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QCAM Insight ++ The macro perspective ++ FX market talk
Economic activity ++ Inflation ++ FX markets ++ Financial markets
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QCAM Currency Asset Management AG
Guthirtstrasse 4
6300 Zug
Switzerland

Wellershoff & Partners Ltd.
Zürichbergstrasse 38
8044 Zürich
Switzerland

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Contents

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QCAM Insight

Emerging markets remain under pressure

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

Emerging markets already lost their luster a few years ago thanks to some country-specific problems but also for broader reasons. Gone are the days of turbo-charged growth and surpluses, while external debt is again on the rise. These problems are set to plague EM currencies for some time to come, especially in Latin America. But a systemic EM crisis, as we saw in the late 1990s, seems less likely today.

In the November 2018 issue of FX Monthly we predicted that, after a brief reprieve, emerging market currencies would again come under pressure. In fact, the lull lasted a bit longer than we expected, until the end of the first quarter of this year, but since then EM currencies are down 8 percent on average versus the USD. This decline has been exacerbated by the sharp devaluation of the Argentine peso, while some currencies – the Thai baht, for example – appreciated, but the clear trend for most EM currencies over the last six months has been negative.

Interestingly, this has happened as the US Fed reversed its monetary policy and actually cut interest rates by 50 bps. Lower US interest rates usually help EM currencies. Thus, the weaker performance of EM currencies suggests that the pull of other negative forces has been stronger.

Not just Trump

One obvious factor dragging on emerging markets is the global economic slowdown, especially in manufacturing. The trade conflict between the US and China, with its negative effect on both trade and business sentiment, surely is the villain here. But broader developments suggest that the pace of globalization is stalling. That means not only slower external demand growth but also reduced investment and smaller productivity gains. The growth slowdown in China has the effect of suppressing the growth potential of the emerging markets as a whole.

More deficits ...

The other negative for emerging markets is the deterioration of their fiscal and external balances. Slowing growth, large fiscal stimulus efforts and a lack of deficit consolidation have sent fiscal balances deep into the red in many EM countries. The total EM fiscal deficit now stands at 5 percent of GDP. In parallel, current account balances have slipped as well (see chart). After more than a decade of surpluses, the aggregated EM current account balance has turned negative. This is partly the result of China's declining surplus but more and more EM countries are running

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deficits and some of them are large. These developments reflect both the effects of stalling trade as well as strong domestic demand.

... and debt

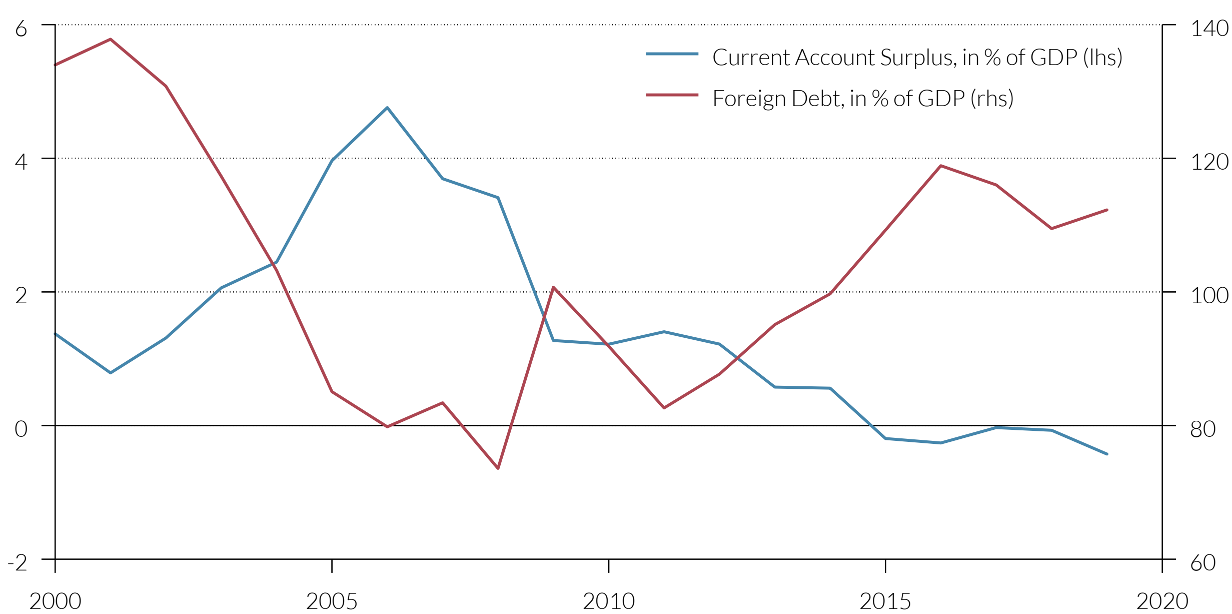
Over time, the accumulation of government and current account deficits has led to more public and external debt. The rise in EM external debt, which exceeds 100 percent of annual export revenues, is of particular concern. This is not only the result of accumulated deficits but also increased corporate borrowing in foreign currencies, mostly in USD. Low interest rates and a period of relatively stabile exchange rates have tempted many EM corporates to borrow in USD. The appreciation of USD coming just as export revenues stagnate increases the burden of these liabilities on EM companies.

Another crisis looming?

Of course, the worry is that these developments could lead to a systemic EM crisis, as seen in the late 1990s. China is a big question mark for the global economy in many ways, but we think it is unlikely to be the source of a payments crisis. Rather, the Latin American countries as well as South Africa, Turkey and India are more vulnerable to payments problems, in our view. The chance that a crisis in one of these countries sparking a broader contagion is not quite zero, but we also think it is not the most likely scenario.

For one thing, some of the bad apples have already dropped – most notably Argentina – without derailing financial markets. For another, most EM economies have built up their defenses, notably higher foreign reserves, and they are willing to tighten policy when the pressure mounts – for example, Turkey. In addition, many countries have made their currency regimes more flexible than they were in the 1990s, relieving some of the pressure before things come to a head. And finally, the IMF is faster and more decisive in responding to signs of trouble – as we saw in Argentina – while the leading global central banks, especially the Fed, are taking more account of EM risks in their policy considerations.

EM current account and external debt
% of GDP (lhs) and % of exports (rhs)



Source: IMF and QCAM Currency Asset Management

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The macro perspective

The power and impotence of Mario Draghi

As his term winds down, Mario Draghi has again shown how great the influence of the president of the European Central Bank is. At the same time, the plight of Italy also shows how little monetary policy influences growth. Next month Christine Lagarde takes over as ECB president. She faces a mixed and challenging economic picture.

Industrial production shows no signs of snapping out of its coma, and leading indicators suggest that this won't happen soon. Historically, at least in Europe, consumers have never managed to decouple from the industrial cycle for very long. Manufacturing and the jobs it represents are still too interwoven into the rest of the economy. Thus, Europe's ongoing manufacturing softness makes a further weakening of the economy likely.

The European Central Bank reacted vigorously to this gloomy outlook in September with a large package of measures. Not only were the interest rates that banks have to pay on their deposits with central banks pushed even further into negative territory; the ECB's bond-purchasing program was also resumed only nine months after it was ended.

The power of the president

By hammering through these measures, which were already announced in a speech in June, ECB President Mario Draghi once more put himself in the spotlight at the end of his term of office. The measures themselves seem to have been highly controversial within the bank's Governing Council. The heads of the central banks of Germany and France are said to have spoken out against the resumption of the bond purchasing program. And Sabine Lautenschläger, the German member of the ECB's Executive Board, resigned in late September, two years before the end of her term of office, without explanation. Critics' skepticism about the bond purchases is well known. The decision shows the influence of the president on the decision-making committee, which comprises 25 people. Without Mario Draghi at the top, a different decision would probably have been made.

The impotence of the president

There are many who say that Mario Draghi has made monetary policy to suit conditions in his home country of Italy. Of course, any member of the Governing Council would deny such a charge. But is there still some merit to the charge? Low interest rates help debtor states, an effect that Draghi believes contributes to financial stability, which is something that Italy can benefit from, in particular.

However, there are many indications that Draghi did not explicitly wear a pair of Italian glasses – but that he simply advocates the "Keynesian," demand-oriented approach that is quite normal in the Anglo-Saxon area. According to this view, declining growth should always be met with increased stimulus, be it via monetary policy or, as is now again explicitly demanded, with a more expansionary fiscal policy. Overly weak growth could cause long-lasting damage, so this must be tackled at all costs.

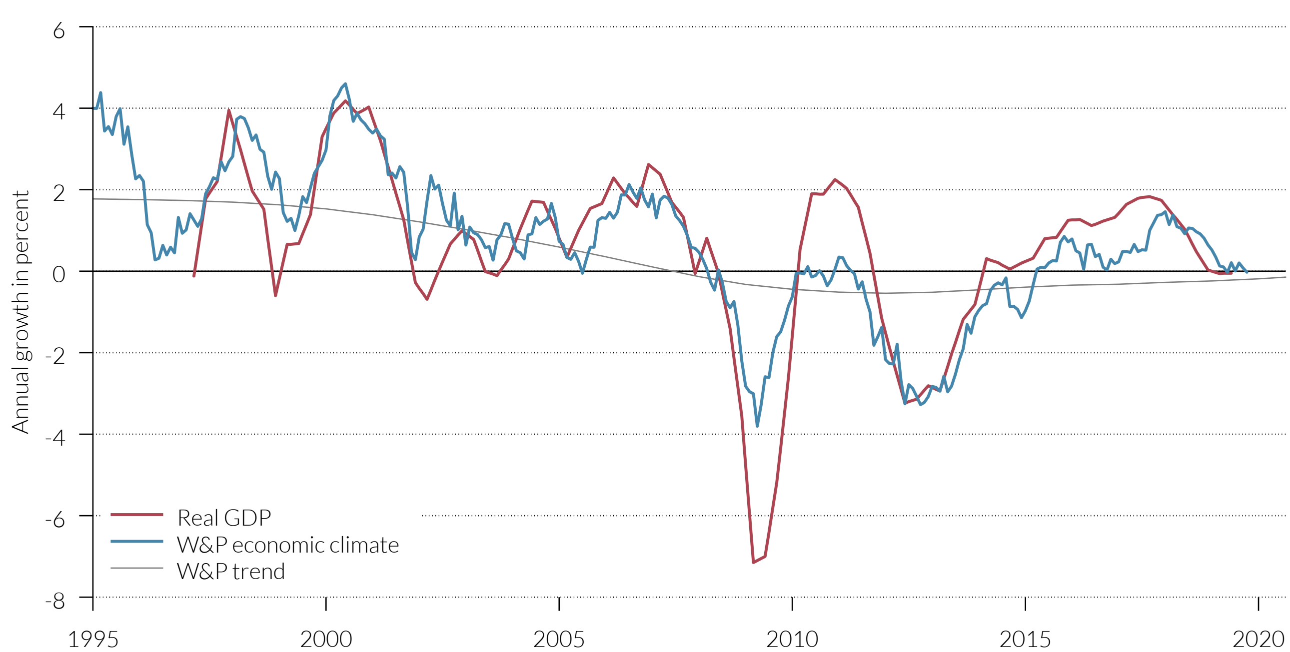
But this policy approach is reaching its limits, in our view. The example of Italy shows that despite expansive monetary policy, growth can still remain stubbornly low. The reason is simple. Potential growth in Italy is much lower than it is in other countries. Long-term trend growth is determined by factors like population growth, productivity and capital accumulation. Italy has probably already been in negative growth territory in recent years and monetary policy has had little effect there. Structural reforms or efforts to make the country more attractive for investors would be much more effective. Thus, as great as the influence of the ECB president may be, for the longer-term growth of his home country his influence remains limited.

En garde, Lagarde

This raises the question of how Christine Lagarde will make her mark on the ECB. She faces a situation in which the EU's largest economy, Germany, is still struggling with zero growth. Last summer, German industry was the first in the world to enter a period of weakness, owing to the problems the German car industry had with meeting a new exhaust gas testing procedure. Thereafter, the weakness in the automotive sector was replaced by other factors, and the expected recovery never took place.

However, weakness is much less pronounced in other major European economies and expectations remain high. In France, labor and social unrest temporarily hobbled growth last year. But these problems did not recur this year, which promptly enabled better growth rates. Spain, too, is still developing nicely, although the latest leading indicators show a slight downturn. How Lagarde responds to Europe's heterogenous economy, and how she adheres to or departs from the policies of her predecessor will be closely watched. Given her background, a change in the Keynesian, stimulus-oriented monetary policy approach should not be expected.

Low trend growth in Italy



Source: Refinitiv, Wellershoff & Partners

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FX market talk

SEK and NOK face unfavorable trade winds

The currencies of Sweden and Norway are undervalued by around 20 percent against the US dollar. This is partly because of flagging demand for their exports. Their currencies are therefore doing what they should be doing, namely reflecting the international dollar prices for their exports and acting as shock absorbers. This may also explain why their undervaluation against the euro is less extreme, at around 8 percent.

The composition of trade matters for FX

Exports of goods and services account for nearly half of Sweden's GDP. In the case of Norway, that number is close to 40 percent. These are big shares, and if the external environment is unhelpful, logically there has to be an impact on the exchange rate.

While many market commentators focus on the interest rate story and on what central banks may or may not do, regular readers of QCAM's FX Monthly will know that the predictive power of interest rates for exchange rate forecasts is open to debate. Currencies with negative interest rates can be strong (the Swiss franc) or weak (the Swedish krona); and currencies with a similar positive nominal interest rate (the US dollar and the Norwegian krone, say) can take very different paths over extended periods of time.

Swedish electronics and paper

We think the current extreme cheapness of the Swedish krona and Norwegian krone is more a reflection of the lower demand for their exports. World trade growth is currently negative year-on-year, a chill breeze that is being felt across many export sectors. This is certainly the case for Sweden's catalogue of export items: machinery, nuclear reactors and related components, vehicles and their components, electronic equipment, paper and paper products, and plastics, among other products. As we were applying the finishing touches to this article, we received Sweden's Manufacturing PMI number for September: 46.3 vs analysts' estimates of 52 – a further confirmation that, despite its cheap currency, demand for Sweden's manufactured goods is weak. Of course, this also reflects the current global trade downturn, but the news hit the SEK harder on that day relative to the USD and the EUR. This is also a reminder that even when products are heavily discounted via a cheap currency, the market does not always magically buy them. Take the case of paper: The world is moving away from newspapers, magazines, paper money and postcards, and cutting the price of Sweden's paper products will not revive demand to what it was in the old days. It takes time to devise new products and new uses.

Norway's oil

What about neighboring Norway? Its main exports are mineral fuels, oils and distillation products, the prices of which are tightly linked to the global commodity cycle and the international price of oil. In the case of the Norwegian krone, there are all kinds of leads and lags with the oil price, which make the correlations changeable and unreliable over the short term. But there is still a clear link. When the price of oil went from USD26 per barrel in 2001 to USD140 per barrel in 2008, the Norwegian krone appreciated sharply, from over 9 krone to just 5 krone to the US dollar. This characteristic will likely be remembered by the markets when oil prices spike again. Moreover, while Norway's ability to tap into its rainy-day fund of over a trillion US dollars held in foreign assets does not quite make the NOK a safe haven, it does set this oil-producer's currency apart from the Russian ruble and the Saudi riyal.

Some insights from Switzerland's trade composition

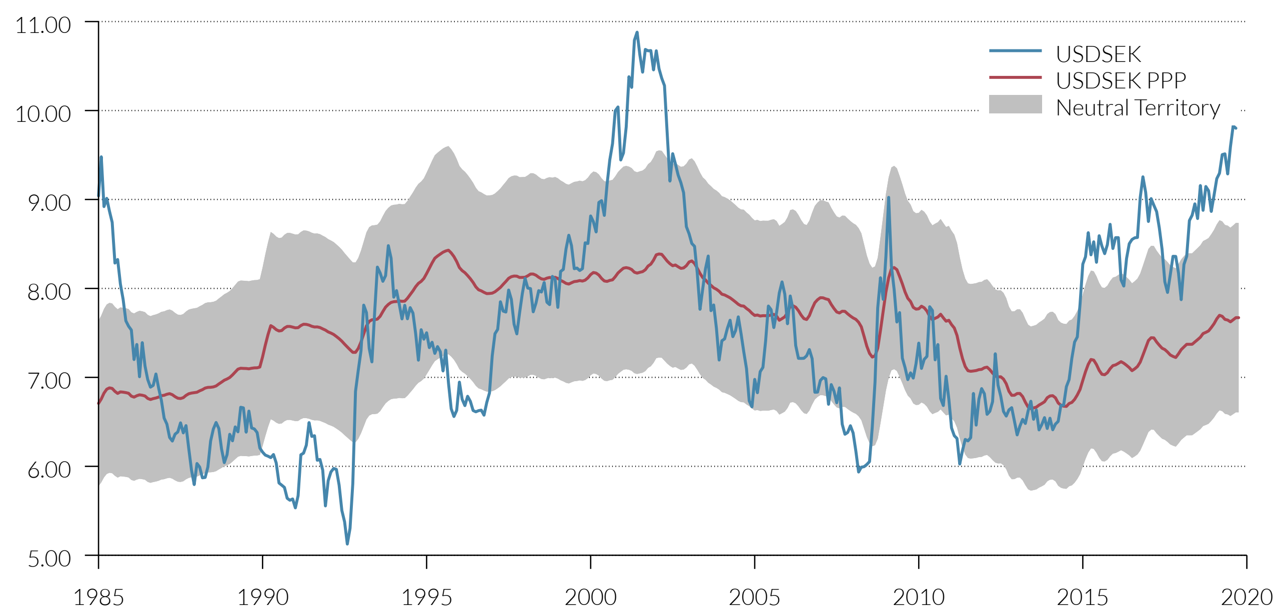
While exports are also a very large share of the Swiss economy, Switzerland is currently in the fortunate situation that key parts of its export mix remain in high demand, despite the poor global trade growth environment. It turns out that not everything is declining.

The pharmaceutical industry dominates Swiss exports. The chemical and pharmaceutical industries have steadily increased their share of total exports in recent years and now account for almost half of all Swiss exports. Without the contribution from the chemical and pharmaceutical industries, Swiss exports would hardly be growing at all. The relatively low sensitivity of the pharmaceutical industry to economic cycles has also helped to support the top-line Swiss export numbers. This, in turn, must have also supported the Swiss franc relative to the SEK and the NOK, which are undervalued by around 15 percent versus the franc.

Concluding thoughts

Relative to our purchasing power parity estimates, the Swedish krona and the Norwegian krone are around 20 percent undervalued against the US dollar. For both currencies, these are unusually large deviations relative to the dollar. Similar extreme deviations have also occurred in the past – see, for example, the early 1990s and the early 2000s in the chart. The chart also shows that while these large valuation gaps can persist for extended periods (look at the period 1987 to 1993, for example), they are ultimately unsustainable.

The Swedish Krona continues to languish



Source: Wellershoff & Partners

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Economic activity

The industrial sector continues to weaken globally. In September, the key sentiment indicator for American industry, the ISM Manufacturing Index, remained below the growth threshold of 50, having dropped below this mark for the first time in August. The sentiment indicator for European industry as well as the one for Japan reached their lowest levels since 2013, while in Switzerland the indicator reached a ten-year low.

While industrial sentiment reached its lowest levels since the 2008 financial crisis and the European debt crisis of 2010, other sectors of the economy exhibited astonishing robustness – until now. The latest figures may be suggesting that industry's malaise is spreading to other sectors. The latest services sector figures from the US and Germany have been a lot worse than expected, elevating the risk of recession, although the real magnitude of the downturn in services is still unclear.

Britain, where a broad, cross-sector slump has been visible for some time, is a special case. The turmoil around Brexit is extracting its price. Currently, in no other country are the indicators as low. Thus, despite the pound's recent appreciation, we advise a cautious stance toward Britain.

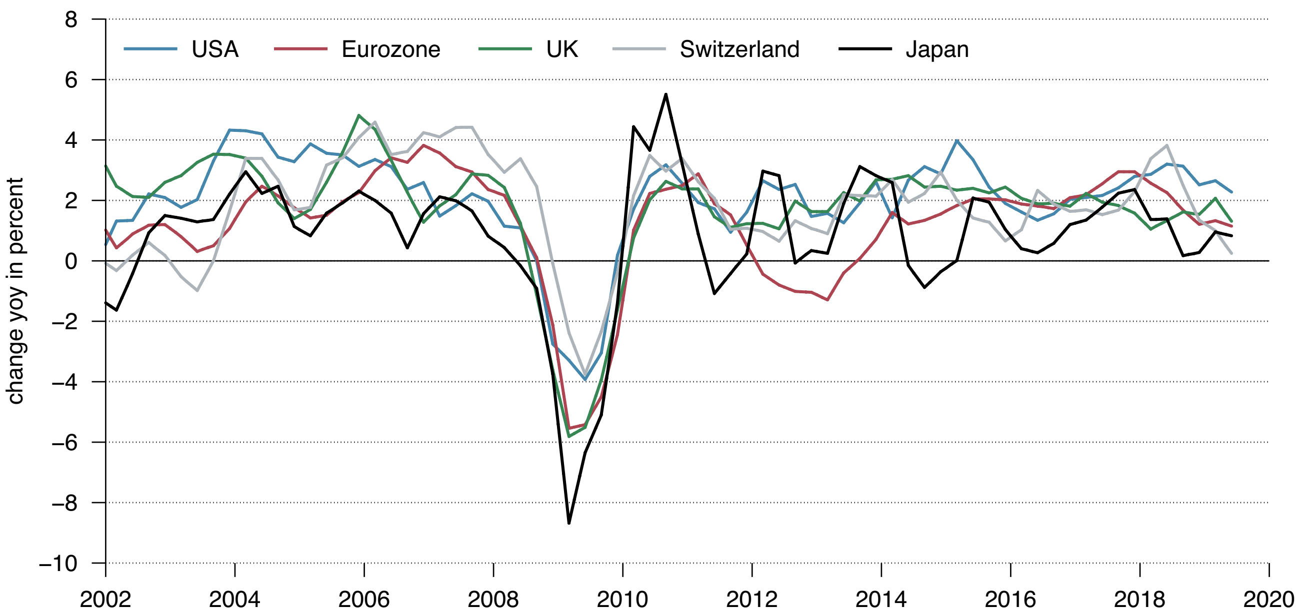
Growth overview

	Trend growth[1]	Real GDP growth[2]				W&P economic sentiment indicators[3]			
		Q4/2018	Q1/2019	Q2/2019	Q3/2019	6/2019	7/2019	8/2019	9/2019
United States	1.7	2.5	2.7	2.3	–	2.3	2.2	2.0	1.5
Eurozone	1.0	1.2	1.3	1.1	–	1.7	1.6	1.7	1.4
Germany	1.4	0.6	0.9	0.4	–	1.7	1.4	1.4	1.2
France	0.7	1.2	1.3	1.4	–	1.5	1.5	1.5	1.5
Italy	0.2	0.0	-0.1	-0.1	–	0.0	0.2	0.1	0.0
Spain	1.6	2.1	2.2	2.0	–	1.7	1.8	2.0	1.6
United Kingdom	1.8	1.5	2.1	1.3	–	1.0	0.9	0.7	0.3
Switzerland	1.5	1.4	1.0	0.3	–	1.6	1.2	1.4	1.0
Japan	0.4	0.3	1.0	0.8	–	1.9	1.7	1.6	1.5
Canada	1.6	1.6	1.4	1.6	–	1.6	1.6	1.8	1.3
Australia	2.4	2.2	1.7	1.4	–	2.4	2.3	2.3	2.4
Brazil	1.4	1.1	0.5	1.0	–	1.2	1.7	1.8	–
Russia	0.1	2.7	0.5	0.9	–	-1.0	-0.4	-0.5	-3.2
India	7.7	6.6	5.8	5.0	–	5.1	5.1	5.0	5.0
China	7.4	6.4	6.4	6.2	–	6.2	6.3	6.4	6.6
Advanced economies[4]	1.4	1.8	1.9	1.6	–	2.0	1.8	1.7	1.4
Emerging economies[4]	6.0	4.9	4.5	4.4	–	4.4	4.6	4.5	4.7
World economy[4]	3.5	3.4	3.3	3.1	–	3.0	3.1	3.0	2.9

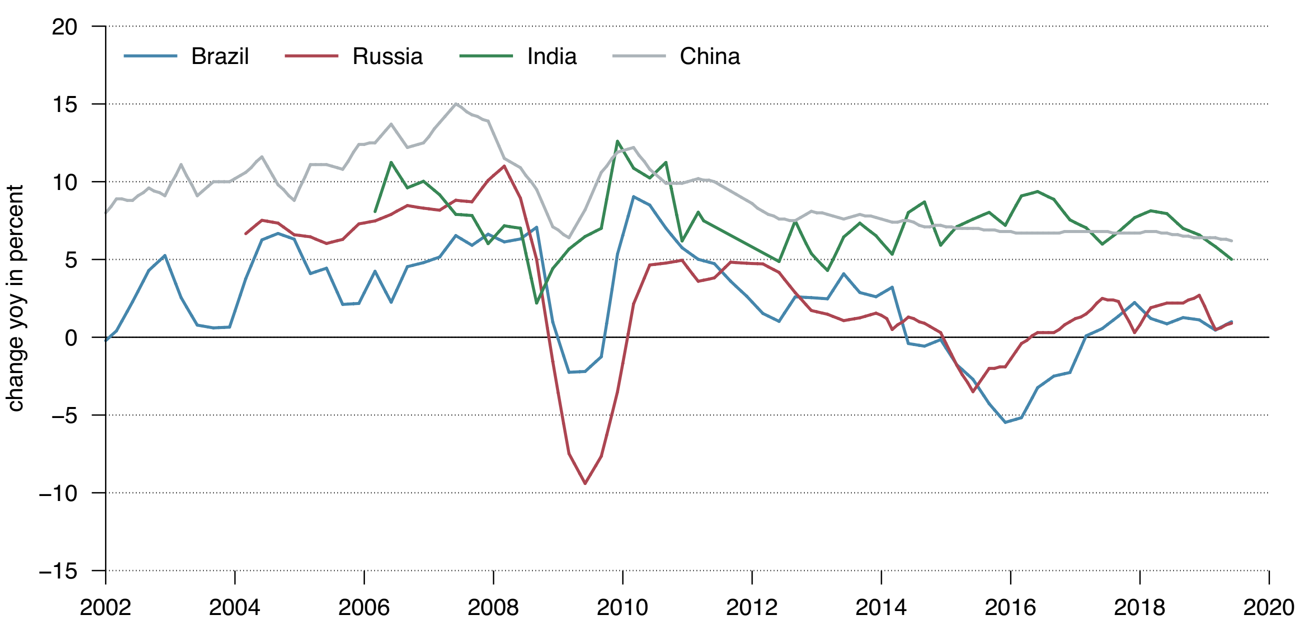
[1] Current year-on-year trend growth rate of real GDP, in percent, according to the proprietary trend growth model of Wellershoff & Partners.
[2] Year-on-year growth rate, in percent.
[3] Wellershoff & Partners economic sentiment indicators are based on consumer and business surveys and have up to 6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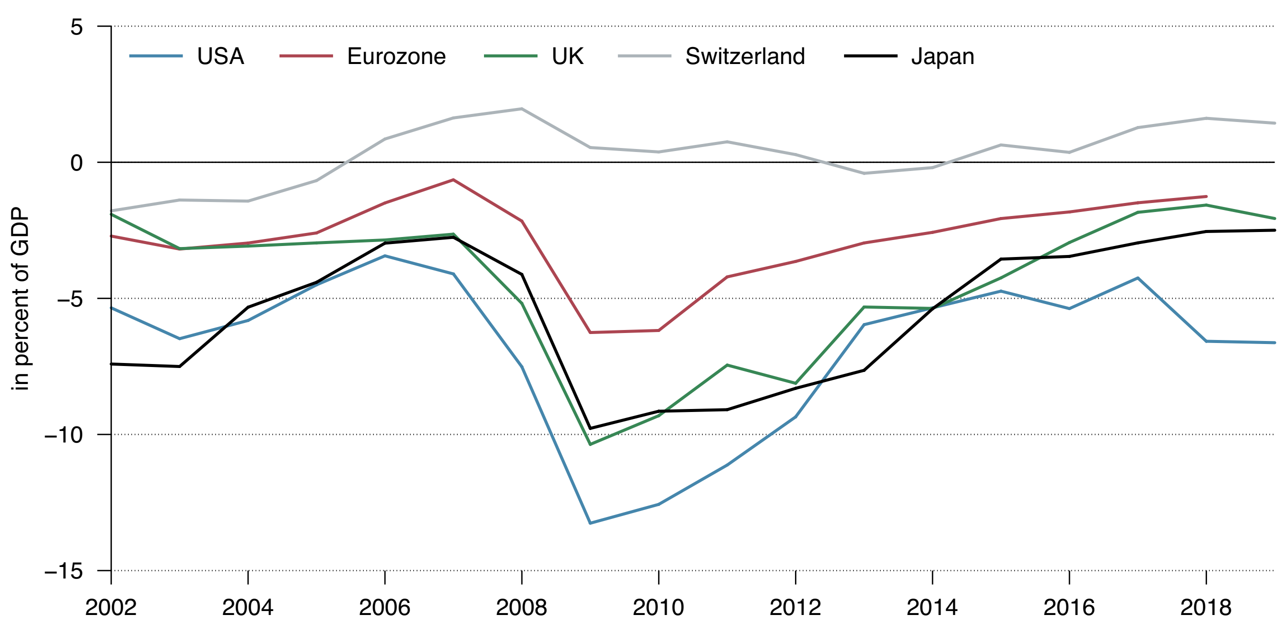
Economic indicators

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	3.5
Eurozone	16.1	15.6	3.8	–	109.2	–	-1.8	–	10.0	7.4
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	8.2
Italy	2.5	2.3	2.3	2.6	155.5	151.0	-2.5	-2.4	11.6	9.9
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	3.3
Switzerland	0.9	0.8	9.2	9.6	42.7	40.3	0.7	1.4	3.1	2.2
Japan	6.1	5.9	3.1	3.0	220.8	225.6	-3.6	-2.5	3.1	2.2
Canada	2.1	2.0	-2.9	-3.1	89.9	88.0	-0.2	-0.6	6.6	5.7
Australia	1.7	1.6	-3.1	-2.1	38.7	41.1	-2.2	-1.5	5.7	5.3
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	11.8
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	4.3

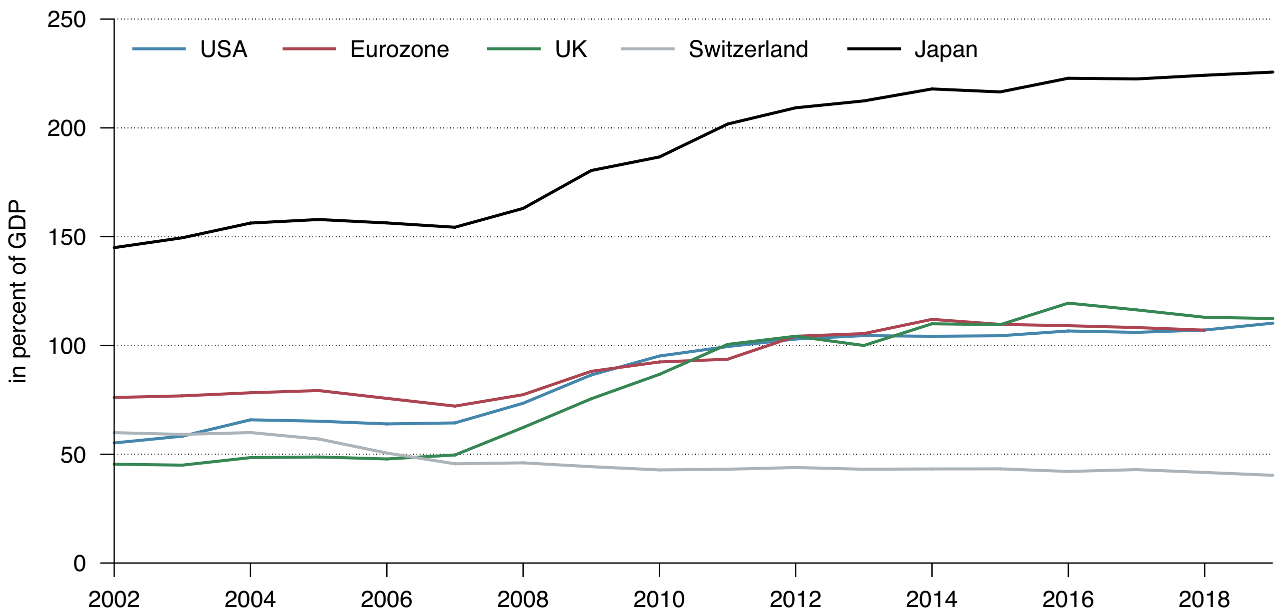
[1] In percent; calculations based on market exchange rates. [2] In percent of nominal GDP. [3] In percent.

Budget deficits in advanced economies

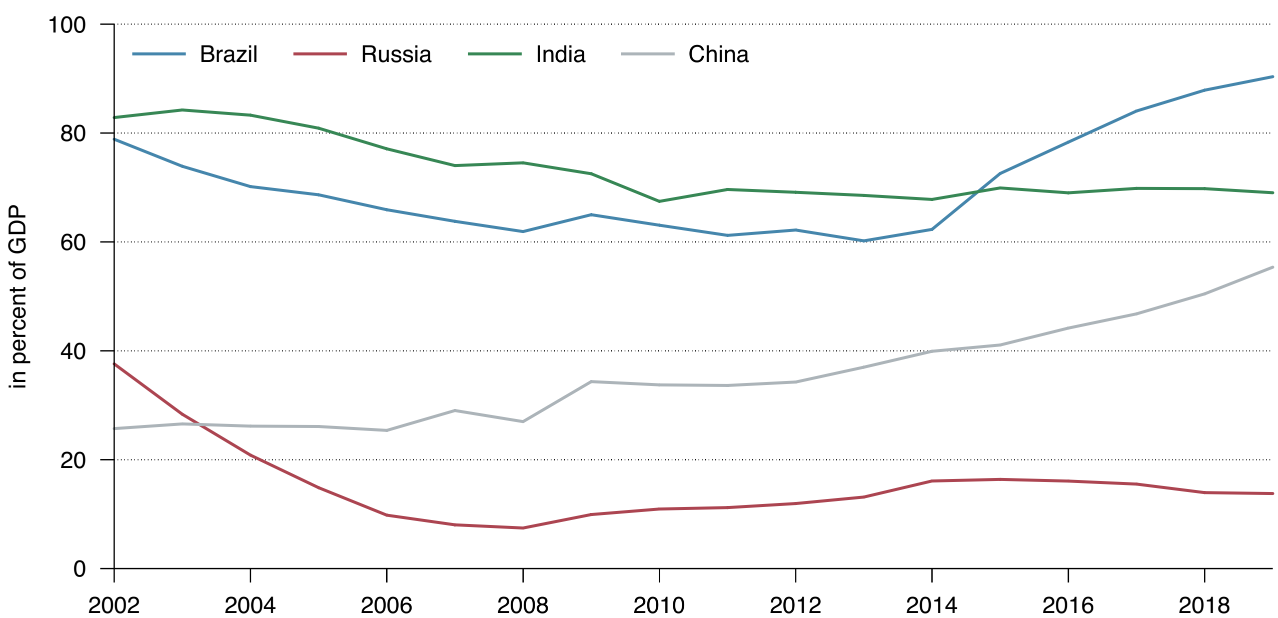


Source: Thomson Reuters Datastream, Wellershoff & Partners

Public debt in advanced economies



Public debt in emerging economies



Source: Thomson Reuters Datastream, Wellershoff & Partners

Inflation

Is deflation looming for Switzerland? After all, inflation has been declining since the end of 2018. In September, it was just 0.1%. But while negative inflation – that is, deflation – seems possible, we think this is no cause for concern. Switzerland's inflation rate has dipped into negative territory three times over the past ten years, and for lengthy periods of time. But a truly damaging deflationary spiral, with consumers sitting on the sidelines, has not occurred. The main reason for our sanguine outlook is the appreciation of the Swiss franc and the associated drop in prices for imported goods and foreign travel. It is also worth noting that Swiss National Bank has not warned of deflation risks in its most recent communications.

Falling inflation rates can be observed worldwide. The price increases of 1.7 percent in the UK and 0.9 percent in the Eurozone were lower than expected, while prices actually declined in Portugal. In Japan, inflation is also approaching a rate of zero. With inflation remaining at such low levels, central banks around the globe continue to have room for interest rate cuts. As the news of the past few weeks has shown, central banks can benefit from this leeway. For example, Brazil cut its key interest rate to 5.5 percent in September, the lowest level ever.

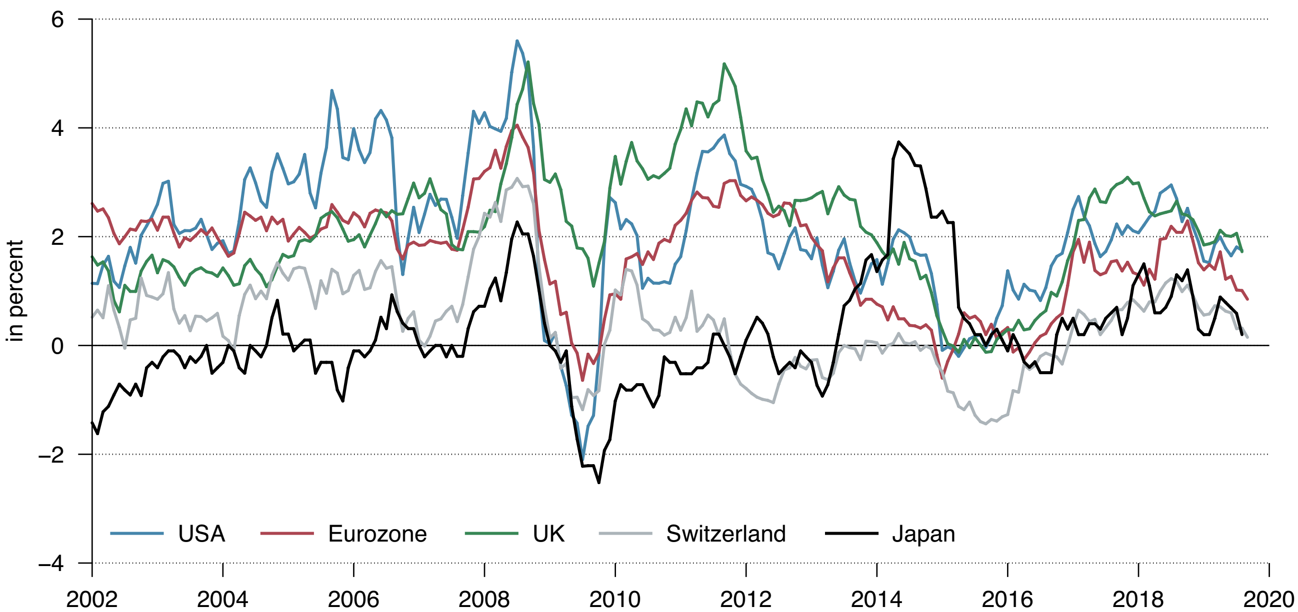
Inflation overview

	Ø 10 years[1]	Inflation[2]				Core inflation[3]			
		6/2019	7/2019	8/2019	9/2019	6/2019	7/2019	8/2019	9/2019
United States	1.8	1.6	1.8	1.8	–	2.1	2.2	2.4	–
Eurozone	1.3	1.3	1.0	1.0	0.9	1.1	0.9	0.9	1.0
Germany	1.3	1.6	1.7	1.4	1.2	1.4	1.5	1.4	–
France	1.1	1.2	1.1	1.0	0.9	0.9	0.9	0.7	–
Italy	1.2	0.7	0.4	0.4	0.4	0.4	0.5	0.5	0.6
Spain	1.2	0.4	0.5	0.3	0.1	0.9	0.9	0.9	–
United Kingdom	2.2	2.0	2.1	1.7	–	1.8	1.9	1.5	–
Switzerland	0.0	0.6	0.3	0.3	0.2	0.7	0.4	0.4	0.4
Japan	0.4	0.7	0.6	0.2	–	0.6	0.6	0.5	–
Canada	1.7	2.0	2.0	1.9	–	2.0	2.0	1.9	–
Australia	2.1	1.6	–	–	–	1.5	–	–	–
Brazil	5.9	3.4	3.2	3.4	–	3.6	3.3	3.4	–
Russia	7.0	4.7	4.6	4.3	4.0	4.6	4.5	4.3	4.0
India	6.8	3.2	3.2	3.2	–	–	–	–	–
China	2.5	2.7	2.8	2.8	1.5	1.6	1.6	1.5	–
Advanced economies[4]	1.5	1.4	–	–	–	1.6	–	–	–
Emerging economies[4]	4.3	3.1	3.1	3.1	3.1	2.2	2.1	2.0	2.0
World economy[4]	2.8	2.3	–	–	–	1.6	–	–	–

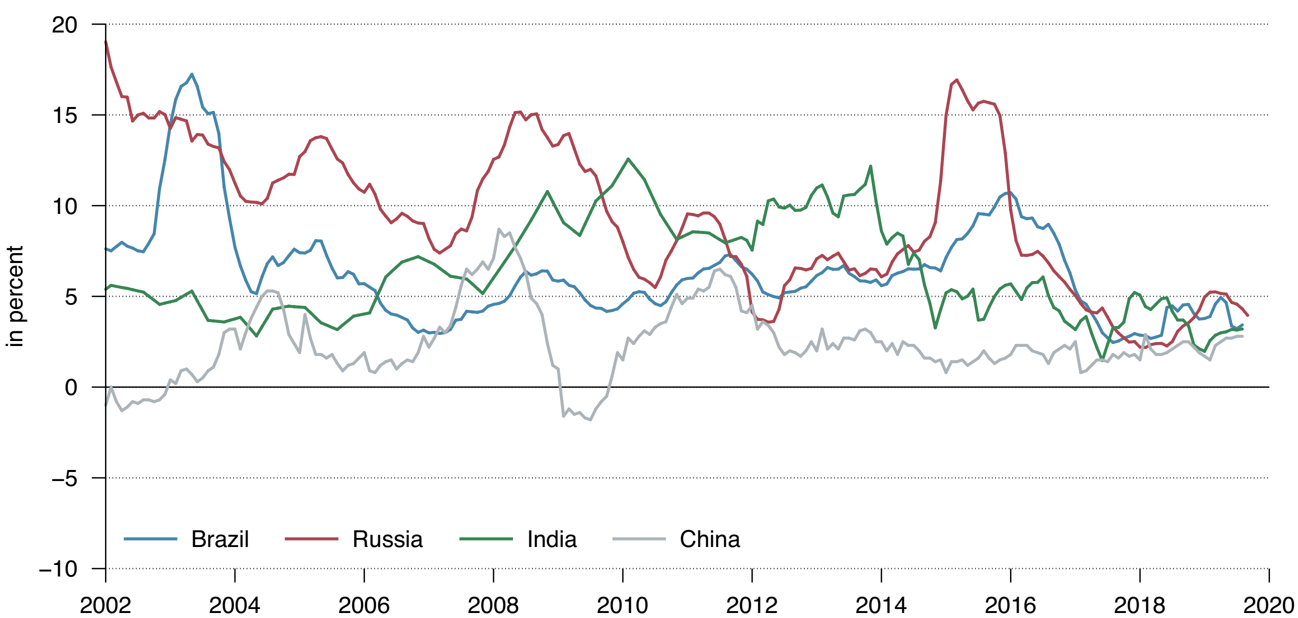
1 Average annual consumer price inflation, in percent.
2 Year-on-year change of the consumer price index (CPI), in percent.
3 Core inflation is a measure of inflation that excludes certain items that can experience volatile price movements, such as energy and certain food items; year-on-year change of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

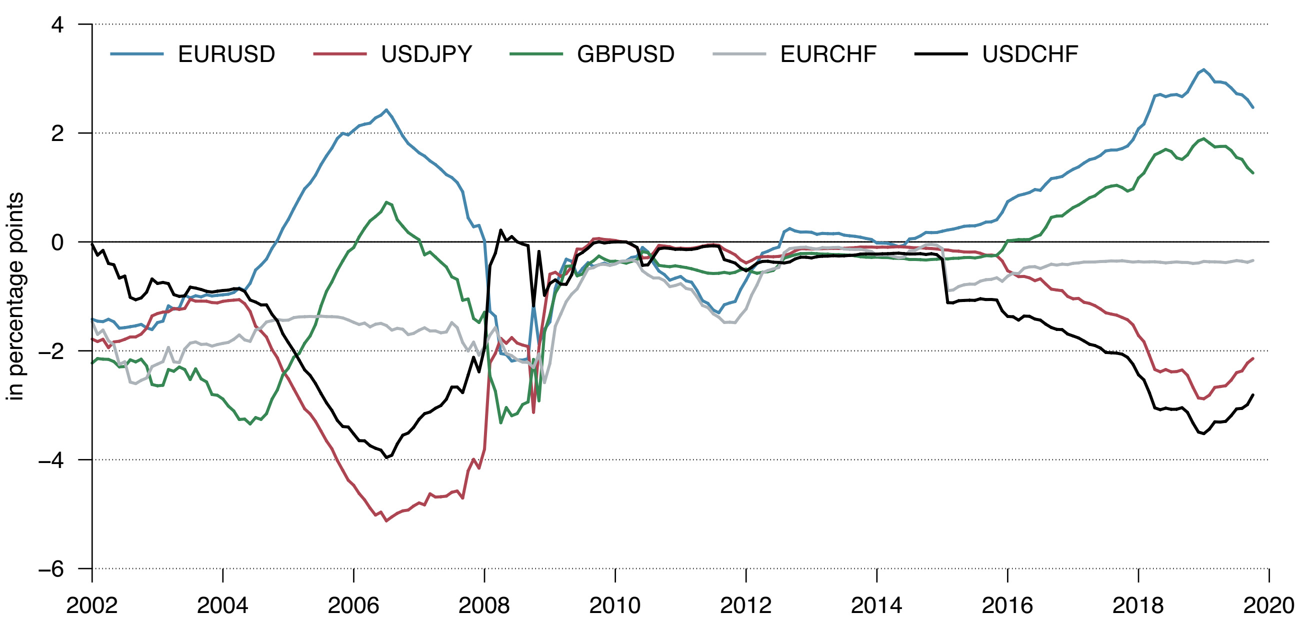
Interest rates

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	1.098	2.48	2.77	1.57	0.65	2.23	3.16	1.84	0.79
USDJPY	106.9	-2.14	-2.48	-1.32	-0.73	-1.85	-2.82	-1.61	-0.96
GBPUSD	1.230	1.27	1.61	0.73	0.18	0.96	1.87	0.83	0.17
EURCHF	1.093	-0.33	-0.38	-0.45	-0.47	-0.26	-0.32	-0.43	-0.57
USDCHF	0.995	-2.81	-3.15	-2.02	-1.13	-2.49	-3.49	-2.26	-1.36
GBPCHF	1.224	-1.54	-1.54	-1.29	-0.94	-1.53	-1.62	-1.43	-1.18
CHFJPY	107.4	0.67	0.67	0.70	0.40	0.64	0.67	0.65	0.40
AUDUSD	0.676	1.39	0.91	-0.32	-1.79	1.38	1.42	0.18	-1.28
USDCAD	1.332	-0.06	-0.34	0.03	0.44	0.21	-0.48	-0.17	0.26
USDSEK	9.845	-2.15	-2.85	-1.67	-0.32	-1.82	-3.11	-1.83	-0.46
USDRUB	64.6	5.02	4.24	8.36	7.33	4.95	4.99	7.84	7.01
USDBRL	4.058	13.54	13.54	12.82	9.84	2.91	4.89	8.37	8.84
USDCNY	7.138	0.64	0.44	2.28	3.04	1.02	0.61	2.03	2.70
USDTRY	5.692	13.30	26.20	13.45	10.75	13.08	26.96	13.38	10.79
USDINR	70.88	4.05	5.14	5.94	7.07	3.62	4.54	5.21	5.93

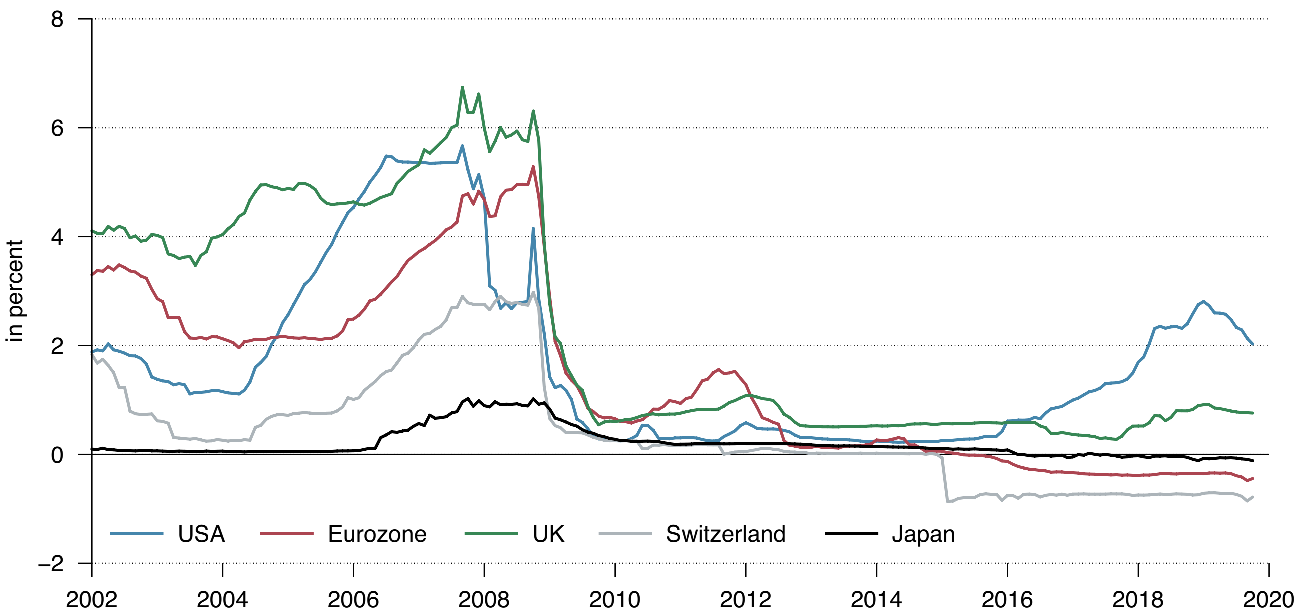
[1] The gap in interest rates between the second currency and the first one, in percentage points; e.g. US dollar minus euro for EURUSD.

Interest rate differentials

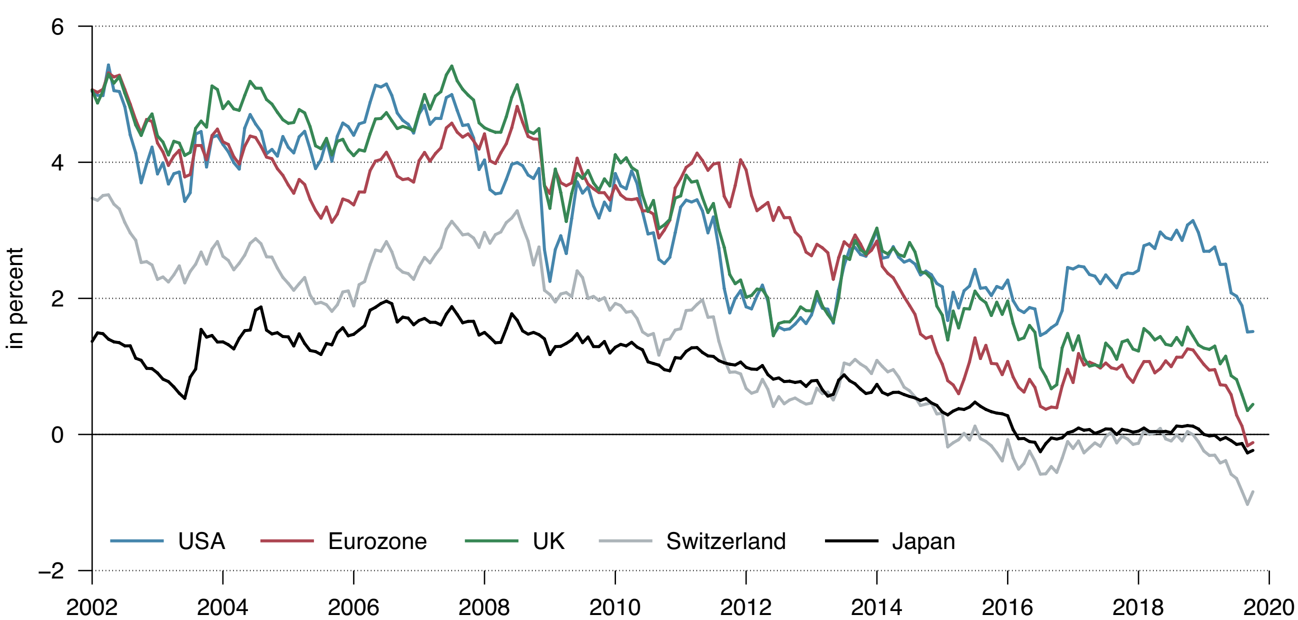


Source: Thomson Reuters Datastream, Wellershoff & Partners

3-month Libor



10-year government bond yields



Source: Thomson Reuters Datastream, Wellershoff & Partners

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FX markets

The ups and downs on the currency markets since mid-August also persisted in September. Investors flirted with optimism, depreciating safe-haven currencies like the franc and the yen, which are increasingly in demand during stormy times. Over the past couple of months, all major currencies except the yen have appreciated against the franc. Along with the US dollar, the big winner was the British pound, which gained more than 2.5 percent in value. At least for investors, a hard Brexit at the end of October now seems to be off the table.

In the wake of the optimistic mood, or at least the reduced pessimism, various emerging market currencies also gained in value, in particular the Russian ruble and the Turkish lira. This development should be a great relief for central banks of both countries. The Central Bank of Russia raised its key interest rate to 15 percent in 2015 in order to counteract the massive devaluation pressure on the ruble. Turkey's central bank reacted even more drastically in 2018, lifting its interest rate to 24 percent. The recent situation on currency markets has allowed both central banks to gradually lower their interest rates. Meanwhile, Argentina is suffering. After a massive devaluation in August, the Argentine peso again took the biggest loss of all the world's currencies in September. Investors seem to have lost faith in a swift turnaround in Argentina.

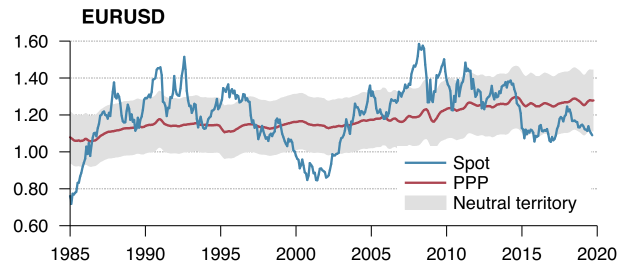
FX overview

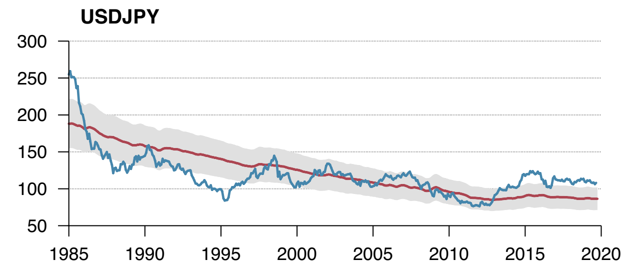
	Current exchange rate	Performance[1]				Purchasing Power Parity[2]		
		YTD	3 months	1 year	5 years	PPP	Neutral territory	Deviation[3]
EURUSD	1.098	-4.0	-2.2	-4.7	-12.2	1.28	1.11 - 1.45	-14.1
USDJPY	106.9	-2.6	-1.5	-6.0	-2.6	86.5	71.2 - 101.7	23.6
GBPUSD	1.230	-3.5	-1.7	-5.6	-23.0	1.57	1.4 - 1.79	-21.6
EURCHF	1.093	-3.0	-1.8	-4.3	-9.7	1.19	1.11 - 1.27	-8.1
USDCHF	0.995	1.0	0.4	0.4	2.9	0.93	0.81 - 1.05	7.1
GBPCHF	1.224	-2.5	-1.3	-5.2	-20.7	1.46	1.26 - 1.66	-16.0
CHFJPY	107.4	-3.5	-1.8	-6.4	-5.4	93.0	78.7 - 107.3	15.5
AUDUSD	0.676	-4.0	-3.0	-4.6	-21.9	0.70	0.59 - 0.85	-3.1
USDCAD	1.332	-2.5	1.6	3.4	18.2	1.20	1.1 - 1.3	10.8
USDSEK	9.845	11.0	4.3	8.9	35.3	7.67	6.61 - 8.74	28.3
USDRUB	64.6	-6.9	1.2	-3.5	61.8	46.5	36.8 - 56.1	38.9
USDBRL	4.058	4.7	6.1	3.7	62.1	3.07	2.51 - 3.64	32.0
USDCNY	7.138	4.0	3.8	3.7	16.3	6.27	6.04 - 6.51	13.8
USDTRY	5.692	7.0	1.1	-7.9	147.6	4.20	3.79 - 4.62	35.4
USDINR	70.88	1.5	3.6	-3.8	15.0	69.0	64.8 - 73.2	2.7

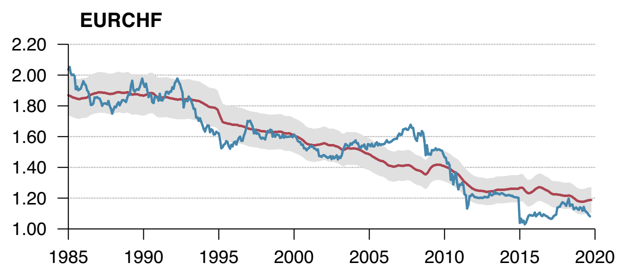
1 Performance over the respective period of time, in percent.
2 Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral territory is determined by ± 1 standard deviation of the historical variation around the PPP value.
3 Deviation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

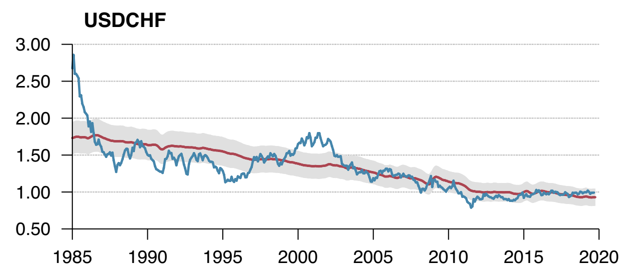
Source: Thomson Reuters Datastream, Wellershoff & Partners

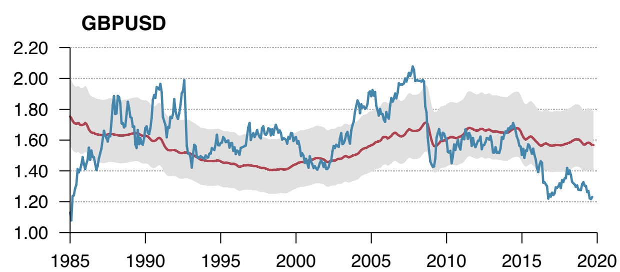
Currency Asset Management

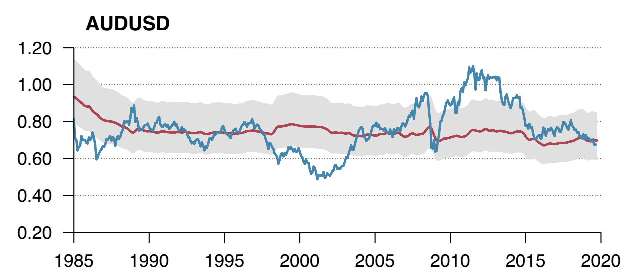


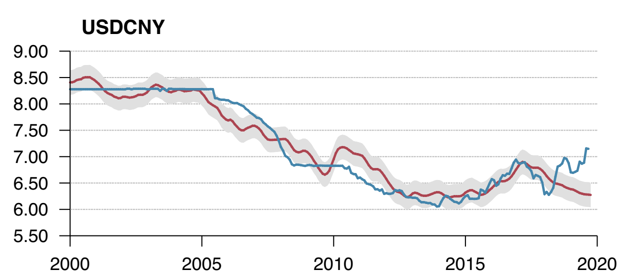


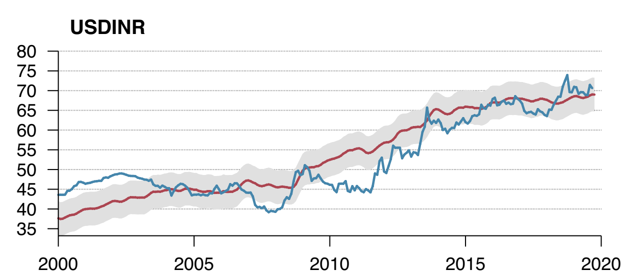


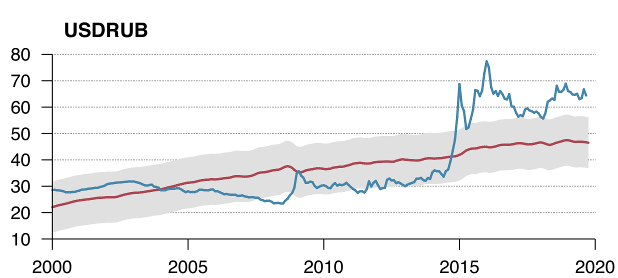


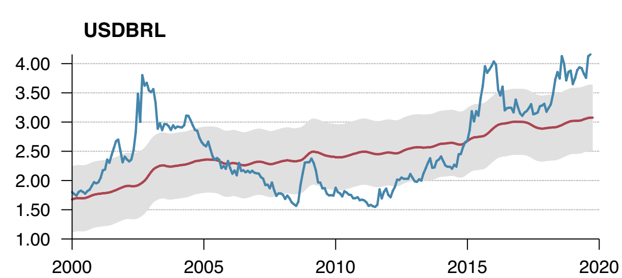












Source: Thomson Reuters Datastream, Wellershoff & Partners

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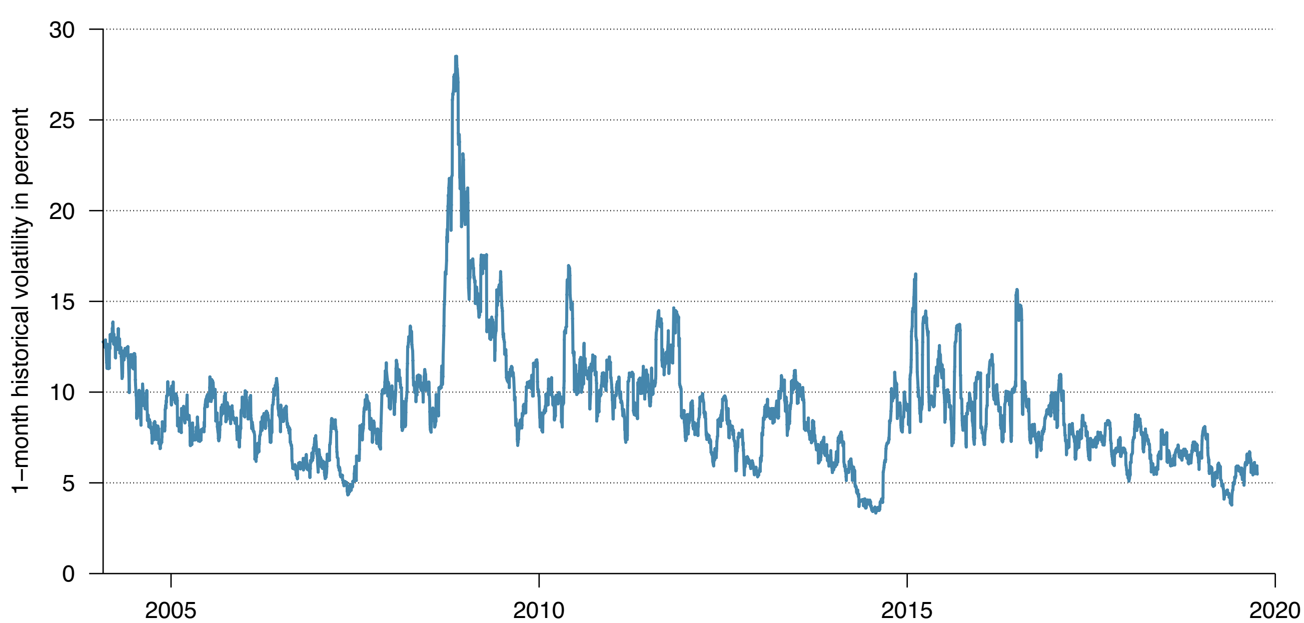
FX volatility

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	1.098	5.3	5.4	8.4	9.3	5.8	6.0	8.5	9.9
USDJPY	106.9	7.0	6.7	9.0	9.7	6.4	7.2	9.4	10.5
GBPUSD	1.230	7.8	11.6	9.4	9.2	8.2	9.7	9.5	9.8
EURCHF	1.093	4.9	5.0	6.2	6.2	4.6	5.1	6.7	6.9
USDCHF	0.995	6.4	5.8	8.3	9.4	5.9	6.4	8.7	9.9
GBPCHF	1.224	8.6	11.5	9.4	9.4	8.2	9.7	9.6	10.0
CHFJPY	107.4	5.9	5.6	8.9	10.3	6.2	6.2	9.5	11.1
AUDUSD	0.676	7.2	7.2	9.7	10.7	7.8	8.1	10.2	11.5
USDCAD	1.332	5.1	5.2	7.9	8.4	5.7	5.9	8.1	9.0
USDSEK	9.845	7.5	7.9	9.7	11.1	8.3	8.4	10.0	11.6
USDRUB	64.6	9.4	9.5	17.0	14.1	9.3	11.1	17.2	14.9
USDBRL	4.058	12.4	12.5	15.8	14.6	13.4	12.9	15.9	15.3
USDCNY	7.138	4.3	5.7	4.7	3.5	3.8	5.8	5.5	4.4
USDTRY	5.692	21.8	14.6	15.2	13.4	19.3	18.0	16.3	14.6
USDINR	70.88	6.1	6.4	6.6	8.5	6.2	6.7	7.7	9.4

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

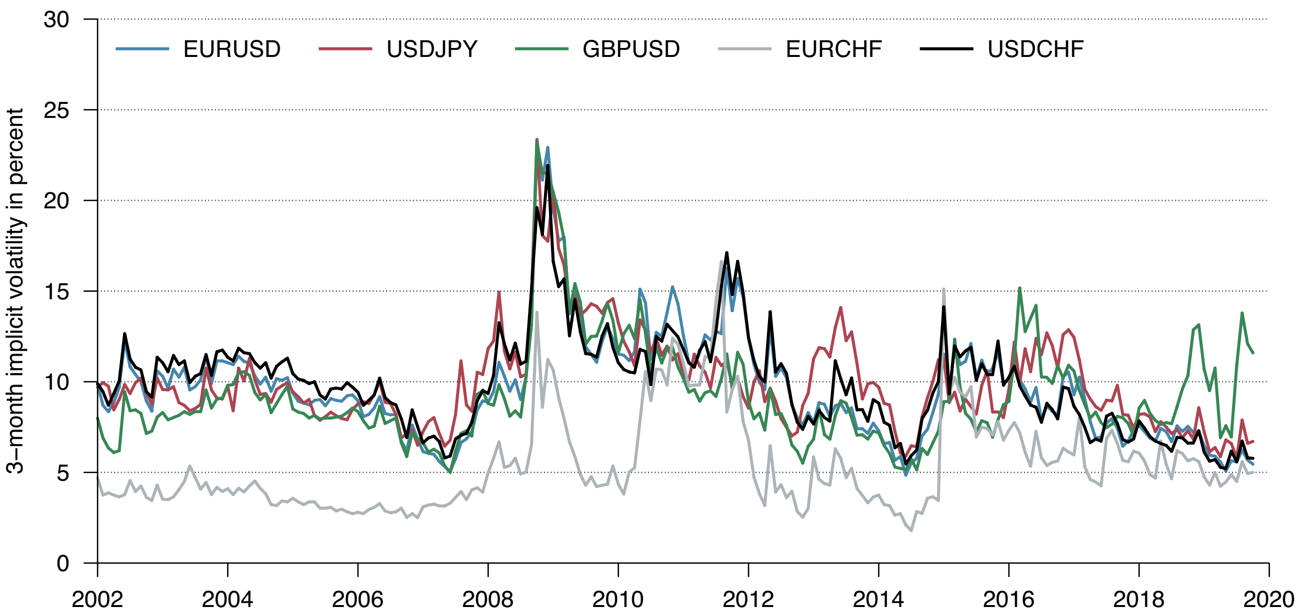
QCAM volatility indicator[3]



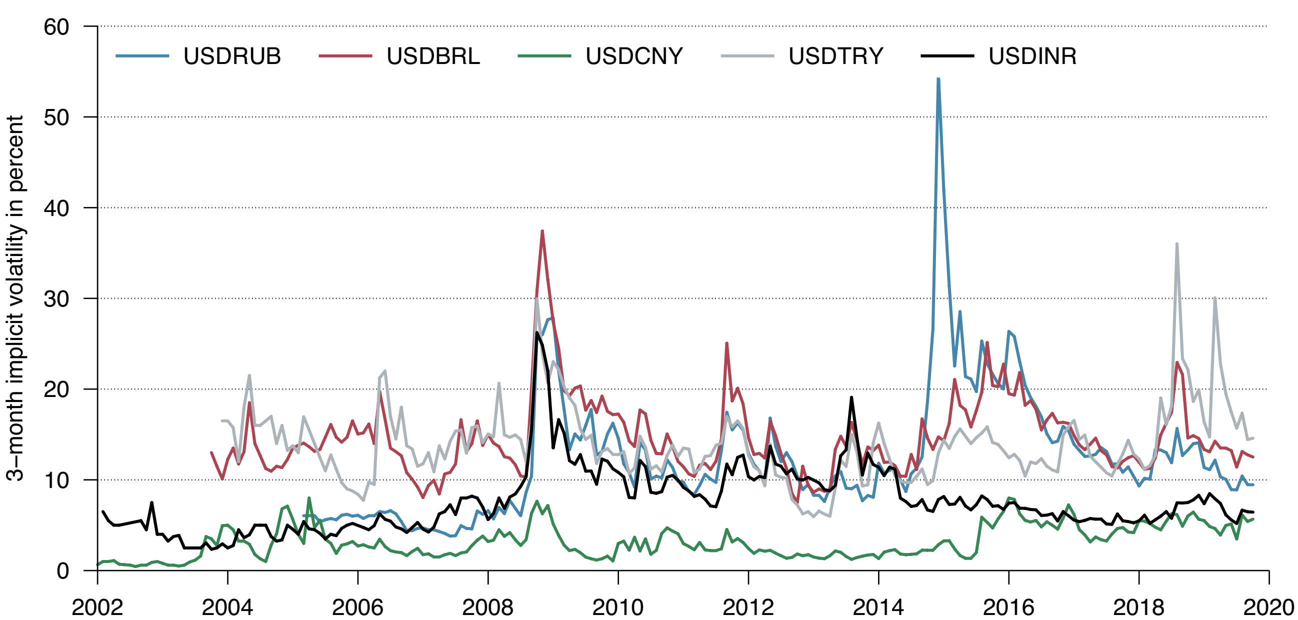
[3] The QCAM volatility indicator measures general volatility in global FX markets; the indicator is based on historical volatility of the main exchange rates, which are weighted by trading volume.

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

Implicit volatility



Implicit volatility



Source: Thomson Reuters Datastream, Wellershoff & Partners

QCAM® Currency Asset Management

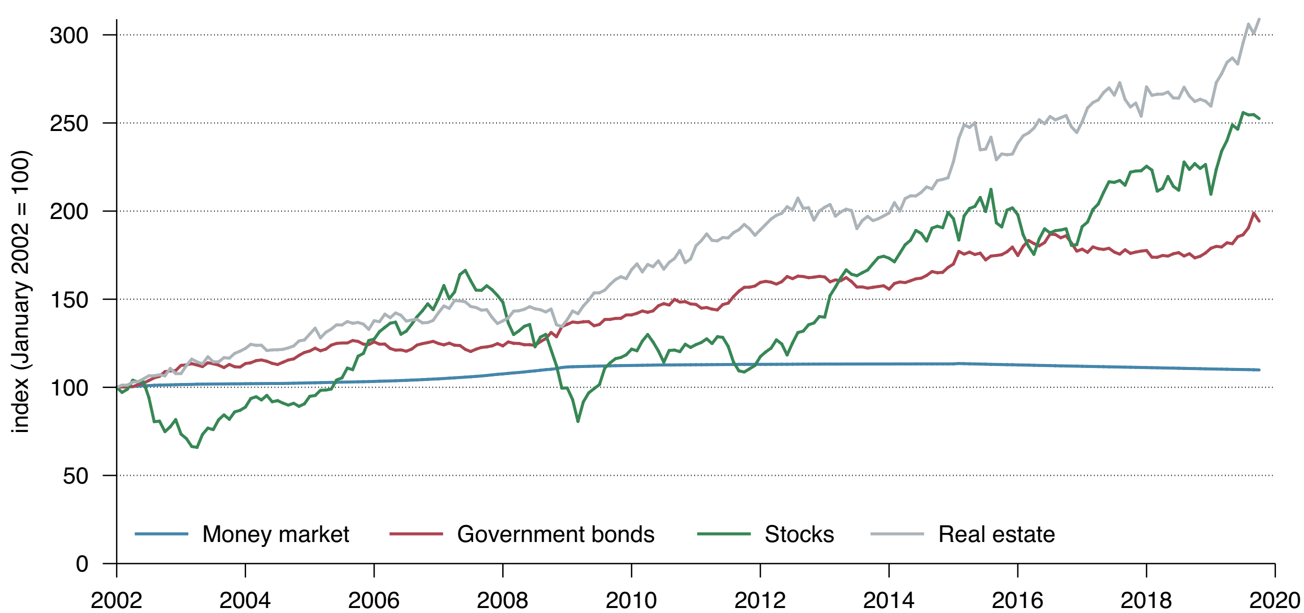
Financial markets

Performance overview

	Performance in either local curreny or USD[1]				Performance in CHF[1]			
	YTD	3 months	1 year	5 years	YTD	3 months	1 year	5 years
Swiss money market	-0.5	-0.2	-0.7	-3.0	-0.5	-0.2	-0.7	-3.0
Swiss government bonds	8.6	3.8	12.3	18.1	8.6	3.8	12.3	18.1
Swiss corporate bonds	5.0	1.4	6.6	11.1	5.0	1.4	6.6	11.1
Swiss equities (SMI)	20.5	-1.4	11.6	33.5	20.5	-1.4	11.6	33.5
European equities (Stoxx600)	16.3	-2.0	3.8	34.3	12.8	-3.8	-0.6	21.3
UK equities (Ftse100)	10.5	-4.0	1.0	34.2	7.7	-5.3	-4.3	6.4
Japanese equities (Topix)	7.8	-0.2	-10.4	36.7	11.7	1.6	-4.3	44.5
US equities (S&P 500)	19.6	-0.8	3.8	66.3	18.5	-1.2	3.4	61.5
Emerging markets equities	5.8	-5.1	1.6	14.7	4.8	-5.5	1.2	11.5
Global equities (MSCI World)	16.8	-1.8	2.1	45.8	15.7	-2.1	1.6	41.6
Swiss real estate	19.0	4.3	18.9	41.0	19.0	4.3	18.9	41.0
Global real estate	21.8	3.4	19.6	47.9	20.6	3.0	19.1	43.7
Commodities	1.6	-1.5	-10.2	-34.0	0.6	-1.8	-10.6	-35.9
Brent oil	10.1	-8.7	-31.8	-35.9	9.1	-9.0	-32.1	-37.7
Gold	17.7	8.1	25.3	26.3	16.5	7.7	24.7	22.6

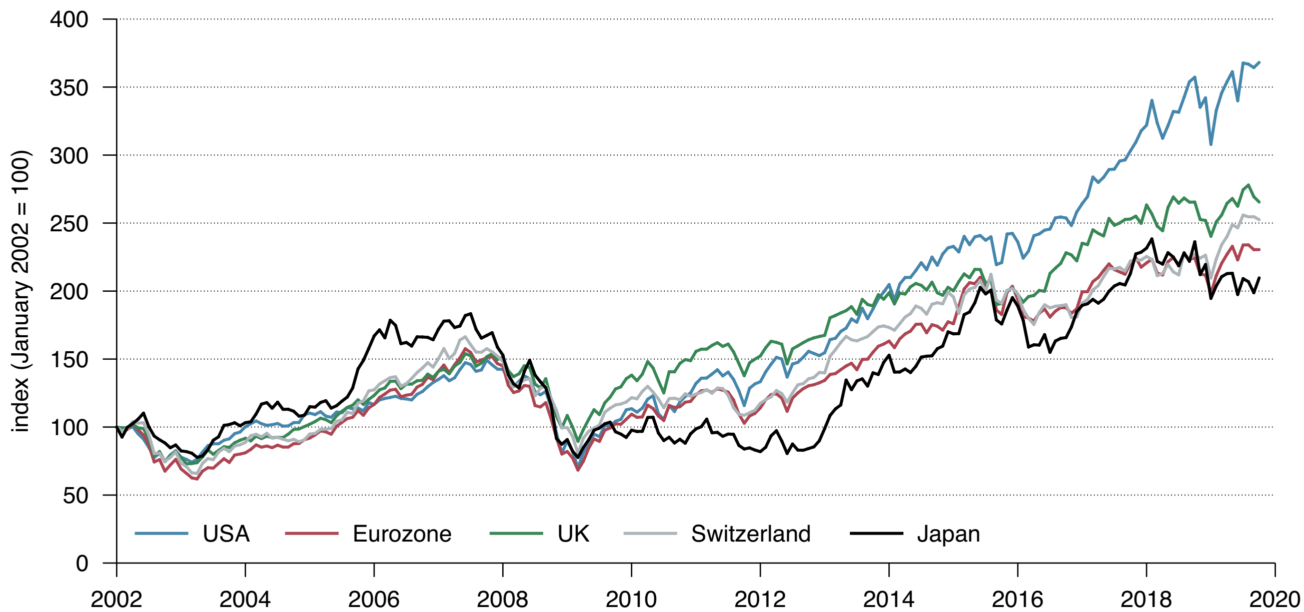
[1] Performance over the respective period of time, in percent.

Performance of selected Swiss asset classes

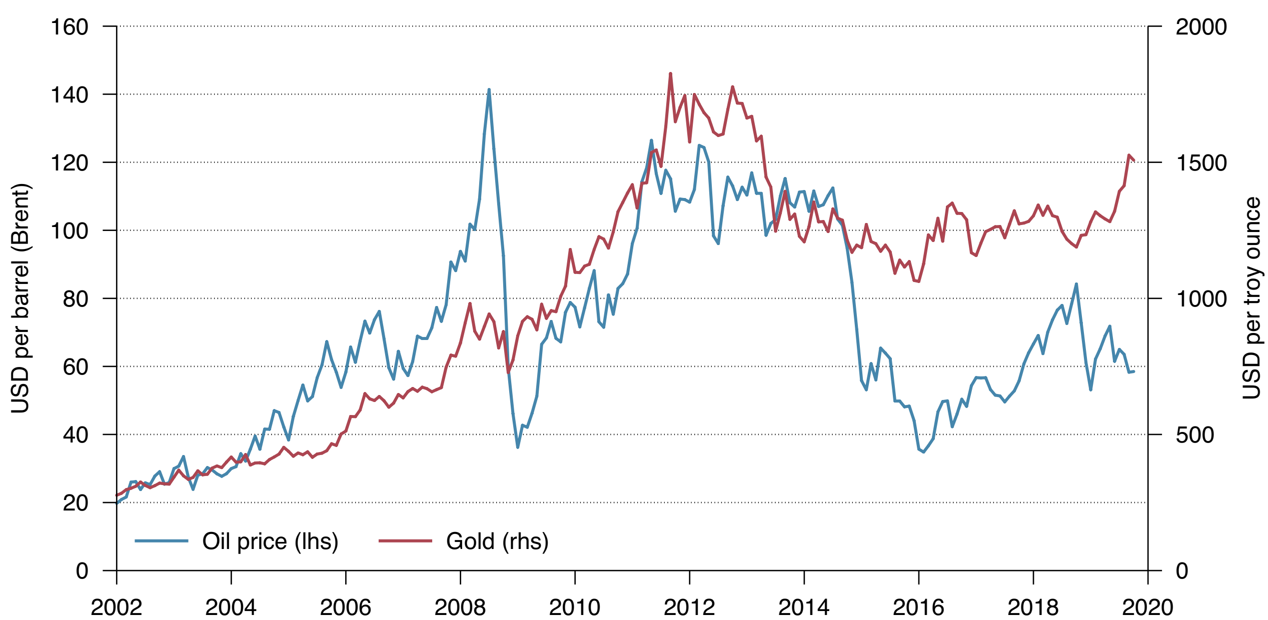


Source: Thomson Reuters Datastream, Wellershoff & Partners

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

46.6 PMI points

The Purchasing Managers Index for Switzerland's manufacturing sector fell by 2.6 points in September, slipping to 44.6 points. This is the index's lowest reading since July 2009 – a time when Switzerland, and the rest of the world, was still reeling from the global financial crisis and subsequent recession. Now, even the juggernaut of pharmaceutical exports appears to have lost some momentum. Thus, the already anemic Swiss economy is likely to weaken further in the coming months. However, the continuing strong employment situation should prevent the economy from sliding into a recession, at least for the time being