.0	16.2	4.5	62.3	-30.1
Gold	-3.8	-7.7	3.4	-2.0	-5.6	-11.0	0.7	-6.2

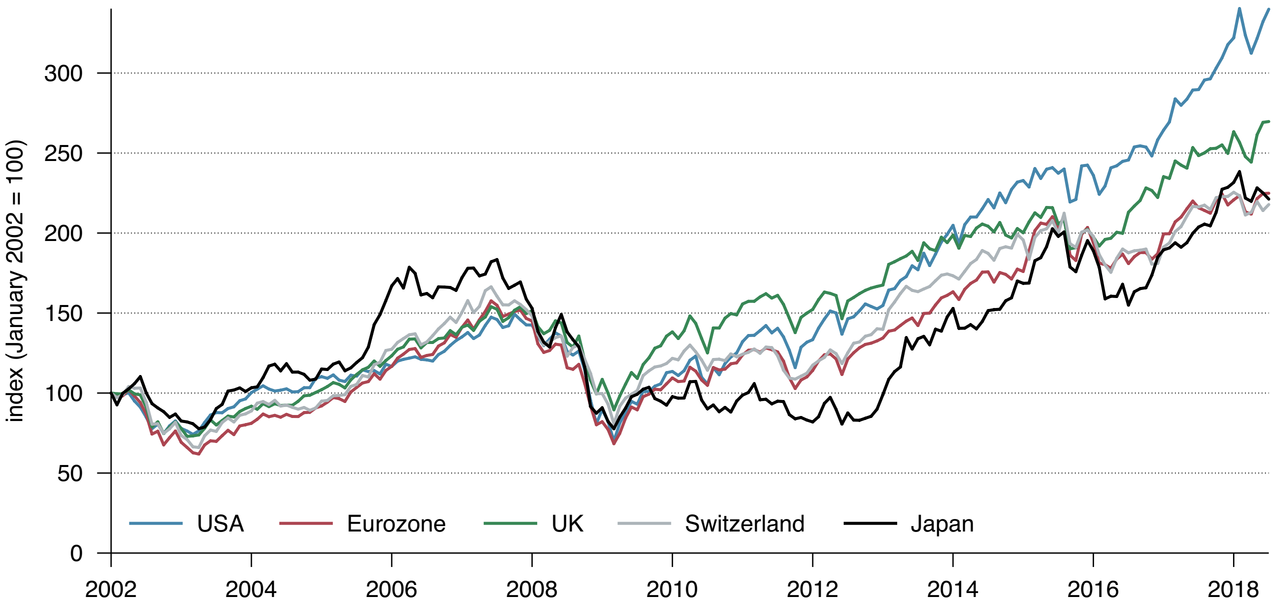
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

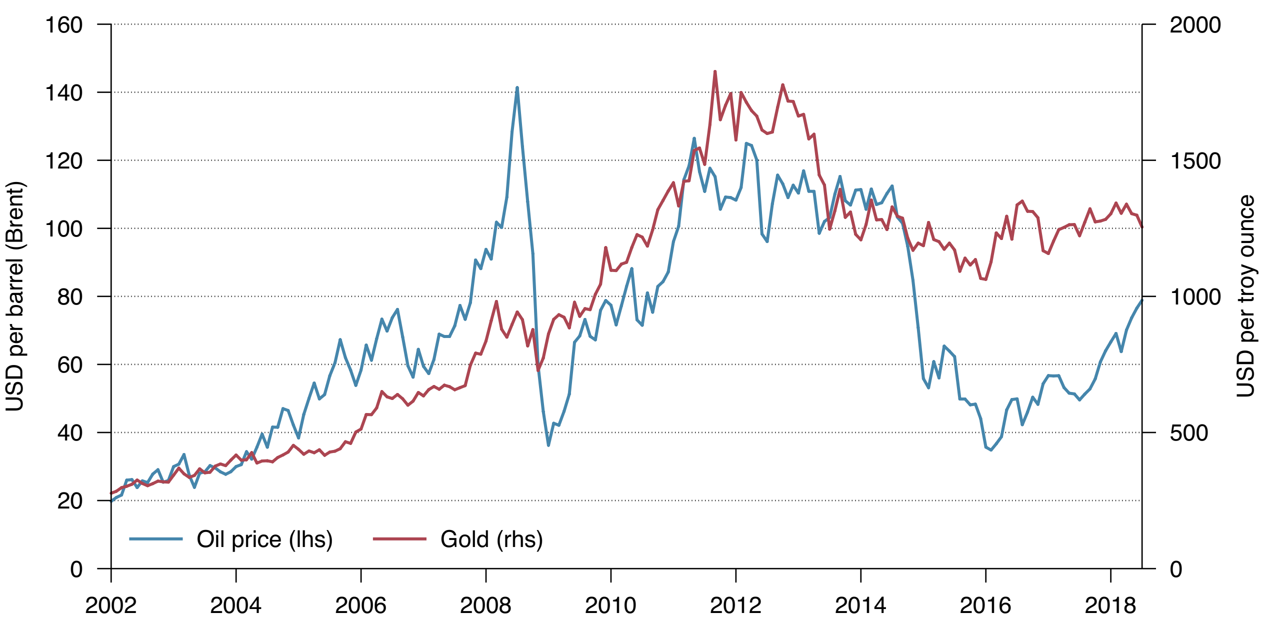


Source: Bloomberg, Thomson Reuters Datastream, Wellershoff & Partners

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

6.68 USDCNY

In June China's renminbi lost more than 3.3 percent against the US dollar, its biggest decline since foreign exchange trading was introduced in China, in 1994. Some observers speculated that the Chinese government wanted to signal to the US that, in addition to customs duties on US products, it had other weapons to respond to recent US tariffs. Others simply saw market forces at work.