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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 Currency Asset Management

QCAM Insight

The euro remains in check

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Euro bulls are cheered by a possible Fed rate cut, but we don't think that would solve all the euro's problems. Growing political uncertainties and an intensifying conflict with Italy could add to the euro's troubles.

Last January in *FX Monthly* we wrote that the euro was not yet ready for a rally. Since then, it moved modestly lower. But now speculation about a Fed interest rate cut is giving the euro a boost. We think this bounce won't last long unless the Eurozone can deliver some good news.

A Fed rate cut could strengthen the dollar

The changes in US monetary policy have not hurt the dollar so far. At the turn of the year, when the Fed altered its policy stance from tightening to holding, the dollar briefly weakened slightly against the euro but then quickly recovered. The situation in Europe has worsened to the point that the ECB has had to postpone its planned rate hike.

US economic indicators have weakened, but the situation in Europe has also not improved. The trade conflict between the US and China threatens to hurt Europe even more than the US. In addition, having hiked interest rates over the past two years, the Fed has more room to support the economy than the ECB has. Thus, if it helps avoid a recession, a moderate Fed rate cut could even strengthen the dollar. Meanwhile, the ECB has few options available to fuel growth.

Deficit reduction in Europe falters

Yes, the euro is undervalued and oversold against the US dollar. However, some kind of catalyst is needed to stir the corrective forces into action. Euro bulls like to point to the US twin (trade and budget) deficits. By contrast, the Eurozone is running a current account surplus and its public finances are in better shape, too, though not in all member countries.

But this is not new and any further improvements to the current account and public finances in the Eurozone are now grinding to a halt. Stagnating world trade hits the more export-dependent Eurozone harder than it does the US. Many Eurozone states have also eased off the fiscal brakes lately, in response to weaker growth and growing political pressure.

No good news for the euro

The euro's main problem these days, in our view, is a lack of good news. After Emanuel Macron's election in 2017, a growth boom and surging optimism invigorated the euro. In retrospect, this all seems like a mirage. Today, growth is flat and the odor of recession hangs in the air. Moreover, the outcome of the recent European Parliament elections have further destabilized the political situation.

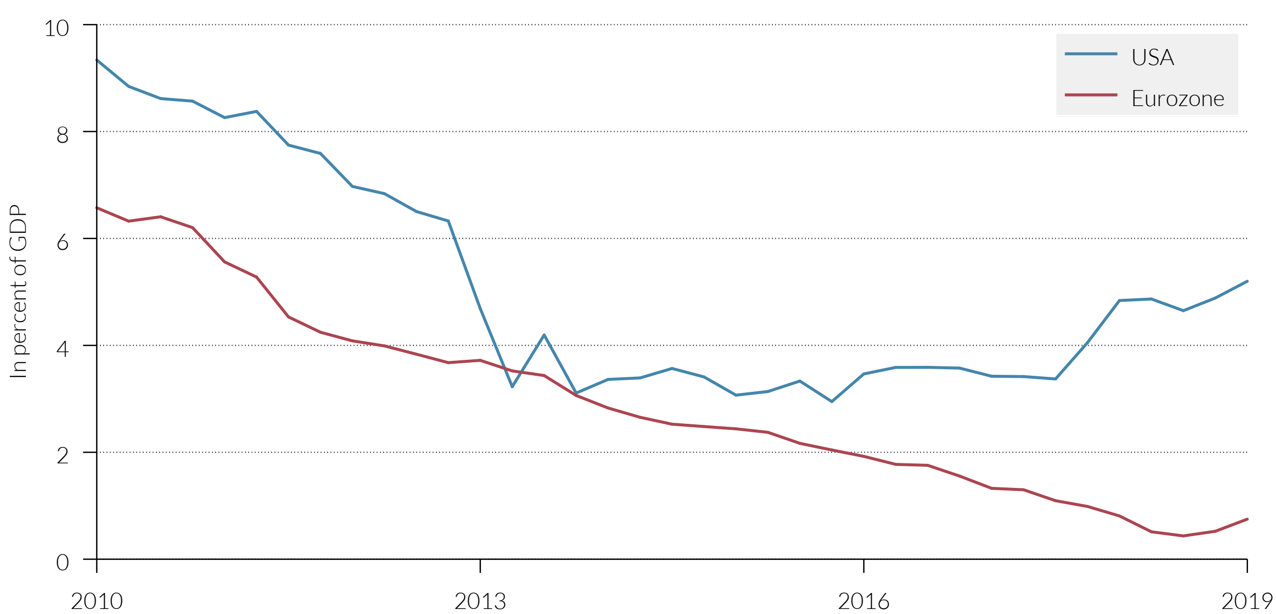
While the nationalists did not make the gains that were expected in the elections, they did very well in some key countries. In France, Marine Le Pen's victory and the ongoing protests of the yellow vests complicate Macron's reform course. The Brexit Party's triumph in the UK raises the risk of a hard Brexit. And Mario Salvini's victory in Italy increases the risk of new elections that could see an even stronger anti-EU, anti-euro government take the reins in Rome. In fact, we view Italy's weak fiscal and economic situation and the government's confrontational approach with the EU as the biggest current risks to the euro.

And even in countries where the nationalists did less well, danger looms for the common currency. Greece and Austria have already called for new elections and the coalition in Germany government is increasingly wobbly. These national tensions and the Europe-wide fragmentation of the party landscape are undermining EU institutions as well as undercutting any new attempts at reform. And all of this, in turn, only weakens Europe's position in international negotiations.

Trapped in a price range

Against this backdrop, we think EURUSD moving sideways between 1.10 and 1.15 is the likeliest scenario. There are risks at both ends of the range, but we prefer to wait for clear signals before deciding on a direction. In order for us to put our trust in the euro, we would want to see an upturn in the economy and some signs that political developments were no longer divisive, but rather are returning to a path of more integration, especially regarding the conflict with Italy.

Budget deficit of the US and the Eurozone



Source: US Bureau of Economic Analysis, European Central Bank, QCAM Currency Asset Management

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The macro perspective

Strong start to the year may not last

The Swiss economy got off to a strong start this year but we think it's unlikely to maintain this brisk pace for long. It managed to enjoy solid growth until recently, defying the global downtrend, but the latest sentiment data signals a distinct weakening.

The global economic situation has deteriorated in recent months. A recession is not yet foreseeable but we wonder what could ultimately trigger one? Central banks will hardly be the culprits. They are focused on being as supportive as possible, trying to avoid triggering a recession through higher interest rates. And thanks to still moderate inflation rates, they can afford to take this stance. The focus is now on political risks. The trade disputes between the US and China deserve special attention and, at present, no quick resolution seems likely. But other fraught political questions are also simmering, such as Brexit and the tension between the US and Iran over the latter's nuclear program.

Consumers, we note, seem barely to notice these uncertainties and sentiment surveys remain at high levels. In the US, for example, consumer sentiment as measured by the Conference Board is close to levels last reached in 2000. But the mood is different in industry. Not only are current activity figures lower, but so are the leading indicators. Thus, we must conclude, growth triggers can hardly be expected from this sector anytime soon.

Swiss industrial cycle moves at its own pace

Swiss industry has followed a different path than its global peers, expanding at high speed in recent quarters. However, we note, this strength comes mainly from two areas, namely the pharmaceutical sector and the watch industry. In the second half of 2018, these two sectors kept the Swiss economy from sliding into recession. The start of the current year also saw both sectors growing at a rapid pace.

However, the leading indicators for the overall Swiss industrial sector have fallen sharply in recent months. The purchasing managers index has plummeted from a record high 64.6 points to 48.6 within half a year. And the surveys of the KOF Economic Research Institute paint a similar, darkening picture for industry. All this casts a shadow over the outlook for Swiss industry. Of course, it may be that the pharmaceutical and watch sectors will continue to grow briskly, and that the leading indicators for industry as a whole are underestimating their momentum. A forecast for the pharmaceutical industry is particularly difficult to make because the data can depend on the developments and accounting procedures of the individual companies.

Broad-based growth early in the year

The Swiss economy's good start this year – in contrast to the second half of 2018 – didn't depend solely on industry. Solid quarterly growth of 0.6 percent also benefited from catch-up effects. After two weak quarters, investments recovered early in 2019. The impact of the ongoing robust labor market at the beginning of the year was again more pronounced in private consumer spending than it had been in the previous quarters. In addition, growth also benefited from the mild winter. After contracting for several quarters, construction investment again turned positive.

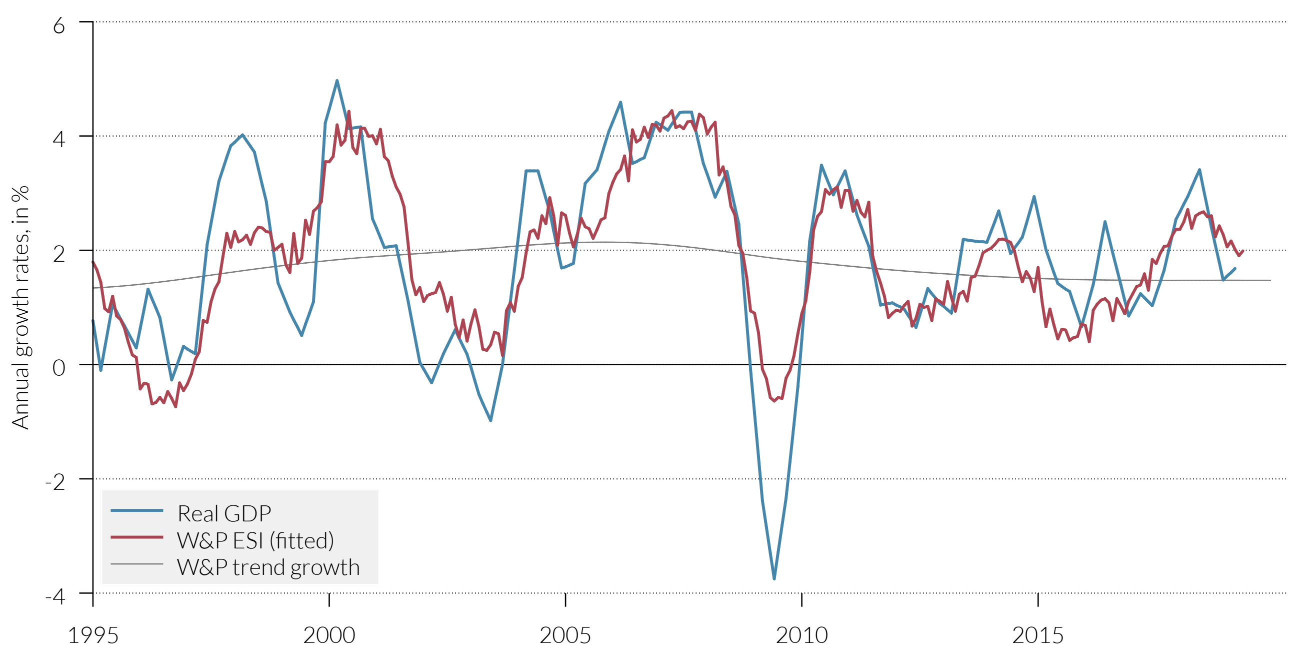
Lower growth must be expected

How representative is the Swiss economy's strong growth at the beginning of the year in terms of its current strength? Despite the solid growth in the first quarter, average growth for the past three quarters remains below the long-term growth potential and thus points to rather weak growth momentum. We can identify some specific factors that led to higher growth in the short term and that are therefore unlikely to reappear.

For one thing, further catch-up effects can hardly be expected. And little additional growth is likely to come from the already humming industrial sector itself. Meanwhile, significant growth drivers are unlikely from the global economy as well.

While the SNB's monetary policy will continue to be expansionary, we think its negative interest rate policy will no longer add growth stimulus in the Swiss economy. All in all, we don't expect the high growth rates of the start of the year to be repeated in the next few quarters. For the entire year, we think the Swiss economy will merely keep pace with its trend growth rate, that is, to expand by about 1.5 percent.

The Swiss economy looks set to keep pace with trend growth



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX market talk

Recessions and the dollar

Markets have quickly shifted lately from expecting the Fed to follow its "dot plots," which still indicate rising interest rates, to pricing in more rate cuts. Lower bond yields reflect concerns about the next US recession. We think it's a good moment to look at how the US dollar has performed in the run-up to previous recessions.

Our chart shows the US dollar's deviation from "fair value" since the 1970s, a period which covers seven recessions, marked in grey.

To determine the dollar's fair value, we look at the most important USD exchange rates from a trading perspective. Currently, the key currencies for the US dollar are, in decreasing order of importance, the euro, the Canadian dollar, the Mexican peso, the Chinese renminbi, the Japanese yen and the British pound. For each of these currencies, we calculate the deviation of the current USD exchange rate from its purchasing power parity. This deviation is then multiplied by the country's weighting in terms of its trade with the United States. The cumulative deviation finally indicates the extent of the currency's over- or undervaluation.

Together, the currently heavily undervalued yen and pound account for around half of the dollar's misvaluation. However, the greenback is also overvalued against the other four currencies, too.

Historically, the dollar's valuation ignores recessions

The first observation from our chart is that the dollar appears to follow lengthy valuation cycles that have not been visibly altered by recessions. If the dollar was on a weakening trend when a recession arrives – as it was in the early 1970s, 1980s and earlier 2000s – then the greenback simply continues its trend through those recessions. If the USD was on a rising trend, as it was before recessions in the late 1970s, early 1980s, late 1990s, and early 2000s, then it also continues that trend. Our data set contains three depreciation and three appreciation phases prior to recessions. Whatever the prevailing valuation trend was when a recession began, it did not change course once.

Recessions do cause dollar turbulence

The second observation is that there are periods of substantial volatility in the US dollar's value during a recession. If the dollar was on a falling trend before the recession – take the early 1970s as an example – we see the impact of demand spikes. These occurred even if the dollar was already on a powerful uptrend, as can be seen in the early 1980s. A very strong demand spike for the US dollar can also be noted during the most recent recession, following the 2008 global financial crisis.

Since 1970, the dollar has gone through only six phases of over- and undervaluation, each of which persisted for a long time. In the 1980s, the dollar was overvalued for nearly seven years. The following undervaluation phase lasted ten years, and the subsequent overvaluation phase lasted another seven years, until 2003.

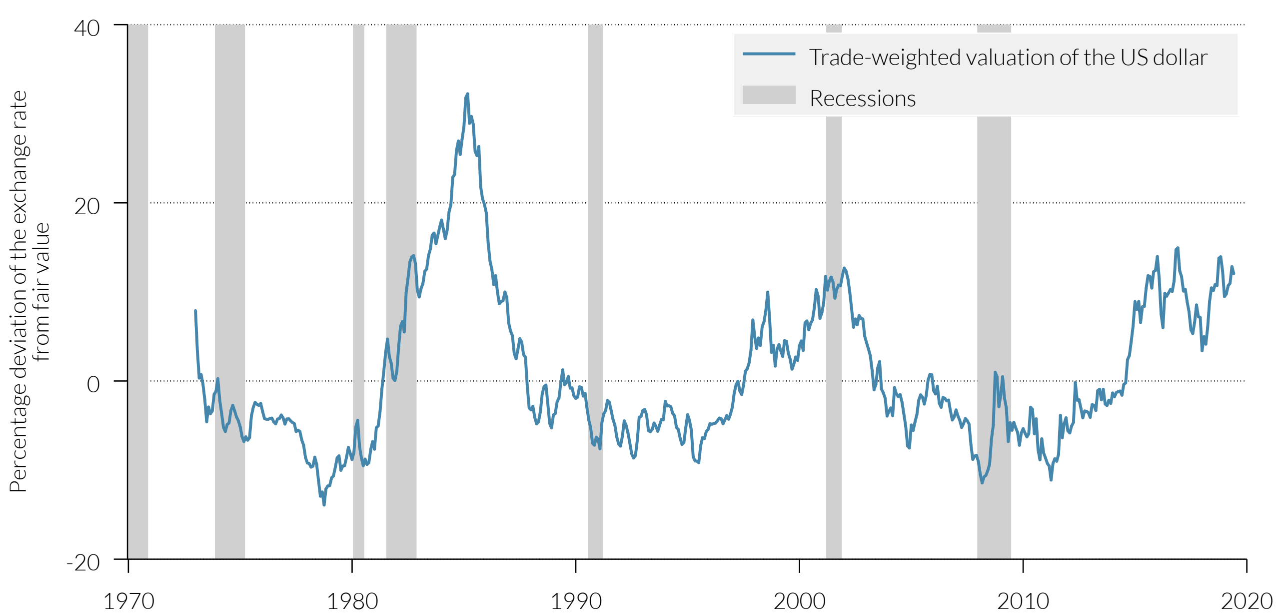
One investment-relevant insight from these phases is that the dollar does indeed have an anchor. Just as the earth does not stray too far from its path around the sun, the dollar eventually revisits its purchasing power parity level. But unlike the predictability of the earth's solar orbit, the data we have does not offer much insight into what the dollar will do in the short run. An overvaluation, even an extreme one, does not automatically make a depreciation more likely in the short term. Neither do we have actionable information about the speed and timing of any depreciation. What we can say with certainty, though, is that marked deviations from purchasing power parity are not sustainable over the long term.

The data since 1970 also shows that in both phases of overvaluation, the peak was reached after four and four and a half years, respectively. This is also where we happen to be today. But observations from just two cycles are obviously not sufficient to offer meaningful clues about timing. We can simply observe that the dollar is overvalued and should head back to fair value at some point.

Trade wars support the dollar, for now

The initial evidence is that the recent disputes between the US and some of its trading partners have reinforced the dollar's overvaluation. Thus, the Chinese renminbi and Mexican peso both weakened following new US tariffs (or tweeted threats of same). In the process, the US is only making its own exports more expensive and less competitive, which, we would argue, is another reason for the dollar to return to a more competitive level at some point in the future.

US dollar clearly overvalued



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Economic activity

The recent data has largely confirmed our assessment of the global economy. In the US, the divergence between consumer and corporate sentiment increased in May. While the needle is pointing upwards for consumers, business sentiment has noticeably declined, in particular in the industrial sector. The markets continue to focus on European industry. In May, for the first time in 13 months, industrial companies were more optimistic about the future. Data from Germany confirms a slight uptick in Europe's manufacturing sector.

The quarterly GDP figures, which traditionally are published with considerable delay for Switzerland and Japan, point to a successful first quarter of the year. The Swiss economy appears to have benefited in particular from the robust development of the pharmaceutical industry, even if the growth contributions from the expenditure side yield a surprisingly balanced growth picture. On the other hand, the quality of Japanese growth proved to be poor. The main growth drivers at the beginning of the year were a decline in imports and an increase in stockpiling. The traditional pillars of private consumption and investment both contributed negatively to the economic expansion.

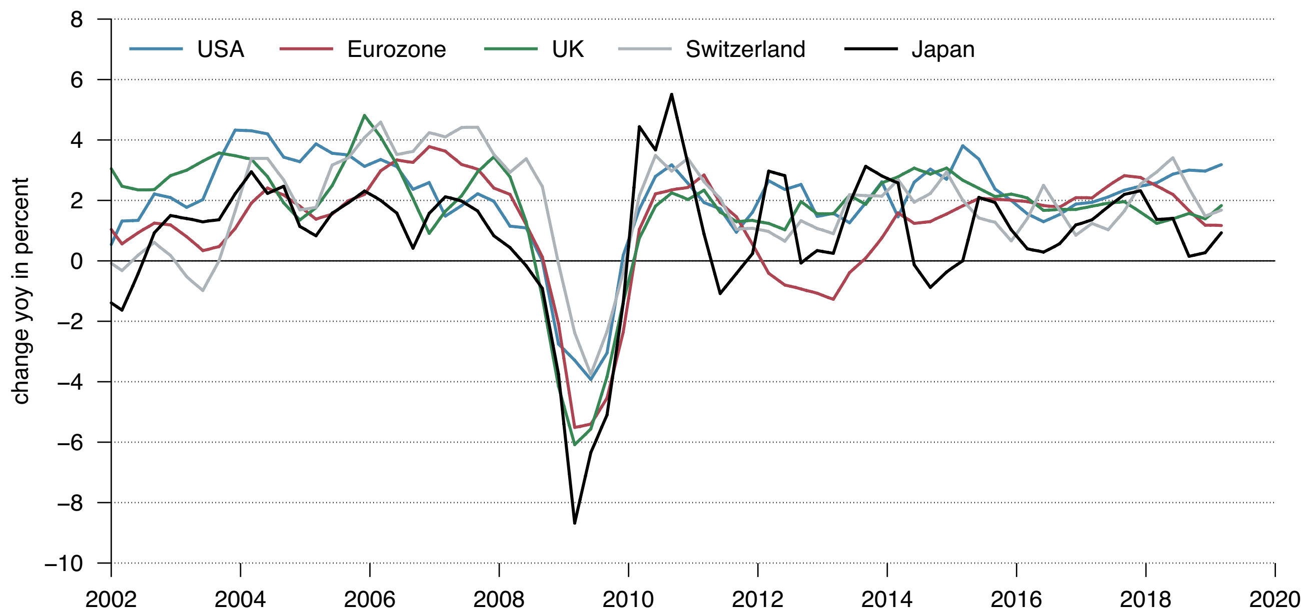
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q2/2018	Q3/2018	Q4/2018	Q1/2019	2/2019	3/2019	4/2019	5/2019
United States	1.7	2.9	3.0	3.0	3.2	3.2	3.1	2.7	2.9
Eurozone	1.0	2.2	1.6	1.1	1.2	2.3	2.2	1.9	2.1
Germany	1.4	2.0	1.2	0.6	0.7	2.7	2.4	2.2	2.3
France	0.7	1.9	1.5	1.2	1.2	1.5	1.6	1.5	1.9
Italy	0.2	1.0	0.5	0.0	-0.1	0.6	0.6	0.4	0.7
Spain	1.6	2.6	2.5	2.3	2.4	2.3	2.7	2.3	2.5
United Kingdom	1.8	1.4	1.6	1.4	1.8	1.6	1.8	1.6	1.1
Switzerland	1.5	3.4	2.4	1.5	1.7	2.2	2.0	1.9	2.0
Japan	0.4	1.4	0.1	0.2	0.8	2.1	2.0	1.9	1.9
Canada	1.6	1.8	2.0	1.6	1.3	1.0	1.3	0.7	1.1
Australia	2.4	3.1	2.8	2.4	1.8	2.6	2.5	2.6	2.7
Brazil	1.4	0.9	1.3	1.1	0.4	2.2	1.4	0.8	–
Russia	0.1	2.2	2.2	2.7	0.5	0.3	2.7	1.8	0.0
India	7.7	7.9	7.0	6.6	5.8	6.9	6.8	6.7	6.8
China	7.4	6.7	6.5	6.4	6.4	6.3	6.7	6.4	6.3
Advanced economies[4]	1.4	2.5	2.2	2.0	2.1	2.7	2.6	2.3	2.4
Emerging economies[4]	6.0	5.6	5.2	4.9	4.5	5.1	5.1	4.7	4.6
World economy[4]	3.5	4.1	3.8	3.5	3.4	4.0	3.9	3.5	3.5

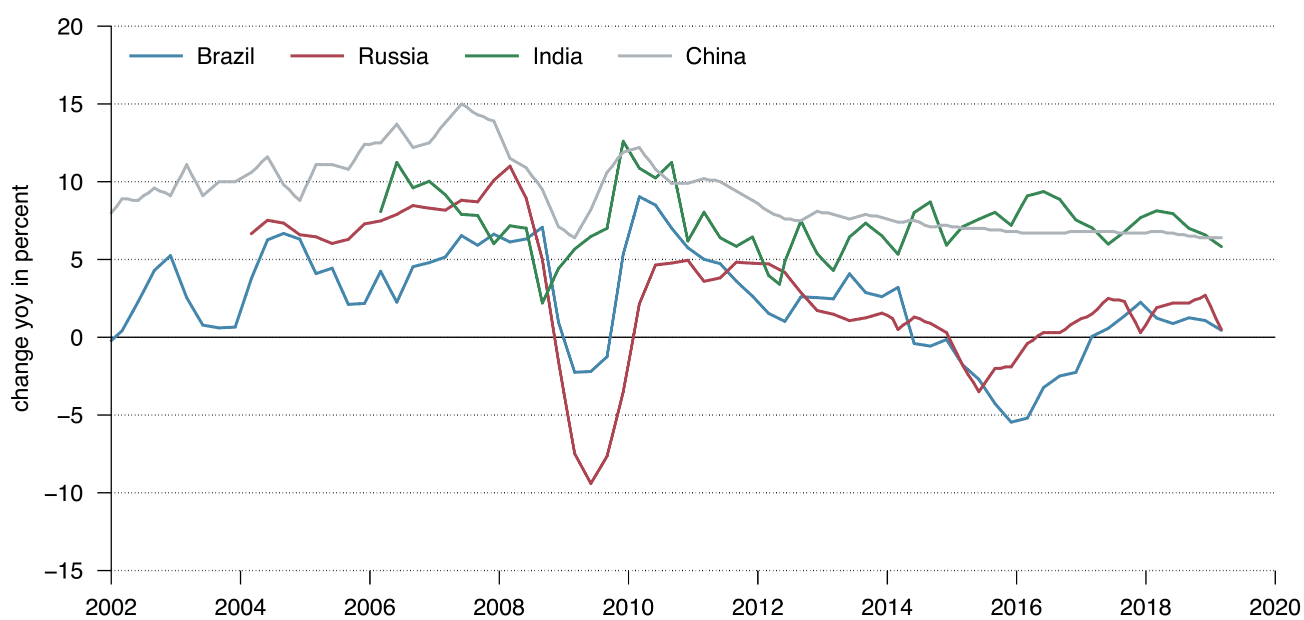
1 Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
2 Year-on-year growth rate, in percent.
3 Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6 months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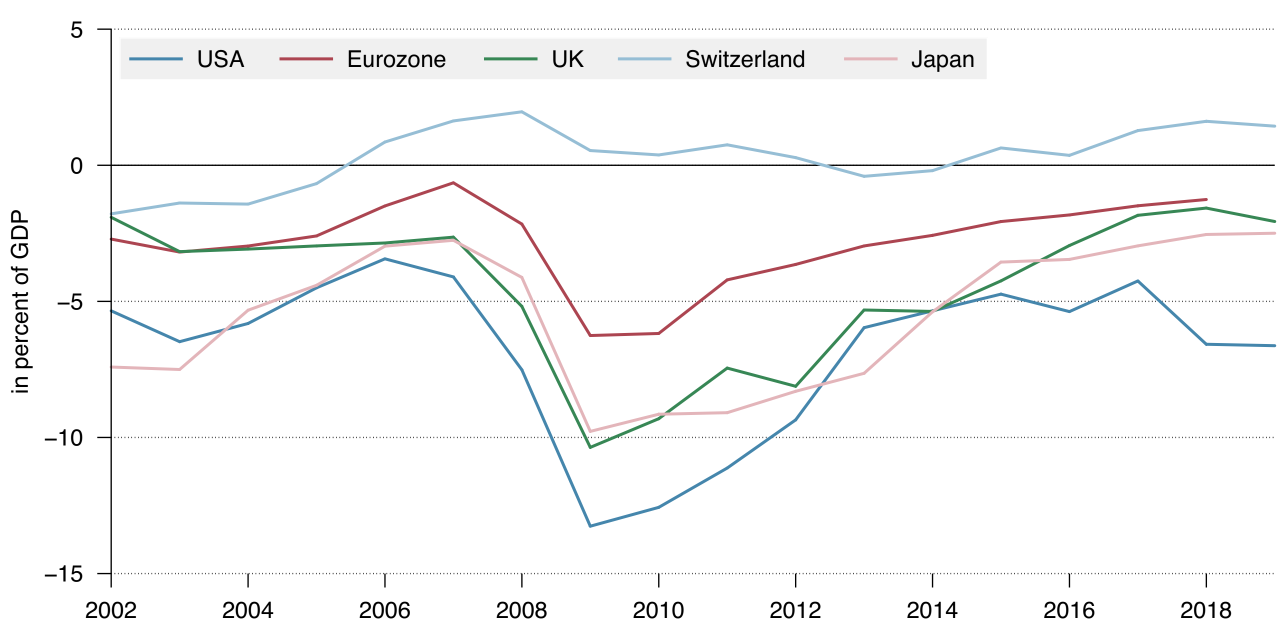
Economic indicators

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	24.0	24.5	-2.3	-2.4	105.7	110.3	-5.3	-6.6	4.9	3.6
Eurozone	16.1	15.6	3.8	–	109.2	–	-1.8	–	10.0	7.6
Germany	4.7	4.5	7.9	7.3	76.2	66.5	1.0	0.9	6.0	5.0
France	3.3	3.2	-0.6	0.0	121.8	124.1	-3.3	-3.2	9.5	8.4
Italy	2.5	2.3	2.3	2.6	155.5	151.0	-2.5	-2.4	11.6	10.4
Spain	1.7	1.6	1.5	0.8	115.9	113.0	-4.3	-2.0	19.7	13.8
United Kingdom	3.6	3.2	-4.5	-5.6	113.7	112.4	-3.2	-2.1	4.7	3.1
Switzerland	0.9	0.8	9.2	9.6	42.7	40.3	0.7	1.4	3.1	2.3
Japan	6.1	5.9	3.1	3.0	220.8	225.6	-3.6	-2.5	3.1	2.4
Canada	2.1	2.0	-2.9	-3.1	89.9	88.0	-0.2	-0.6	6.6	5.4
Australia	1.7	1.6	-3.1	-2.1	38.7	41.1	-2.2	-1.5	5.7	5.2
China	14.8	16.3	1.7	0.4	44.5	55.4	-3.2	-6.1	4.0	–
Brazil	2.5	2.2	-1.9	-1.7	77.0	90.4	-7.9	-7.3	10.3	12.5
India	3.0	3.4	-1.5	-2.5	69.3	69.0	-7.0	-6.9	–	–
Russia	2.0	1.8	3.8	5.7	15.6	13.8	-1.4	1.0	5.3	4.7

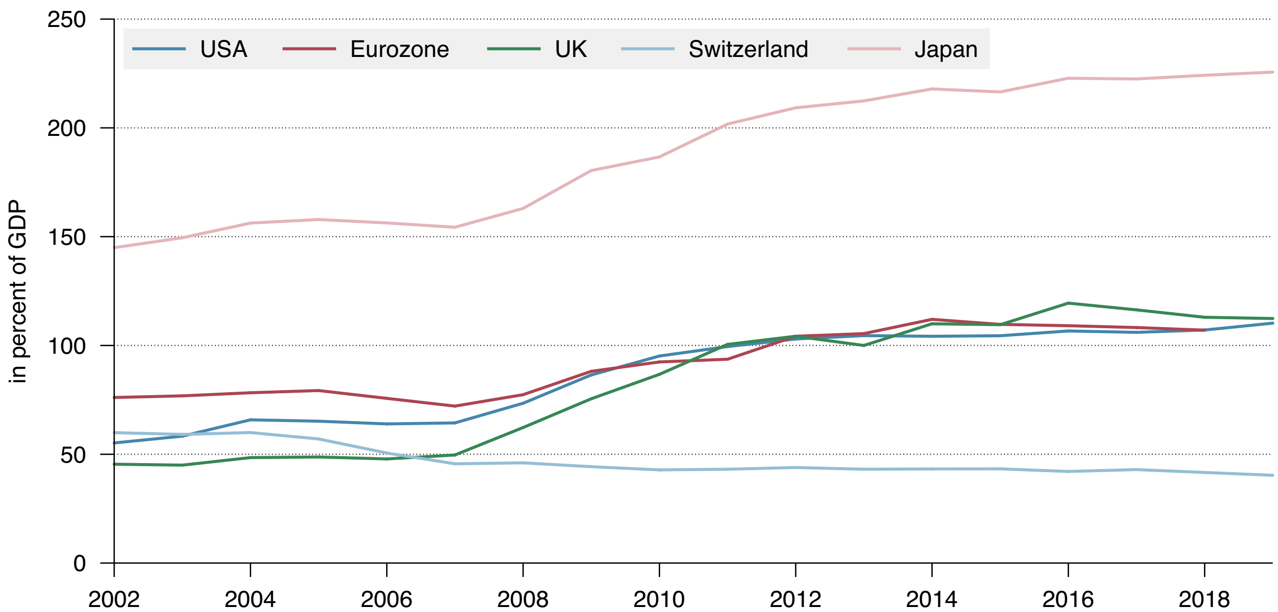
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

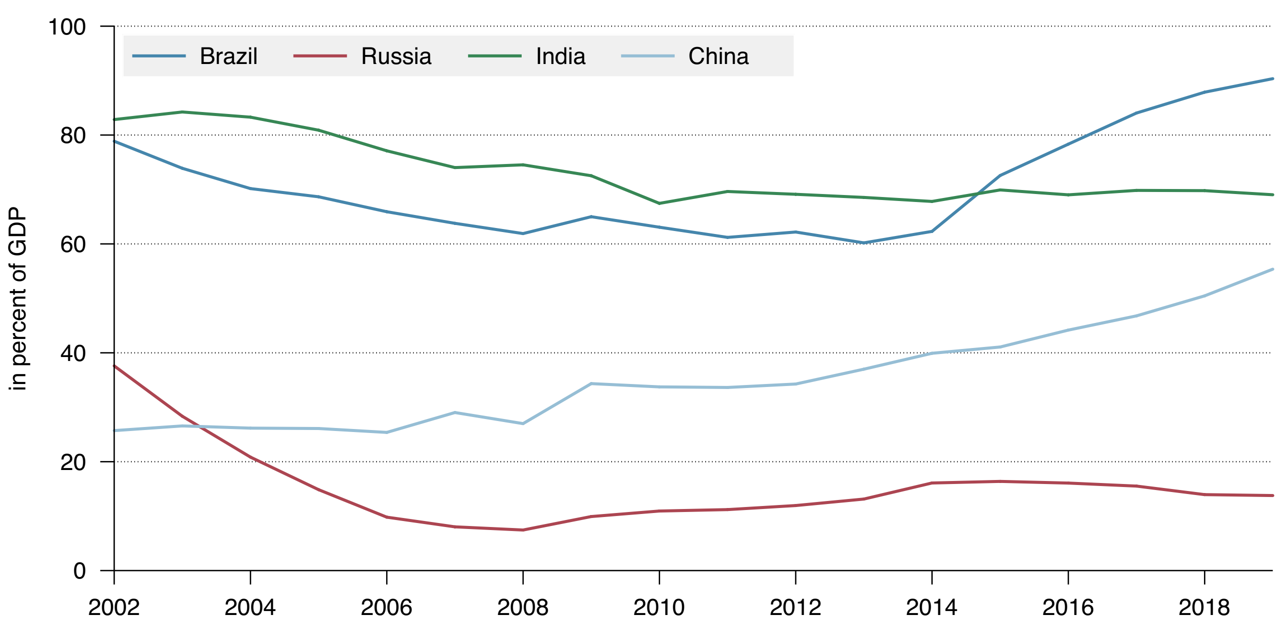


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Inflation

Inflation rates have moved only slightly in the advanced economies over the past month. Consumer prices rose a bit more in the UK, up 2.1 percent in April. This was in part due to an increase in the upper limit for gas and oil prices for British customers as well as rising house prices. Price pressure increased in the US as well, with inflation reaching 2 percent year-over-year. Looking ahead, it remains unclear to what extent the recent escalations in the US-China trade dispute will impact the development of prices in the US. Surely, first of all, the new tariffs will be felt in US producer prices. However, price concessions from Chinese exporters and a weaker renminbi versus the US dollar should ensure that consumer price increases in the US will be modest overall.

In Switzerland inflation recently slowed again. After the surprisingly strong first quarter, leading indicators point to rather sluggish economic activity in the coming months, which speaks in the short term for little additional inflationary effects. Given the heightened political uncertainties and the barely positive base effects from oil prices, the Swiss franc's appreciation potential also clouds the inflation outlook.

Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		2/2019	3/2019	4/2019	5/2019	2/2019	3/2019	4/2019	5/2019
United States	1.6	1.5	1.9	2.0	–	2.1	2.0	2.1	–
Eurozone	1.3	1.5	1.4	1.7	1.2	1.0	0.8	1.3	0.8
Germany	1.3	1.5	1.3	2.0	1.4	1.4	1.3	1.5	1.4
France	1.1	1.3	1.1	1.3	1.0	0.7	0.5	0.7	–
Italy	1.2	1.0	1.0	1.1	0.9	0.4	0.4	0.6	0.5
Spain	1.2	1.1	1.3	1.5	0.8	0.7	0.7	0.9	–
United Kingdom	2.2	1.9	1.9	2.1	–	1.8	1.8	1.8	–
Switzerland	0.0	0.6	0.7	0.7	0.6	0.4	0.5	0.5	0.6
Japan	0.3	0.2	0.5	0.9	–	0.4	0.5	0.6	–
Canada	1.6	1.5	1.9	2.0	–	1.5	1.6	1.5	–
Australia	2.1	1.5	1.3	–	–	1.4	1.3	–	–
Brazil	5.9	3.9	4.6	4.9	4.7	3.6	3.8	4.0	–
Russia	7.2	5.2	5.3	5.2	5.1	4.4	4.6	4.6	4.7
India	7.0	2.6	2.9	2.9	–	–	–	–	–
China	2.4	1.5	2.3	2.5	1.5	1.8	1.8	1.7	–
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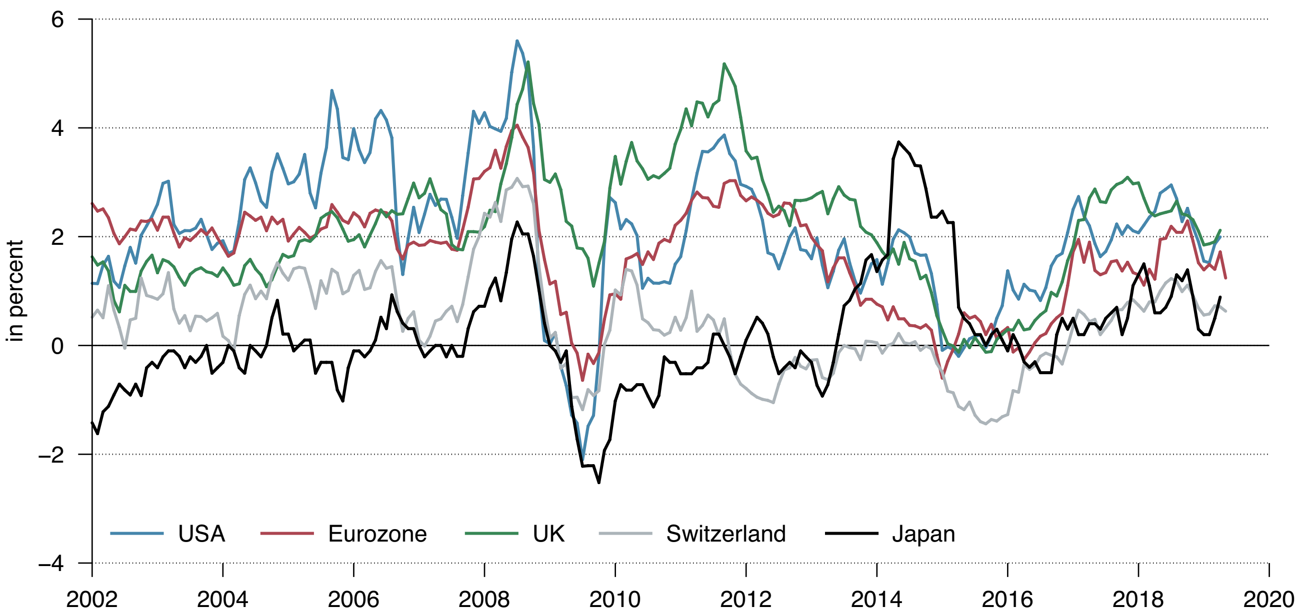
World economy[4]	2.7	1.8	2.2	2.4	2.3	1.6	1.6	1.7	1.6

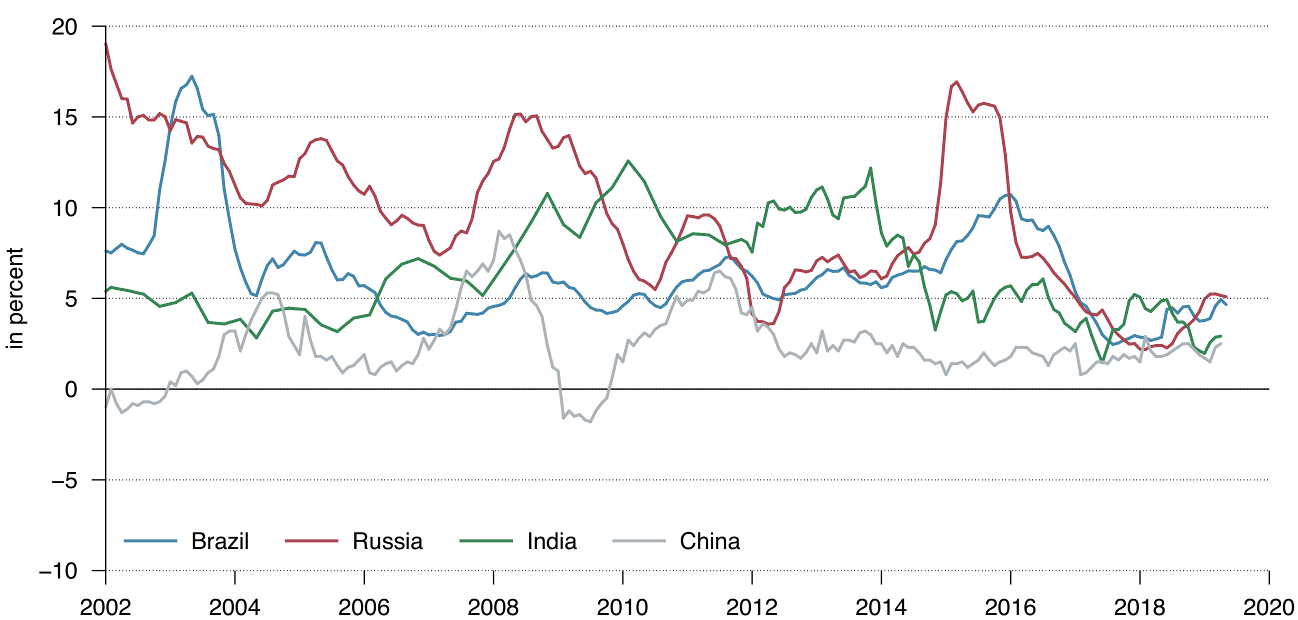
[1] Average annual consumer price inflation, in percent.
[2] Year-on-year change of the consumer price index (CPI), in percent.
[3] Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change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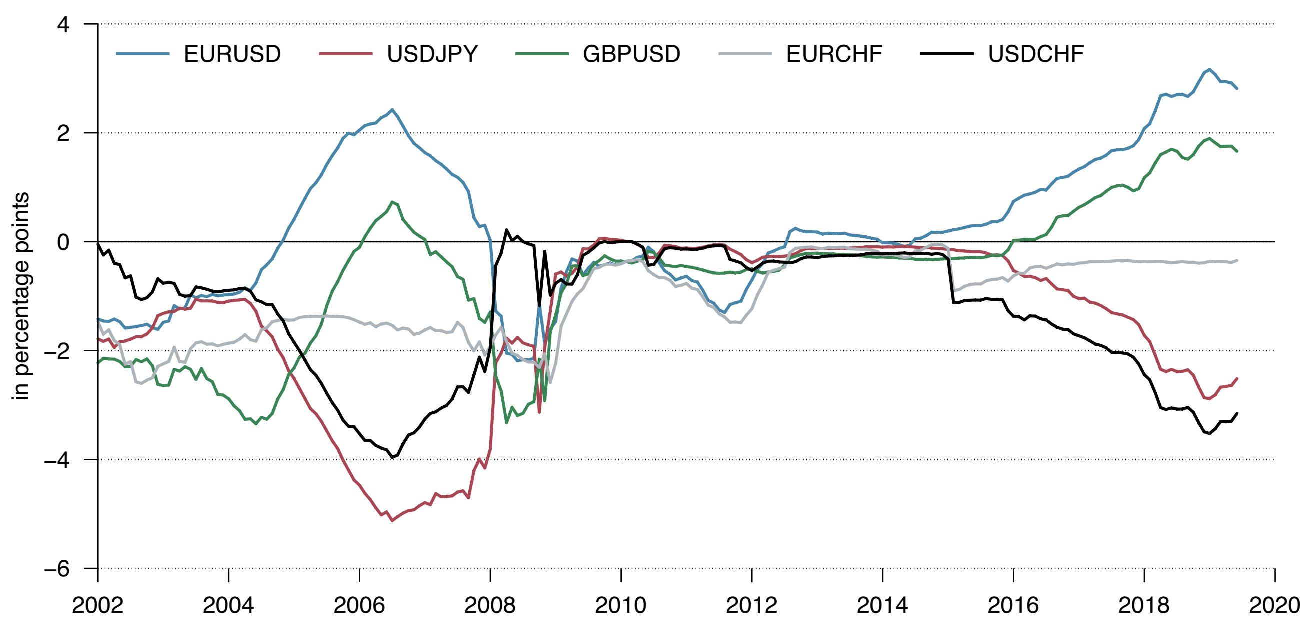
Interest rates

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	1.131	2.69	1.40	0.55	2.52	3.00	1.69	0.71	0.68
USDJPY	108.6	-2.37	-1.17	-0.65	-2.27	-2.65	-1.49	-0.91	-0.89
GBPUSD	1.272	1.71	0.61	0.12	1.37	1.83	0.72	0.14	0.12
EURCHF	1.123	-0.38	-0.43	-0.48	-0.36	-0.29	-0.42	-0.58	-0.58
USDCHF	0.993	-3.07	-1.84	-1.03	-2.88	-3.29	-2.11	-1.29	-1.27
GBPCHF	1.262	-1.36	-1.22	-0.91	-1.51	-1.46	-1.39	-1.15	-1.15
CHFJPY	109.4	0.70	0.66	0.38	0.61	0.63	0.62	0.38	0.37
AUDUSD	0.696	0.84	-0.55	-1.92	1.44	1.22	-0.04	-1.40	-1.42
USDCAD	1.328	-0.58	0.11	0.44	-0.20	-0.63	-0.12	0.24	0.23
USDSEK	9.447	-2.79	-1.50	-0.24	-2.18	-2.98	-1.69	-0.40	-0.38
USDRUB	64.5	3.86	8.63	7.51	5.20	3.79	8.11	7.18	7.21
USDBRL	3.864	13.54	12.17	9.83	3.76	4.82	8.86	9.05	9.11
USDCNY	6.914	2.02	2.54	3.07	0.88	1.63	2.26	2.69	2.69
USDTRY	5.827	16.93	12.92	10.46	25.34	17.67	12.86	10.52	10.40
USDINR	69.45	7.47	8.21	7.97	3.82	4.47	5.80	6.06	6.03

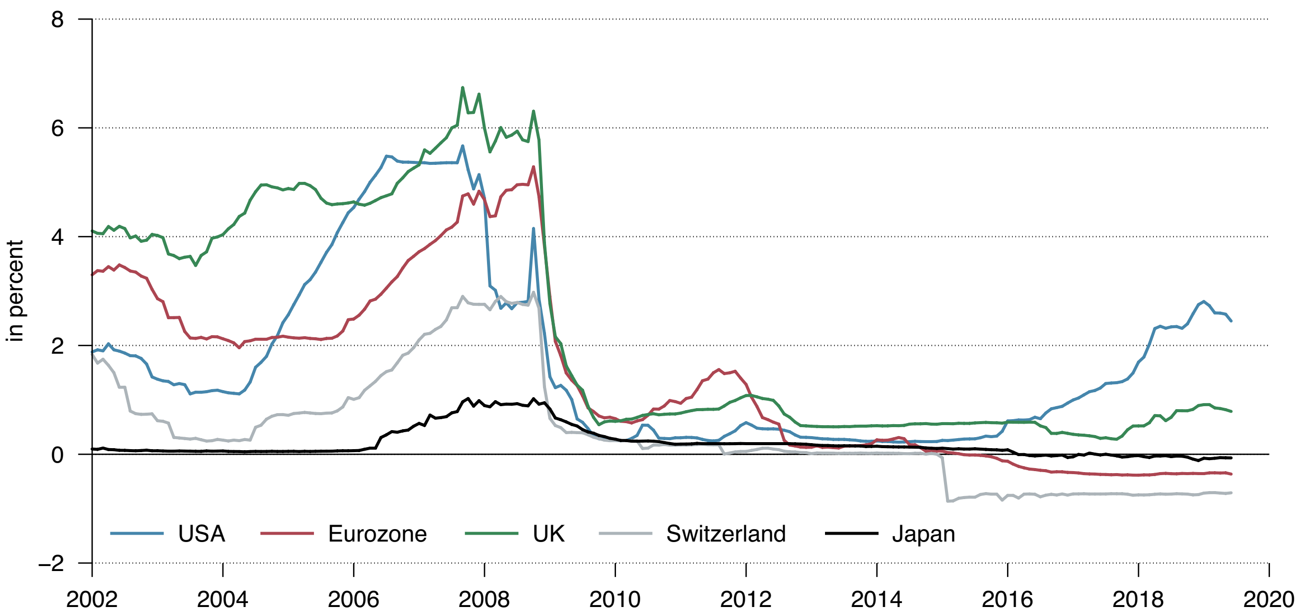
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

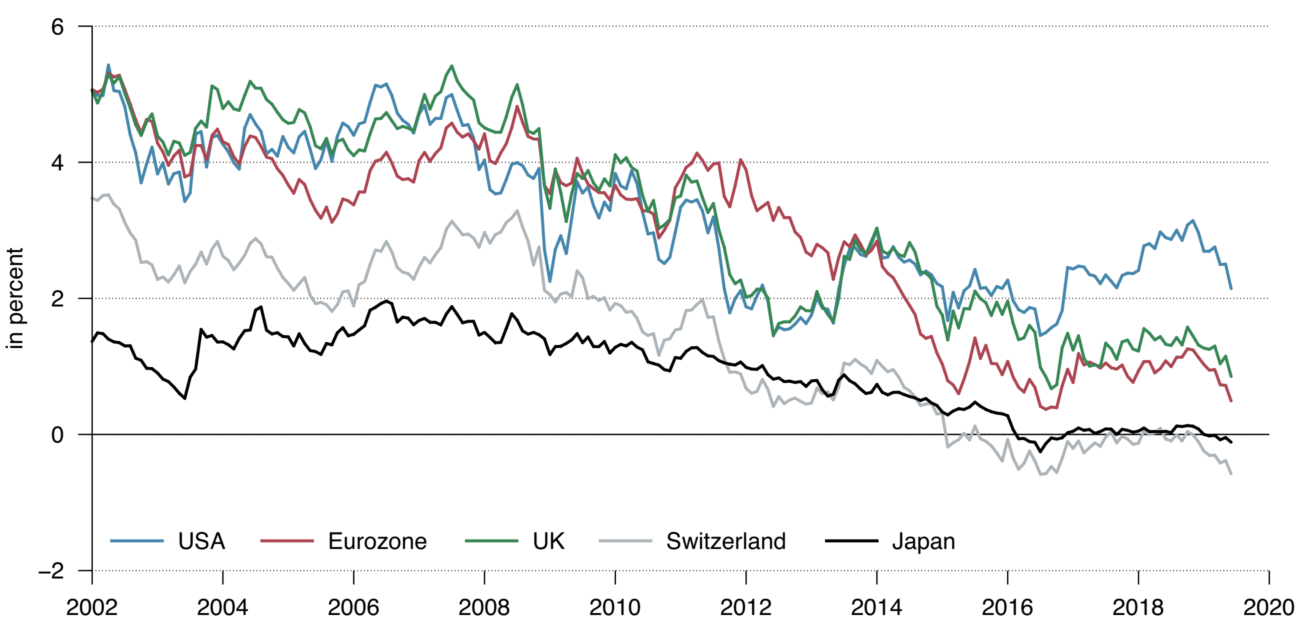


Source: Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX markets

The Swiss franc exchange rate is likely to have benefited significantly from investors' heightened risk aversion over the past month. The franc posted an increase of around 2 percent versus the euro and even a bit more against the US dollar. Unsurprisingly, according to our purchasing power parity estimates as well as on a trade-weighted basis, the franc is once again slightly more overvalued, by about 4.7 percent.

Political developments were on the radar of the currency markets in the past month. The escalation in the trade dispute between Mexico and the United States sent the peso downward. Over the month, Mexico's currency lost over 5 percent versus the US dollar. Conversely, the dollar may have suffered from recent developments in America's trade disputes with China and Mexico. Without a rapid resolution, protectionist trade policies will soon leave their mark on the US economy. The US Federal Reserve has already signaled its willingness to cut interest rates, if necessary, to support the US economy.

The British pound's losses were similar to those of the peso. A resolution of the Brexit issue is still undefined, with the likelihood of a hard UK exit from the EU recently increasing.

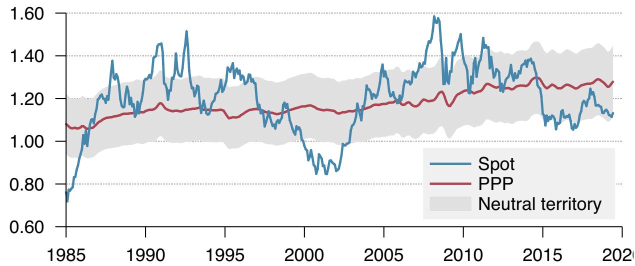
FX overview

	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.131	-1.0	0.0	-4.2	-16.4	1.28	1.11 - 1.44	-11.5
USDJPY	108.6	-1.0	-2.4	-1.2	6.5	86.3	71.1 - 101.4	25.9
GBPUSD	1.272	-0.1	-3.8	-5.0	-24.2	1.59	1.42 - 1.81	-20.1
EURCHF	1.123	-0.4	-1.2	-3.4	-7.7	1.18	1.1 - 1.26	-5.0
USDCHF	0.993	0.7	-1.2	0.8	10.4	0.92	0.81 - 1.04	7.3
GBPCHF	1.262	0.5	-5.0	-4.3	-16.4	1.47	1.27 - 1.68	-14.3
CHFJPY	109.4	-1.7	-1.2	-2.0	-3.5	93.3	78.9 - 107.6	17.3
AUDUSD	0.696	-1.2	-1.9	-8.6	-25.9	0.71	0.6 - 0.86	-1.4
USDCAD	1.328	-2.8	-0.3	2.1	22.2	1.21	1.11 - 1.31	9.7
USDSEK	9.447	6.6	1.6	9.1	41.1	7.65	6.6 - 8.7	23.5
USDRUB	64.5	-7.0	-1.5	3.0	87.6	46.2	36.7 - 55.8	39.6
USDBRL	3.864	-0.3	1.0	5.1	72.9	3.01	2.45 - 3.57	28.3
USDCNY	6.914	0.7	3.0	8.0	11.0	6.28	6.06 - 6.5	10.1
USDTRY	5.827	9.5	6.6	29.2	176.6	4.12	3.72 - 4.52	41.6
USDINR	69.45	-0.5	-0.1	3.0	17.1	67.8	63.5 - 72	2.5

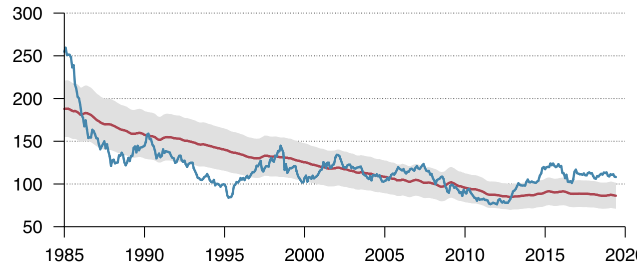
1 Performance over the respective period of time, in percent.
2 Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by ± 1 standard deviation of the historical variation around the PPP value.
3 Deviation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

Source: Thomson Reuters Datastream, Wellershoff & Partners

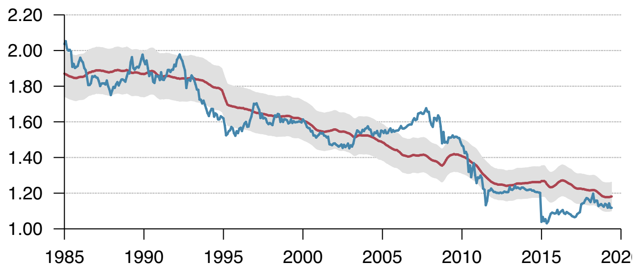
EURUSD



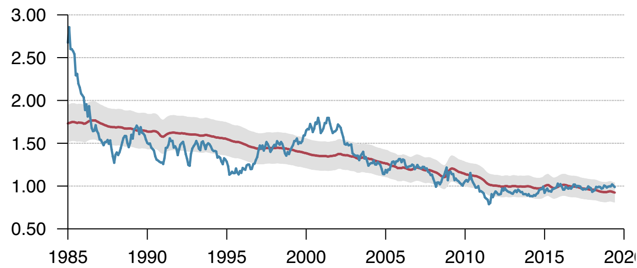
USDJPY



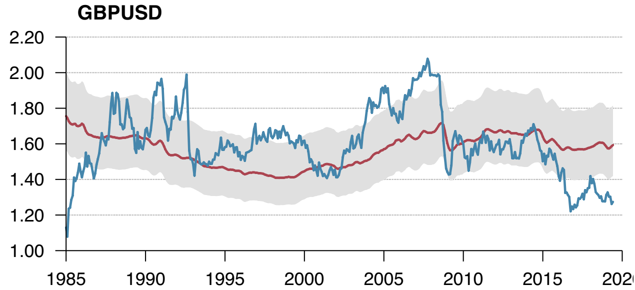
EURCHF



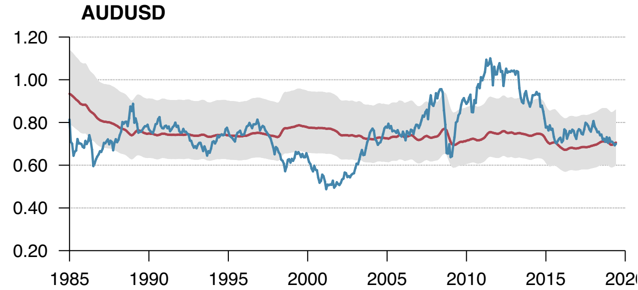
USDCHF



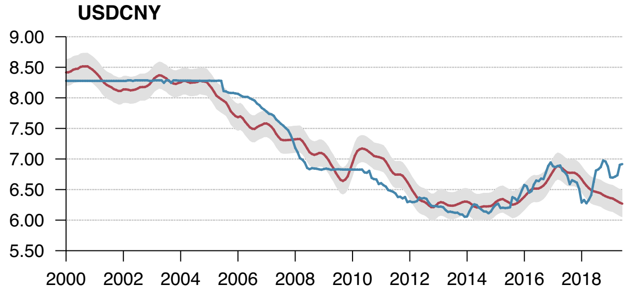
GBPUSD



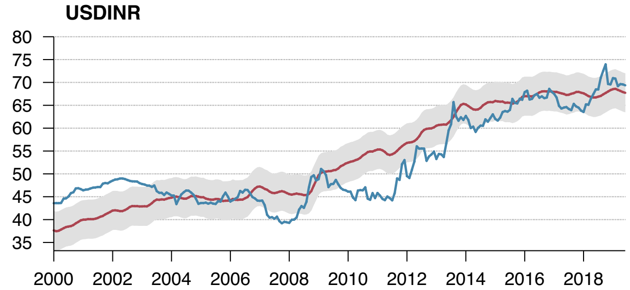
AUDUSD



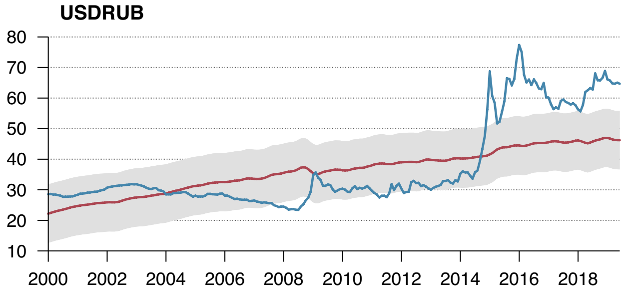
USDCNY



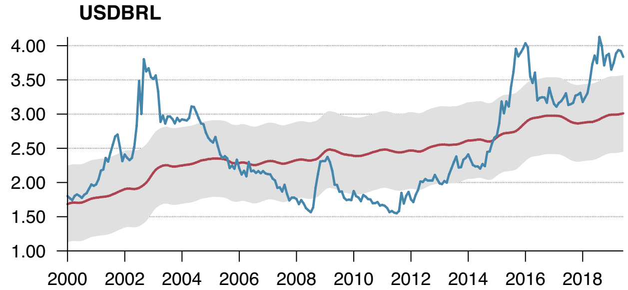
USDINR



USDRUB



USDBRL



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	1.131	5.4	8.4	9.5	6.4	6.2	8.6	10.1	10.2
USDJPY	108.6	6.6	9.0	9.9	6.1	7.1	9.4	10.8	10.8
GBPUSD	1.272	7.0	9.1	9.3	8.3	9.6	9.3	9.9	10.0
EURCHF	1.123	4.4	6.0	6.2	4.7	5.0	6.6	6.9	6.9
USDCHF	0.993	5.5	8.3	9.6	5.7	6.2	8.8	10.1	10.2
GBPCHF	1.262	6.9	9.2	9.4	7.8	9.2	9.4	10.0	10.1
CHFJPY	109.4	5.9	8.9	10.6	6.3	6.7	9.5	11.4	11.5
AUDUSD	0.696	7.3	9.7	11.1	8.3	8.3	10.3	11.8	11.9
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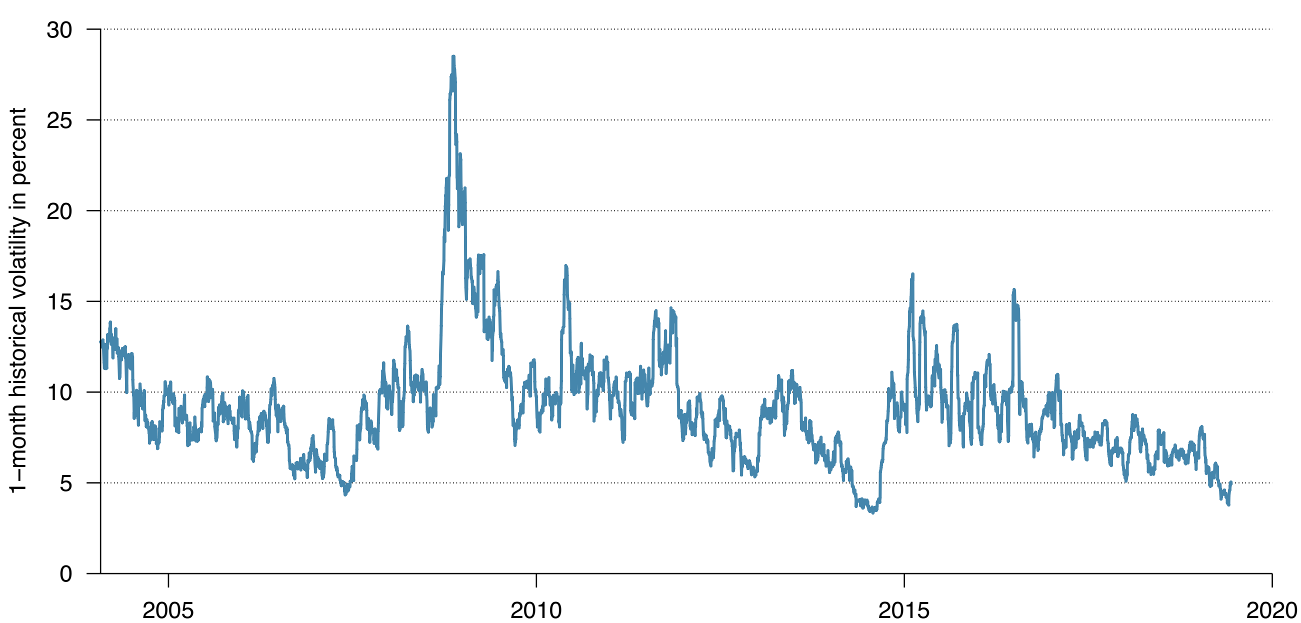
USDSEK	9.447	7.7	9.7	11.4	8.8	8.3	10.0	11.9	12.0
USDRUB	64.5	9.7	17.0	14.3	10.6	11.6	17.2	15.1	15.2
USDBRL	3.864	13.5	15.8	14.8	14.7	13.7	15.9	15.5	15.6
USDCNY	6.914	4.9	4.5	3.4	4.3	5.5	5.3	4.4	4.4
USDTRY	5.827	19.2	14.8	13.3	27.7	23.3	15.8	14.6	14.5
USDINR	69.45	5.5	6.7	8.6	6.5	6.6	7.8	9.6	9.7

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

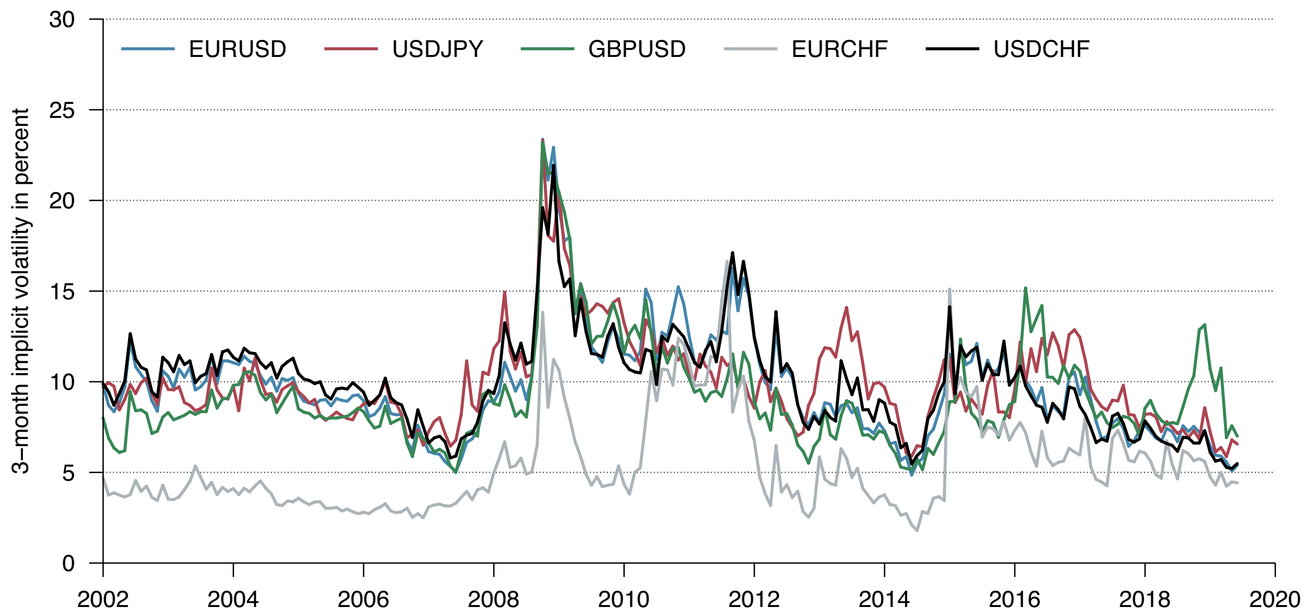
QCAM volatility indicator[3]



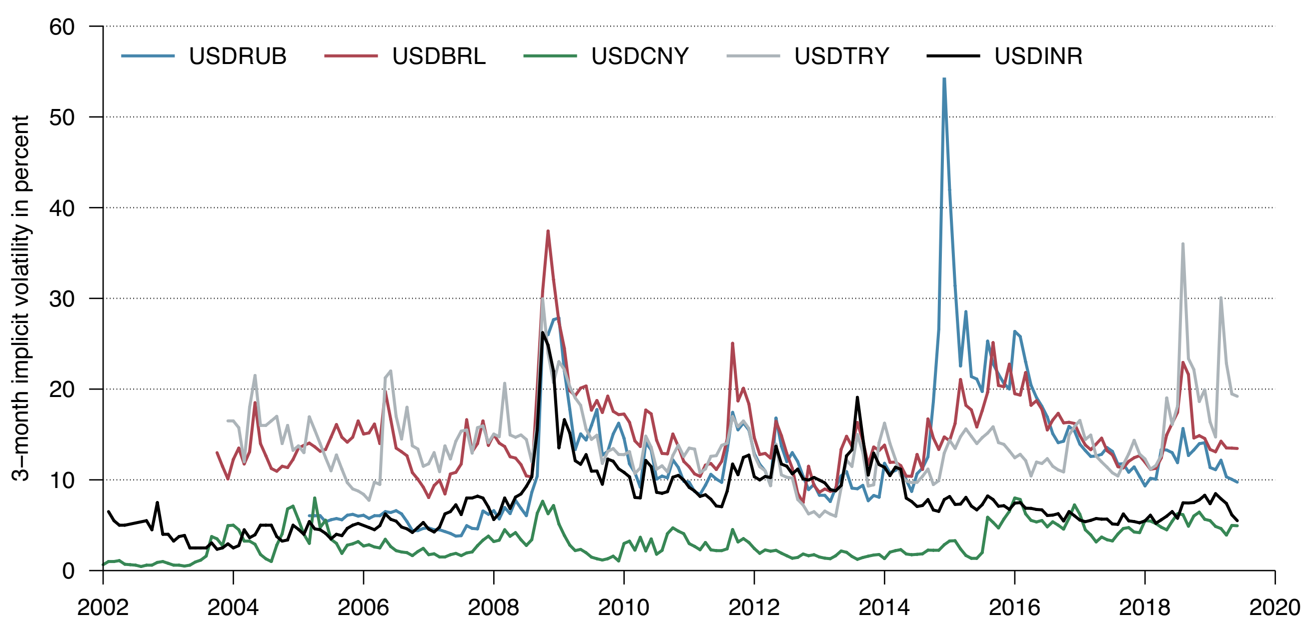
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implicit volatility



Implicit volatility



Source: Thomson Reuters Datastream, Wellershoff & Partners

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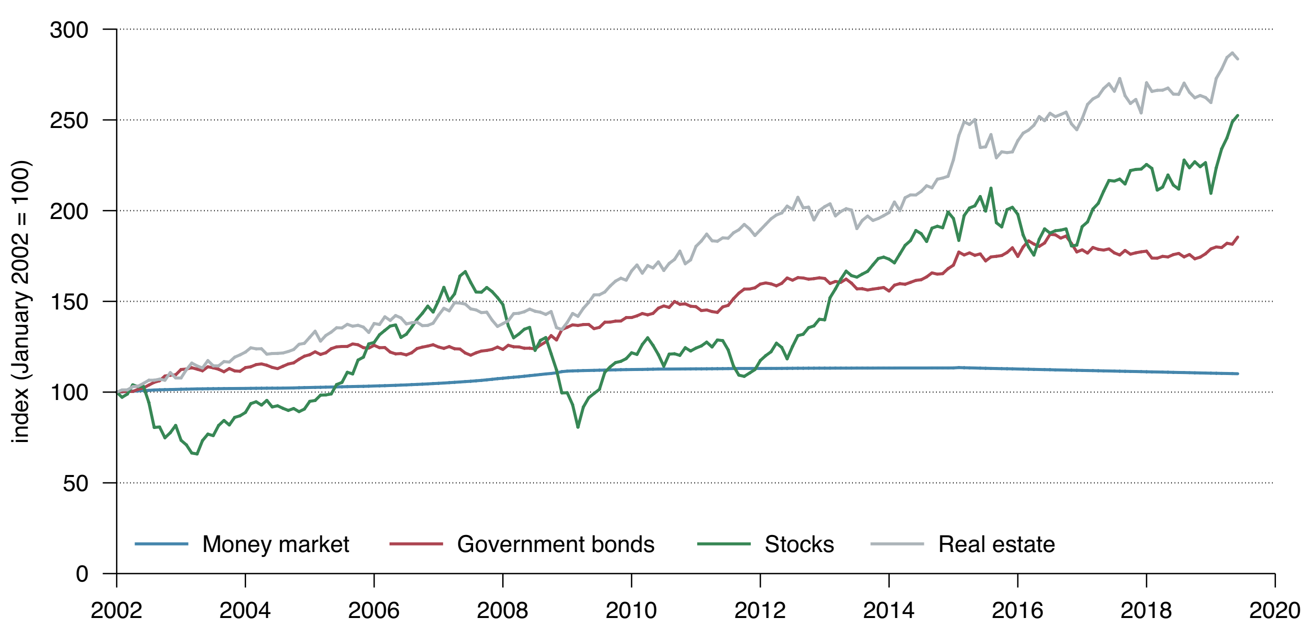
Financial markets

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	-0.3	-0.2	-0.7	-2.8	-0.3	-0.2	-0.7	-2.8
Swiss government bonds	3.6	2.2	6.7	15.3	3.6	2.2	6.7	15.3
Swiss corporate bonds	3.1	1.9	4.4	10.9	3.1	1.9	4.4	10.9
Swiss equities (SMI)	20.5	6.9	17.9	33.8	20.5	6.9	17.9	33.8
European equities (Stoxx600)	15.7	3.5	1.7	29.5	15.3	2.3	-1.8	19.4
UK equities (Ftse100)	12.5	4.7	-0.1	31.7	13.1	-0.5	-4.4	9.8
Japanese equities (Topix)	5.7	-0.8	-10.5	40.1	7.6	0.4	-8.7	45.2
US equities (S&P 500)	16.2	3.2	5.8	65.7	15.4	4.4	5.0	50.0
Emerging markets equities	7.9	-1.0	-6.7	12.1	7.2	0.2	-7.5	1.5
Global equities (MSCI World)	15.2	3.1	2.3	40.5	14.4	4.3	1.5	27.2
Swiss real estate	9.2	0.1	7.9	34.6	9.2	0.1	7.9	34.6
Global real estate	15.7	2.9	10.9	35.1	14.9	4.1	10.0	22.3
Commodities	1.0	-5.0	-13.6	-42.3	0.3	-3.8	-14.3	-47.8
Brent oil	18.1	-6.7	-18.1	-44.1	17.3	-5.5	-18.8	-49.4
Gold	3.5	1.4	1.9	4.2	2.8	2.6	1.1	-5.7

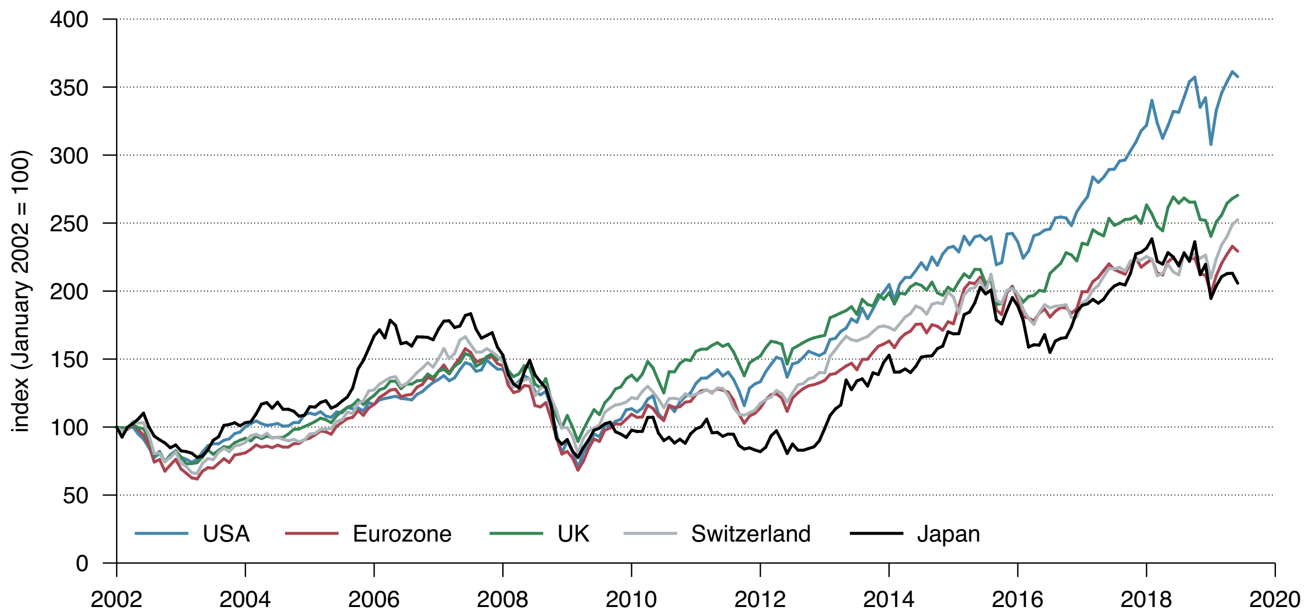
1 Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

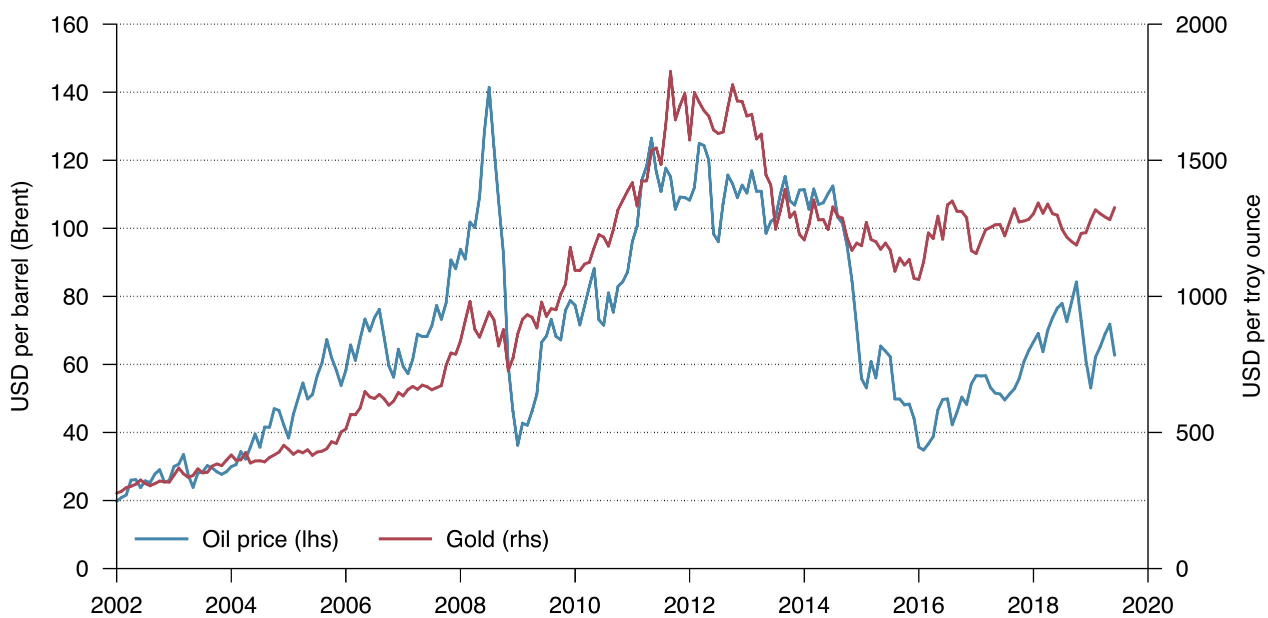


Source: Thomson Reuters Datastream, Wellershoff & Partners

Performance of selected equity markets (in local currency)



Performance of selected commodity prices



Source: Thomson Reuters Datastream, Wellershoff & Partners

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Number of the month

60.8 USD

The price of North Sea Brent crude oil hit a new low near USD 60 per barrel in early June. For context, it was at USD 75.60 at the end of April, as US sanctions against Iran fanned supply worries. In the meantime, another set of concerns has moved markets even more. Today, the intensifying trade conflict between China and the US is likely responsible for the recent pressure on oil prices.