

December 2022

# QCAM MONTHLY

QCAM Insight ++ Economy and Interest Rates ++ FX Markets ++ FX Analytics  
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# QCAM Insight

## 2023 sneak preview

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**FX markets were driven by unexpected events and developments in 2022, notably the Ukraine war and the rapid adjustment in monetary policy. The big winner was the USD although it lost some of its gains in recent weeks. In our view, soft-landing, hard-landing or something in-between are all possible outcomes for 2023 and there are still some wild cards on the table that could surprise.**

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Annual outlooks have the nasty habit of becoming obsolete quickly. A year ago, we wrote that “the USD has generally more upside than downside potential given the outlook on Fed policy”, that “the EUR will lack monetary support as the ECB is likely to be reluctant to tighten policy soon” and that “the JPY is a clear short given the monetary policy outlook”. Friendly readers would say that the direction was about right, but what actually happened was much more dramatic. By the end of September, the USD DXY was up 19%, EURUSD had dropped below parity and USDJPY was approaching 150. We did mention that “an escalation of the conflict between the Ukraine and Russia would probably hurt the EUR” but what actually happened was beyond our imagination. We also noted that “the GBP is caught between economic downside risk and inflation upside risk” but by no means did we anticipate the political roller coaster of the last few months.

So, are annual outlooks worth the effort? We think yes. They are important exercises to get away from short-term tactical thinking and to put structure around the trends we see in economics and markets. The year is almost over and the USD has dropped a fair bit in recent weeks. Year-end liquidity constraints are like-

ly to dominate the next few weeks. The big question is whether the USD has peaked for good and whether 2023 will become the year of USD decline. In our view, the answer is not straight forward. There are opposing forces at work and their relative strength and timelines are uncertain.

### **The case for USD weakness**

The weak USD scenario rests on four forecasts. First, US inflation continues to recede prompting the Fed to slow interest rate hikes very soon and to pause the tightening altogether in the first quarter of next year. Second, the Euro-area economy holds up better than feared through the winter and any energy emergency is avoided. Third, Japan continues its delayed recovery from Corona and the BoJ starts to normalize policy around the time of Kuroda’s retirement in April. Fourth, China manages to muddle through Corona without large lockdowns and political unrest. Overall, the case for USD weakness is a soft-landing scenario. Severe recession is avoided, inflation recedes, uncertainties decline and global economic growth revives in the course of the year.

### **The case for more USD strength**

The case for USD strength is largely the opposite of the case for USD weakness. Importantly, recession is only delayed and not avoided. This applies to the US, the Euro-area, Japan, China and much of the global economy. Some of the reasons are idiosyncratic, e.g. China, but much has to do with the difficulty of taming inflation without creating sufficient labor market slack. Moreover, monetary policy works with signifi-

cant lacks and the impact of the tightening so far has not yet fully spread. Overall, the case for more USD strength is a hard-landing scenario in which the worst has yet to come.

### A range with wild cards

Financial markets currently lean more towards the soft-landing scenario. In our view, soft-landing and hard-landing have similar probabilities. Hard-landing would be an unpleasant surprise for financial markets and lift the demand for the USD. However, the outcome does not have to be black or white. For example, Japan could stay the course and start policy normalization, while the Euro-area enters recession with some delay. Thus, more exchange rate dispersion in an overall range-bound USD environment is a similarly likely scenario for us. Finally, there are some wild cards. What if stubbornly high US inflation prompts the Fed to resume tightening after a short pause. The result could be global financial stress and more demand for the USD. On the other hand, a ceasefire in the Ukraine would be a game-changing boost for global confidence and erode USD support.

- The safe-haven feature in an environment of high global uncertainty, the leadership in monetary policy tightening and the economic outperformance were the key supports of the **USD** rally in 2022. These supports are probably declining and may possibly disappear. In addition, the US current account deficit remains large despite some recent declines and the USD is overvalued versus almost all major currencies. However, as we explained above, the weak USD scenario is not assured and a continuation of USD strength has a similar probability in our view.
- The ECB is unlikely to provide sustainable support for the **EUR**. In fact, we expect that the ECB will slow its monetary tightening in step with the Fed. The main upside potential for the EUR is consistently better economic performance and a cease-fire between Russia and the Ukraine. With oil and gas prices now falling, the current account is also likely to swing back into surplus in 2023. Our Business Sentiment indicator is still short the EUR versus the USD, but the gap is narrowing and the signal is likely to switch in early 2023

if Euro-area surveys continue to surprise on the upside and US surveys disappoint.

- The **JPY** has the best chance to perform in 2023 given our view that monetary policy normalization will start in the first half of 2023. Our Business Sentiment indicator is already long the JPY versus the USD and current trends suggest that this will remain so for a while. Similar to the Euro-area, Japan's current account should also improve as oil and gas prices decline. We think that the safe-haven feature of the JPY will strengthen again in 2023 unless a global financial shock creates emergency demand for the USD.
- We remain bearish on the **GBP** on fundamental grounds (reduced growth potential thanks to BREXIT, more stubborn inflation and persistent twin deficits). The BoE deserves credit for the handling of the fiscal crisis but fixing the fundamental problems is beyond monetary policy. However, the GBP has also become very sensitive to changes in risk appetite and rallies strongly on positive news, even if they do not last long.
- The **CHF** fundamentals remain strong (resilient current account surplus, an increased focus by the SNB on inflation and a real interest rate advantage). We expect that the CHF will be stable to stronger versus the EUR.
- The **SEK** is handicapped by the problems in the housing sector as it limits the Riksbank's ability to act more forcefully and generate a carry advantage. Our Business Sentiment indicator is short the SEK versus both the EUR and the USD. However, Sweden's current account surplus has held up better despite the rise in energy prices.
- The **CAD**'s advantage as a commodity currency is fading as energy prices decline. However, the economy is not faltering and the BoC has kept up with the Fed. As a result, we see the CAD range-bound versus the USD.
- The **AUD** is likely to do better even as commodity prices soften. The Australian economy is experiencing less stagflationary pressures thanks to better structural supply conditions, which allow the RBA to be more measured. We believe these conditions will prevail and support the AUD in 2023. Main risks are a crisis in China or a severe global recession.

# Economy & Interest Rates

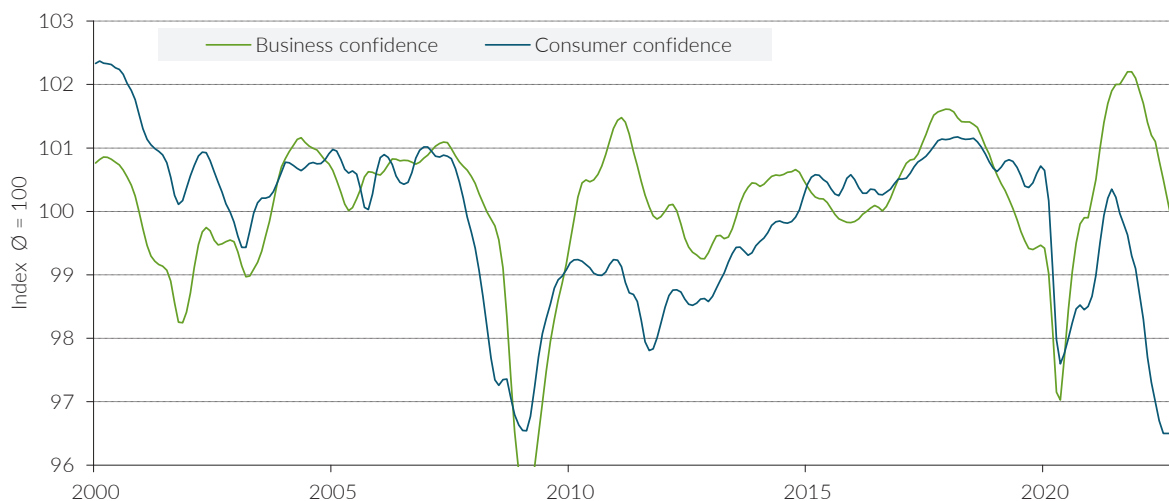
Economic activity at the start of the winter is holding up better than feared, especially in Europe. Still, forecasts point at a significant slowing going into 2023 with a high risk of recession, especially as the impact of monetary tightening continues to spread. Consumer confidence is already in recession territory and business sentiment is approaching recession levels. There are signs that inflation has peaked,

notably in the US, but underlying inflation pressures remain strong, especially in services and thanks to tight labor markets. Central banks led by the US Fed are likely to slow the pace of monetary tightening soon and may pause in early 2023, but there is still a risk of further tightening should inflation fail to recede as expected.

	Real GDP growth <sup>1</sup>		Unemployment rate <sup>1</sup>		Inflation rate <sup>1</sup>		Current account <sup>2</sup>		Fiscal balance <sup>2</sup>		Public debt <sup>2</sup>	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Global	3.0	2.0	n.a.	n.a.	7.0	5.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developed	2.5	1.0	n.a.	n.a.	7.5	4.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
USA	2.0	1.0	3.6	4.0	8.0	4.0	-3.6	-3.5	-4.0	-5.0	122	123
Canada	3.5	1.5	5.5	6.0	7.0	3.0	0.0	0.0	-1.0	-1.0	102	99
Euro-area	3.0	0.5	6.8	7.0	8.5	5.5	0.5	1.5	-4.0	-3.5	93	91
Sweden	2.5	0.0	7.5	8.0	7.5	7.0	3.0	3.5	0.0	-0.5	33	33
Switzerland	2.5	1.0	2.2	2.5	3.0	2.5	6.0	6.5	0.0	0.0	40	40
UK	4.0	-0.5	3.5	4.0	9.0	7.0	-5.0	-4.5	-7.0	-5.0	90	90
Japan	1.5	1.5	2.5	2.5	2.5	2.5	1.0	1.5	-6.0	-4.5	264	262
Australia	4.0	2.5	3.7	3.5	6.5	4.5	3.5	2.5	-4.0	-3.0	57	59
Emerging	3.5	3.0	n.a.	n.a.	7.0	5.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China	3.0	3.5	5.5	5.5	2.0	2.0	2.1	2.0	-4.0	-3.5	77	84
India	7.0	4.5	n.a.	n.a.	7.0	5.0	-3.5	-3.0	-10.5	-10.0	83	84
Russia	-3.0	-1.5	4.5	5.0	14.0	6.0	10.0	4.0	-1.0	-2.0	16	17
Brazil	3.0	0.0	9.5	10.0	9.5	4.5	-1.5	-2.0	-6.0	-10.0	90	92

Source: OECD, IMF World Economic Outlook and QCAM estimates <sup>1</sup> In percent annual average <sup>2</sup> In percent of GDP

## OECD business and consumer confidence\*



Source: OECD and QCAM \*The last observations are QCAM estimates based on other surveys

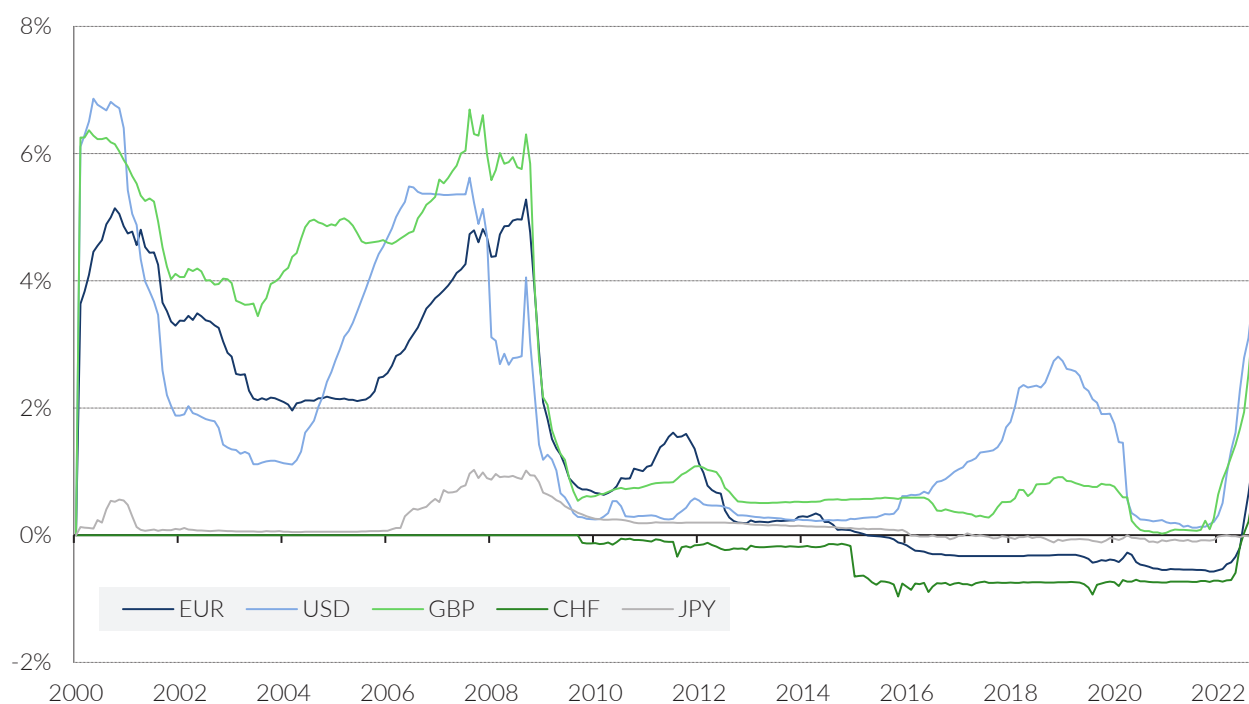
## Interest Rates

### Interest Rate Level Overview

	Short Term Interest Rate (3month OIS)					Long Term Interest Rate (10year Swap)				
	Current	1M ago	3M ago	12M ago	Ø 3 years	Current	1M ago	3M ago	12M ago	Ø 3 years
<b>USD</b>	4.42%	4.14%	2.96%	0.08%	0.78%	3.66%	4.05%	3.13%	1.53%	1.71%
<b>EUR</b>	1.95%	1.64%	0.54%	-0.57%	-0.28%	2.69%	2.98%	2.30%	0.14%	0.53%
<b>JPY</b>	-0.06%	-0.04%	-0.02%	-0.04%	-0.04%	0.63%	0.58%	0.42%	0.11%	0.18%
<b>GBP</b>	3.54%	3.22%	2.32%	0.16%	0.62%	3.35%	3.79%	2.85%	0.83%	1.07%
<b>CHF</b>	0.80%	0.72%	0.16%	-0.74%	-0.57%	1.63%	1.92%	1.69%	-0.01%	0.23%
<b>AUD</b>	3.06%	3.02%	2.53%	0.04%	0.54%	4.14%	4.49%	4.09%	1.98%	1.98%
<b>CAD</b>	4.14%	3.97%	3.27%	0.21%	0.93%	3.42%	3.72%	3.50%	2.04%	2.06%
<b>SEK</b>	2.49%	2.27%	1.33%	-0.05%	0.18%	2.73%	3.06%	2.82%	0.90%	1.09%
<b>RUB</b>	7.47%	7.70%	7.81%	8.28%	7.33%	10.90%	10.94%	8.25%	9.09%	8.24%
<b>BRL</b>	11.90%	12.41%	13.15%	9.37%	6.09%	13.34%	11.81%	11.95%	11.76%	9.64%
<b>CNY</b>	2.08%	1.82%	1.74%	2.28%	2.19%	2.96%	2.57%	2.52%	2.63%	2.74%
<b>TRY</b>	10.00%	10.80%	14.08%	14.23%	0.00%	38.04%	38.04%	38.04%	20.83%	17.58%
<b>INR</b>	6.43%	6.50%	5.67%	3.69%	4.22%	6.37%	6.92%	6.64%	5.73%	5.76%

Source: QCAM Currency Asset Management, as of November 30th, 2022

### 3-month Rates



Source: QCAM Currency Asset Management, as of end of November 2022

# FX Markets

## FX Performance vs. PPP

The USD DXY dropped 5% in November on the expectation that the Fed will slow the tightening soon. The best performer was the JPY, while only the CAD failed to rally versus the USD. In contrast, EM currencies gained relatively little versus the USD. Speculative net long USD positions declined modestly. Short-term interest rates rose further but differentials were largely unchanged and forward hedging

versus the USD remains costly from the perspective of EUR, JPY and CHF. Actual FX volatilities rose further but implied volatilities fell slightly with both well above the 5-year averages. PPP estimates continued to diverge in line with diverging inflation trends, yet the USD lost some of its overvaluation, especially versus the JPY.

### Overview

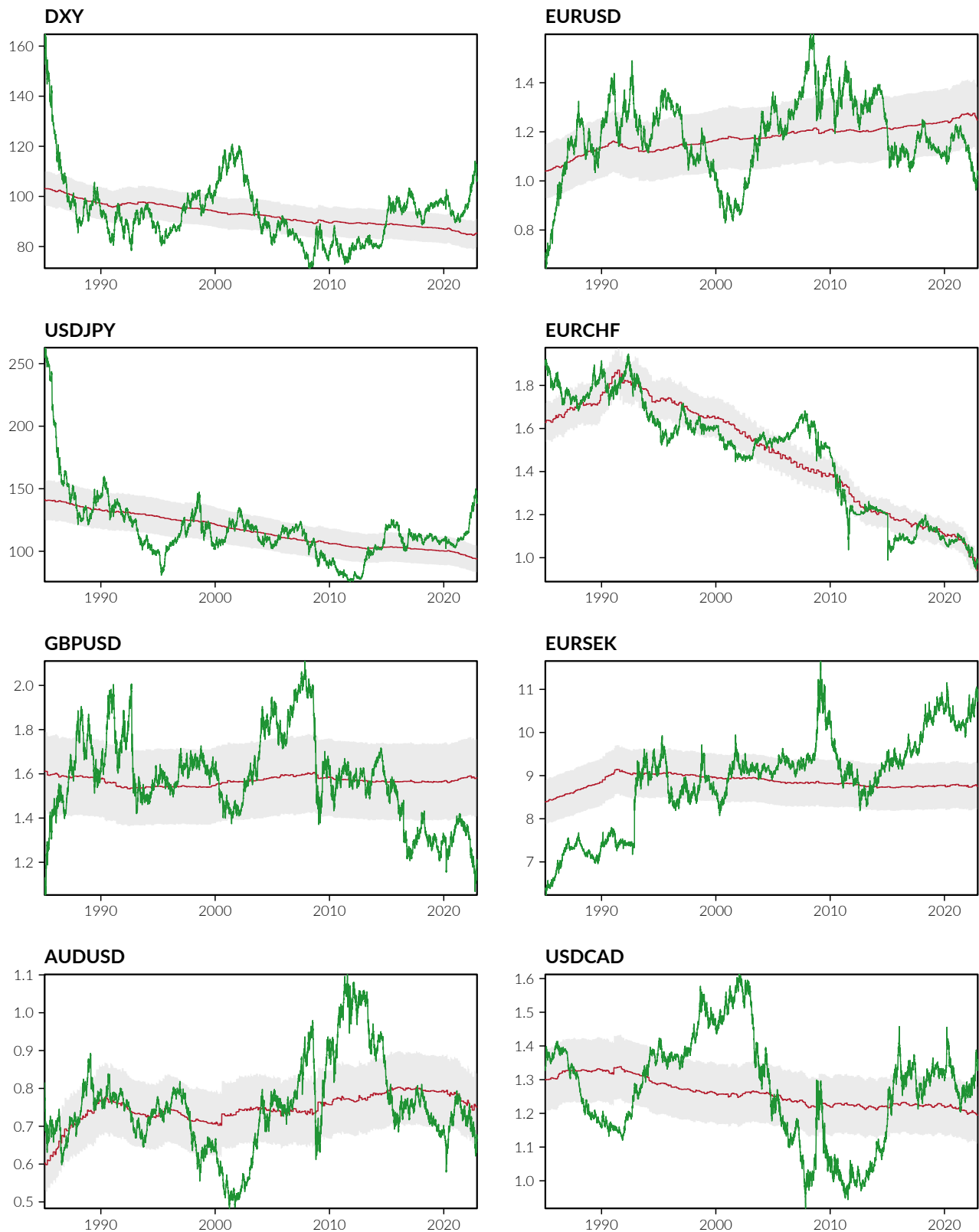
	Current Exchange Rate	Performance <sup>1</sup>				Purchasing Power Parity <sup>2</sup>		
		YTD	1M	12M	5 years	PPP	Neutral Range	Deviation <sup>3</sup>
EURUSD	1.034	-9.19%	4.03%	-8.58%	-13.04%	1.25	1.11 - 1.38	-17%
USDJPY	138.470	20.38%	-6.26%	22.42%	23.07%	93.93	83.3 - 104.6	47%
GBPUSD	1.197	-11.56%	3.30%	-9.75%	-11.39%	1.58	1.41 - 1.76	-24%
EURCHF	0.985	-5.10%	-0.59%	-5.41%	-15.87%	0.94	0.89 - 0.99	5%
USDCHF	0.952	4.49%	-4.45%	3.48%	-3.24%	0.80	0.71 - 0.89	19%
GBPCHF	1.140	-7.59%	-1.29%	-6.60%	-14.25%	1.13	1.03 - 1.23	1%
CHFJPY	145.408	15.19%	-1.90%	18.32%	27.20%	95.74	84.7 - 106.8	52%
AUDUSD	0.669	-8.05%	4.43%	-5.79%	-11.53%	0.75	0.66 - 0.84	-11%
USDCAD	1.360	7.49%	-0.18%	6.08%	5.39%	1.19	1.11 - 1.28	14%
USDSEK	10.573	17.00%	-3.69%	16.87%	26.30%	8.16	7.23 - 9.10	30%
EURSEK	10.933	6.27%	0.20%	6.85%	9.82%	8.75	8.21 - 9.29	25%
USDRUB	61.344	-18.29%	-0.05%	-17.45%	4.96%	57.72	45.1 - 70.3	6%
USDBRL	5.294	-4.98%	-0.82%	-6.08%	61.50%	3.77	3.12 - 4.42	40%
USDCNY	7.148	12.44%	-1.79%	12.14%	8.01%	7.69	7.42 - 7.96	-7%
USDTRY	18.639	40.87%	0.27%	38.53%	374.81%	12.29	9.66 - 14.9	52%
USDINR	81.616	9.56%	-0.88%	8.62%	26.40%	69.81	64.9 - 74.8	17%

<sup>1</sup> Performance over the respective period of time, in percent

<sup>2</sup> Purchasing power parity (PPP) is estimated based on the relative development of inflation rates in two currency markets; the neutral range is determined by  $\pm 1$  standard deviation of the historical variation around the PPP value.

<sup>3</sup> Deviation of the current spot rate from PPP, in percent.

## Purchasing Power Parity



Source: QCAM Currency Asset Management, as of November 30th, 2022.

— PPP — Spot — Neutral Range

## FX Spot vs Forwards

### FX Forwards Level and Premium

	Current Exchange Rate	Forward Level			Premium p.a.		
		1M	3M	12M	1M	3M	12M
EURUSD	1.034	1.0371	1.0412	1.0602	3.23%	2.80%	2.50%
USDJPY	138.470	137.8323	136.8050	131.4029	-4.88%	-4.81%	-5.03%
GBPUSD	1.197	1.1986	1.2003	1.2058	1.37%	1.05%	0.72%
EURCHF	0.985	0.9832	0.9809	0.9682	-1.65%	-1.55%	-1.65%
USDCHF	0.952	0.9481	0.9420	0.9132	-4.86%	-4.32%	-4.05%
GBPCHF	1.140	1.1364	1.1308	1.1013	-3.50%	-3.28%	-3.36%
CHFJPY	145.408	145.4016	145.2273	143.8919	-0.05%	-0.50%	-1.03%
AUDUSD	0.669	0.6700	0.6716	0.6777	1.55%	1.51%	1.27%
USDCAD	1.360	1.3594	1.3578	1.3513	-0.25%	-0.56%	-0.61%
USDSEK	10.573	10.5434	10.5069	10.3586	-3.08%	-2.51%	-2.00%
EURSEK	10.933	10.9341	10.9403	10.9822	0.14%	0.28%	0.45%
USDRUB	61.344	61.4614	63.6401	74.7196	2.30%	14.81%	21.51%
USDBRL	5.294	5.3267	5.3822	5.6738	6.75%	6.67%	7.08%
USDCNY	7.148	7.1289	7.0962	6.9708	-2.91%	-2.90%	-2.45%
USDTRY	18.639	18.9048	19.6459	24.3163	17.15%	21.38%	30.05%
USDINR	81.616	81.7883	82.1713	83.6763	2.30%	2.72%	2.49%

### Historical Spot Performance and Current Forward Premium vs. the US Dollar



Source: QCAM Currency Asset Management, as of November 30th, 2022



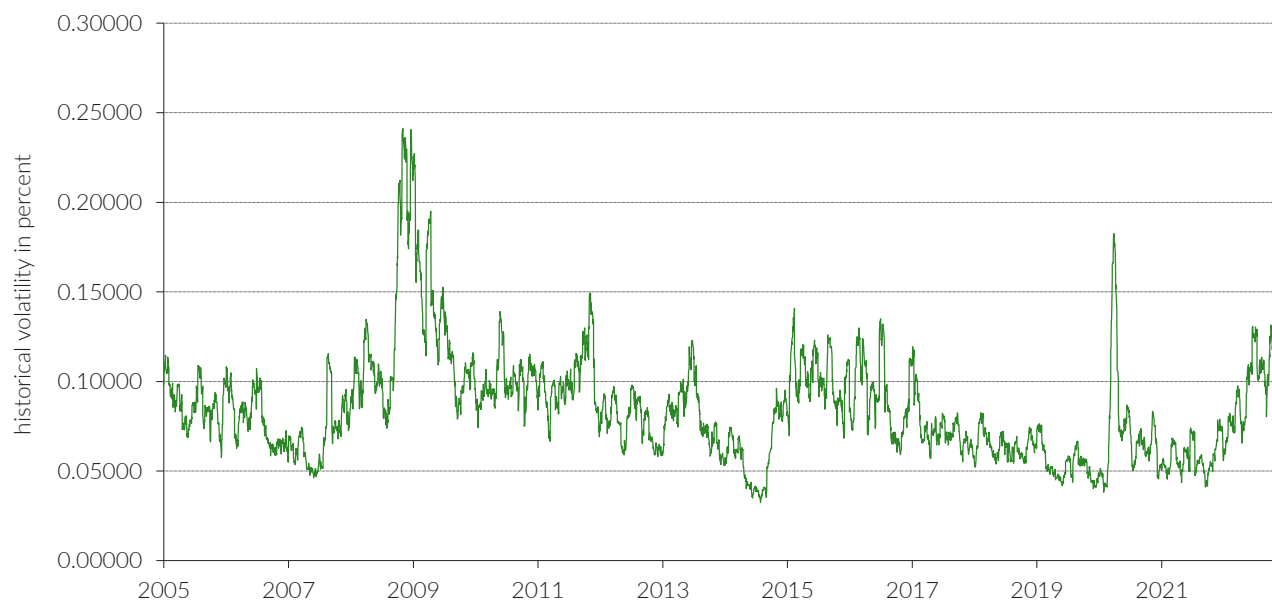
## FX Volatility

### Historical vs. Implied Volatility

	Current Exchange Rate	Historical Volatility <sup>1</sup>				Implied Volatility <sup>2</sup>			
		Current	1M	12M	Ø 5 years	Current	1M	12M	Ø 5 years
EURUSD	1.034	12.60%	11.43%	5.45%	6.71%	10.38%	10.75%	6.30%	6.88%
USDJPY	138.470	13.70%	12.15%	7.07%	6.95%	12.55%	12.70%	7.70%	7.49%
GBPUSD	1.197	18.73%	16.26%	6.92%	8.62%	11.78%	12.58%	7.55%	9.10%
EURCHF	0.985	7.76%	8.00%	3.91%	4.61%	6.88%	7.13%	4.93%	5.29%
USDCHE	0.952	12.47%	10.32%	6.30%	6.76%	9.35%	9.48%	6.83%	6.75%
GBPCHF	1.140	14.45%	13.08%	7.02%	7.88%	9.58%	10.53%	7.45%	8.42%
CHFJPY	145.408	11.79%	11.00%	5.32%	6.41%	10.88%	11.45%	7.10%	6.99%
AUDUSD	0.669	15.84%	14.07%	7.70%	9.29%	13.80%	14.30%	9.68%	9.46%
USDCAD	1.360	9.53%	8.75%	6.28%	6.74%	8.45%	8.93%	7.18%	6.80%
USDSEK	10.573	16.59%	14.34%	7.74%	9.40%	13.95%	14.93%	10.07%	9.46%
EURSEK	10.933	6.67%	5.55%	5.61%	5.92%	7.33%	8.00%	6.33%	6.24%
USDRUB	61.344	20.65%	22.96%	10.43%	18.94%	29.27%	45.37%	15.13%	18.17%
USDBRL	5.294	21.56%	19.29%	14.00%	15.15%	19.93%	21.85%	17.15%	16.56%
USDCNY	7.148	10.47%	8.04%	3.21%	4.66%	9.25%	9.40%	4.15%	5.38%
USDTRY	18.639	1.93%	2.43%	28.67%	18.28%	13.95%	18.85%	36.94%	20.41%
USDINR	81.616	5.81%	5.52%	4.11%	5.50%	5.83%	7.00%	5.43%	6.31%

<sup>1</sup> Realised 3-month volatility (annualised)    <sup>2</sup> Market implied 3-month volatility (annualised)

### QCAM Volatility Indicator<sup>3</sup>



<sup>3</sup> 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: QCAM Currency Asset Management, as of November 30th, 2022

# FX Analytics

QCAM has developed an analytical framework to take scalable exchange rate positions. The QCAM exchange rate strategy for each currency pair has three principal components:

- **Macro**
- **Business Sentiment**
- **Technical**

The positioning signals from each component are aggregated into an overall positioning score for each currency pair. This score is used for the dynamic exposure management.

**The Macro** component consists typically of economic growth, balance of payments, fiscal and monetary policy and in some cases commodity fundamentals. The positions are either discretionary or model driven.

**The Business Sentiment** component is a rule-based framework built on business surveys.

**The Technical** component consists primarily of the technical analysis of daily exchange rates (trend following and mean reversion). We also consider speculative futures positions and the deviation of

exchange rates from purchasing power parity.

The summary table below and the following pages show the QCAM strategy framework and the positioning for the major currency pairs actively covered by QCAM. The tables break each of the three strategies into subcomponents with an indication of the current impact. The charts show the respective exchange rate with past QCAM positions and their scale.

## Current positioning

We kept all discretionary Macro positions at neutral, except for a shift to long JPY, given year-end uncertainties and liquidity constraints. The balance of the Business Sentiment positions remains long USD. The notable exception is the long JPY Business Sentiment position. The overall long USD position in Technicals has declined thanks to the drop of the USD versus most currencies in recent weeks. The balance of all strategies is roughly half long USD versus the EUR, the GBP, the CAD and the CHF and slightly long the JPY. The EUR is long versus the SEK and slightly short versus the CHF.

## Overview<sup>1</sup>

	Macro	Business Sentiment	Technical	Comment
EURUSD	0	--	0	Technical has shifted from short EUR to neutral reducing the overall short EUR position.
USDJPY	-/+	--	+	The Macro position went long JPY and the short JPY Technical position declined, resulting in a small long JPY position.
EURCHF	0	-	0	Technical went to neutral in EURCHF and to short CHF in USDCHF. The balance of all positions is slightly long CHF versus the EUR and half short CHF versus the USD.
USDCHF	0	++	+	
GBPUSD	0	--	-	Positions have not changed and remain half short GBP.
EURSEK	0/0	++	+	The interest-rate Macro position went to neutral and the overall position is half short SEK
USDCAD	0/+	++	0	Technical went to neutral and the overall position is half short CAD

<sup>1</sup> The signs relate to the first currency of the exchange rate pair ; ++ or -- mean 100% long or short; \*/\* means split position.

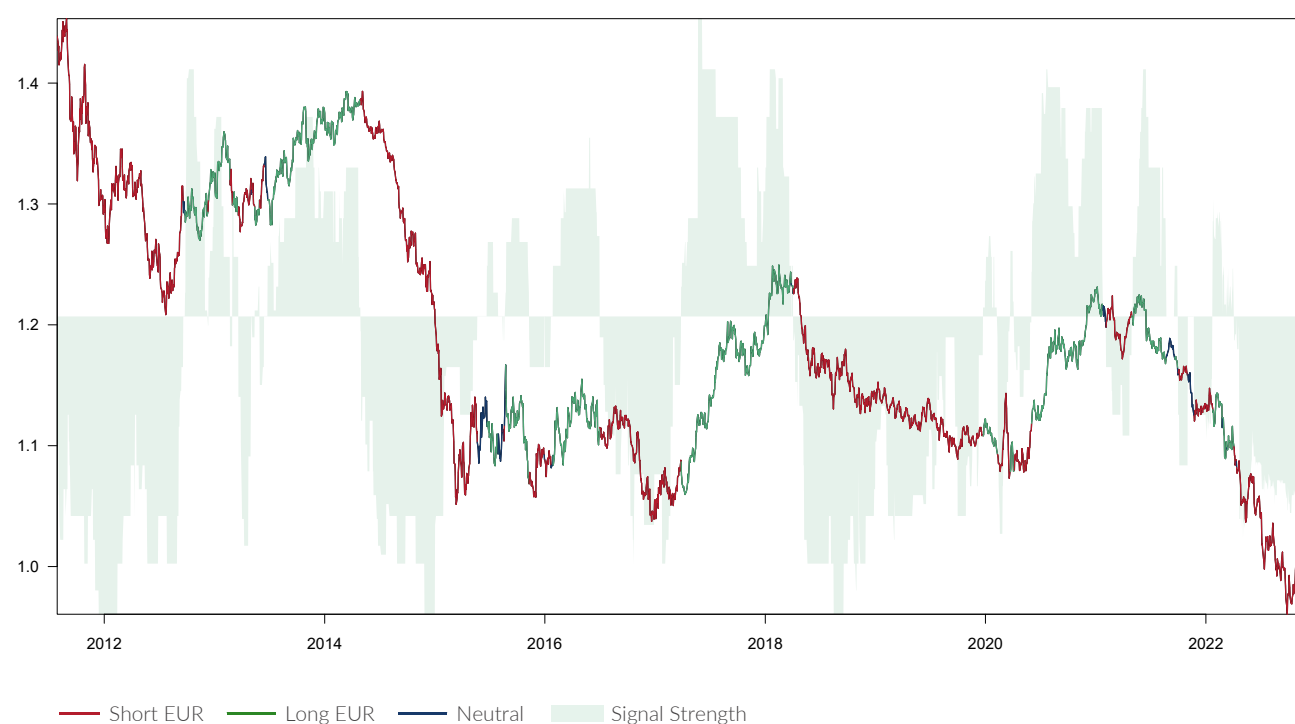
## EURUSD

The Euro-area economy is so far holding up better than feared and an energy shortage in the winter now seems unlikely. Statements by Fed and ECB officials continue to create volatility in EURUSD around parity. The EUR could benefit from its undervaluation if the economy continues to do bet-

ter. Our discretionary Macro position remains neutral for now, given year-end uncertainties. The Business Sentiment position remains short EUR, while the Technical position has turned neutral. The overall position is modestly short EUR versus the USD.

	FX Factors	EUR Impact	Comment
<b>Macro</b>	Current Account Balances	0/-	The surge in energy prices has pushed the Euro-area's current account into deficit, but likely to recover in 2023
	Fiscal Balances	0/-	Energy relief packages are lifting the Euro-area fiscal deficit although the US deficit is rising as well
	Interest Rate Differentials	-	Rate hike expectations are easing on both sides, but the spread remains unfavorable for the EUR
	Oil prices	0	Oil price decline likely to stabilize in wider range
<b>Sentiment</b>	Business Sentiment	--	The momentum in Euro-area surveys remains below US, but the gap is narrowing
	Risk Sentiment	0/-	Uncertainties related to energy crisis have declined but risk aversion remains elevated
<b>Technical</b>	Price Action	-	Price technicals moved to neutral
	Spec Positions	0	Net long EUR positions increased further but not extreme
	PPP Valuation	+	EUR undervaluation is around 17%

### EURUSD and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

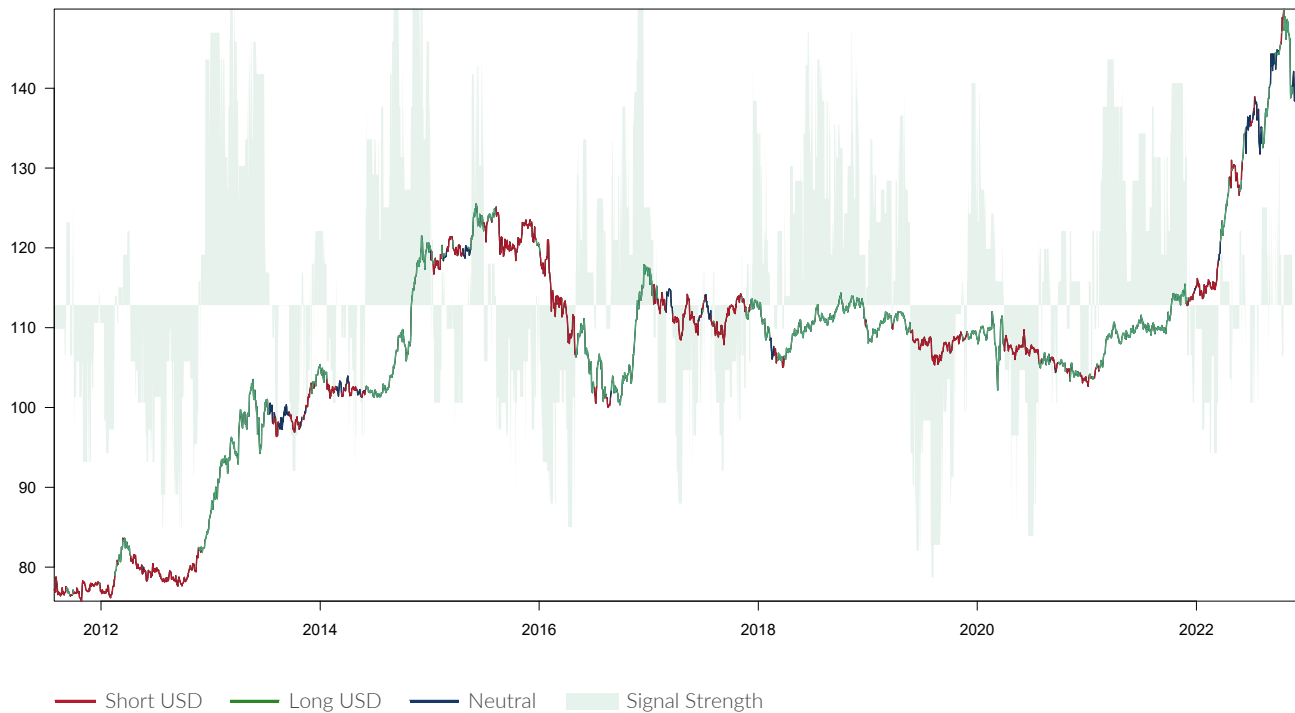
## USDJPY

The economy remains on the delayed Corona recovery path, while inflation is rising. Against that background it is only a matter of time until the BoJ starts to normalize policy. The current account cushion has declined but we believe will recover next year as energy prices have dropped to levels from before the

Ukraine war. Our discretionary Macro position has moved to long JPY and the Macro carry model stayed short JPY due to wide interest rate differentials and lower equity volatility. Business Sentiment stayed long JPY and Technical remained short JPY. The balance of all strategy positions is slightly long JPY.

	FX Factors	JPY Impact	Comment
<b>Macro</b>	Current Account Balances	0	The Japanese surplus has declined on rising energy prices but likely to recover in 2023
	FDI Flows	-	Net outflows have increased to the pre-Corona level
	Interest Rate Differentials	-	Near zero interest rates remain the biggest handicap for the JPY but a policy shift in early 2023 looks more likely
<b>Sentiment</b>	Business Sentiment	0	Momentum of Japanese Business Sentiment remains stronger than in the US
	Risk Sentiment	0	Changes in risk sentiment had little impact so far this year
<b>Technical</b>	Price Action	-	Price action became positive JPY, but our longer term models remain short JPY
	Spec Positions	0/+	Net short JPY positions declined somewhat but are still large
	PPP Valuation	+	The JPY is currently about 47% undervalued

### USDJPY and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

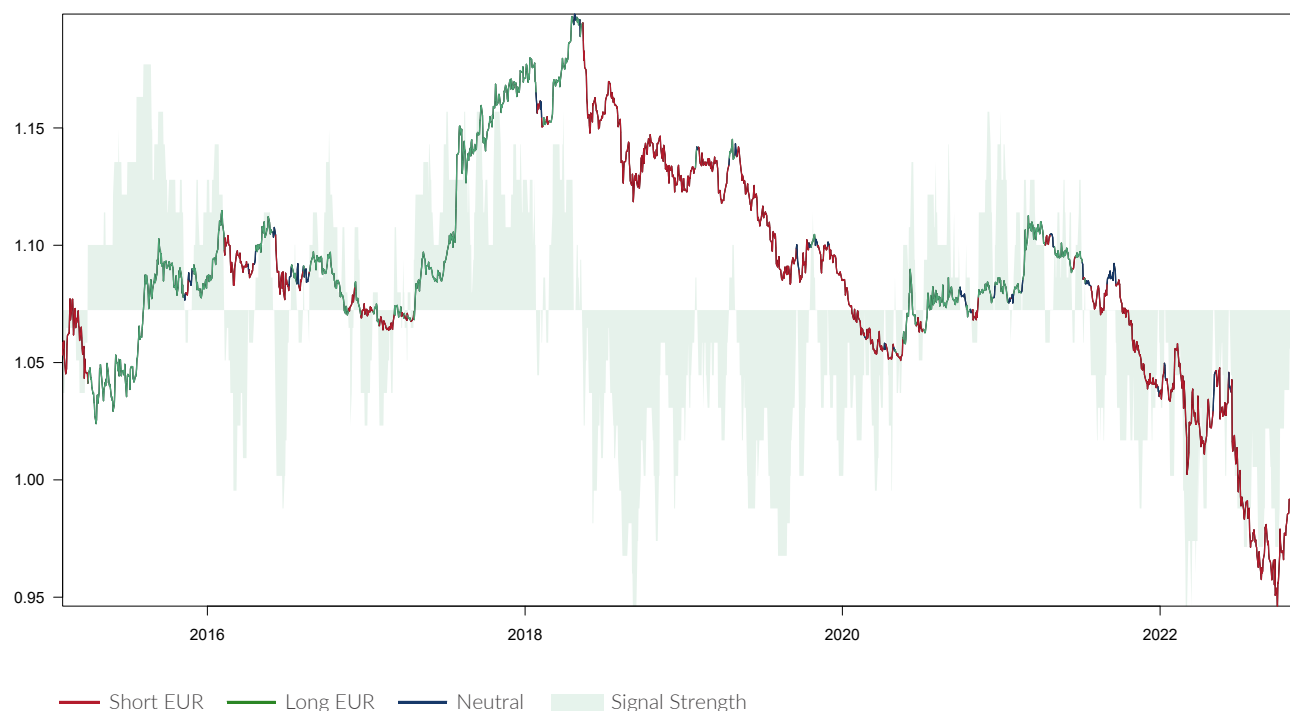
## EURCHF

We maintain the neutral Macro position given year-end uncertainties. The CHF is fundamentally strong and the SNB stays concerned about inflation. Business

Sentiment remains long CHF but Technical went to neutral. Our three strategy positions are on balance slightly long CHF versus the EUR.

	FX Factors	CHF Impact	Comment
<b>Macro</b>	Current Account Balances	+	Surplus remains steady support for CHF
	Capital Flows (Safe Haven)	0	No significant inflows on global recession concerns
	Interest Rate Differentials	0	SNB rate policy no longer ahead of ECB
	SNB Policy Intervention	0/+	The SNB continues to reduce its foreign currency reserves gradually
<b>Sentiment</b>	Business Sentiment	+	Swiss economy with slightly more momentum
	Risk Sentiment	0	Changes in risk sentiment had little impact so far this year
<b>Technical</b>	Price Action	0	Technical shifted to neutral
	Spec Positions	0	Net CHF position is modestly short
	PPP Valuation	0	CHF is around fair-value versus the EUR

### EURCHF and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

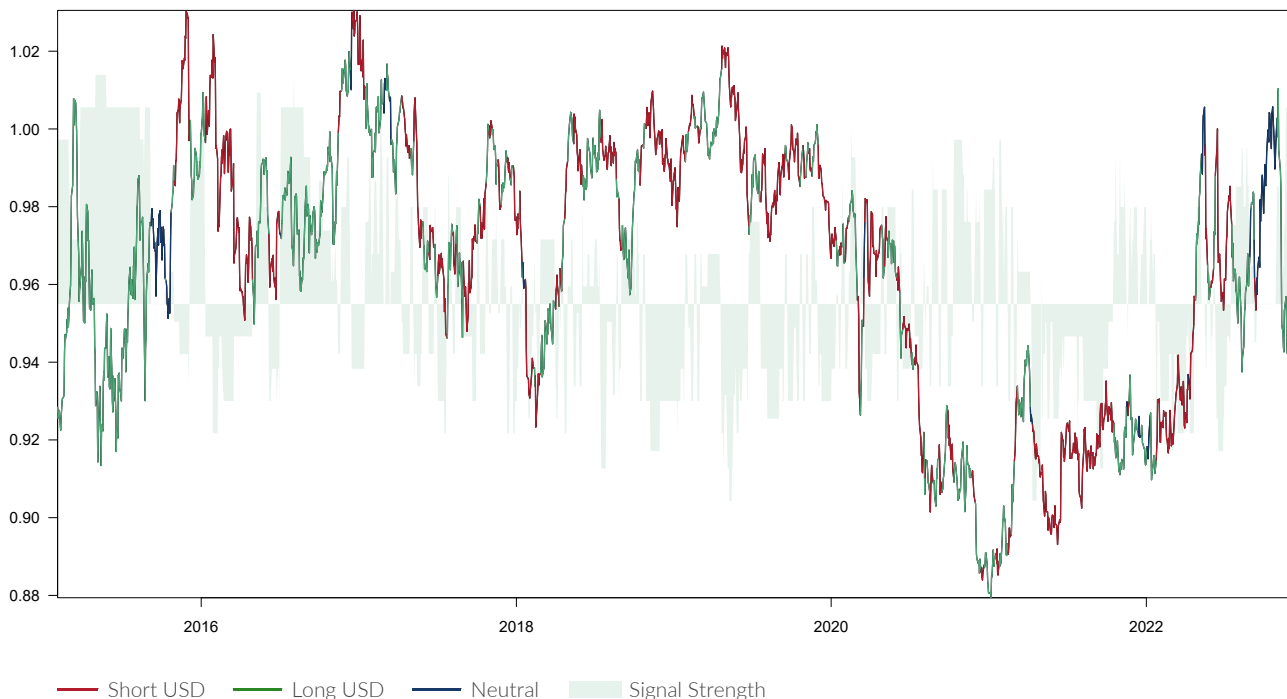
## USDCHF

Our Macro positions in EURCHF (neutral) and EURUSD (neutral) imply also neutral for USDCHF. USDCHF remains dominated by moves in EURUSD with some possible moderation from EURCHF. Business Sentiment

stayed short CHF and Technical went short CHF. The balance of all three strategies is half short CHF.

	FX Factors	CHF Impact	Comment
<b>Macro</b>	Current Account Balances	+	Surplus remains steady support for CHF
	Capital Flows (Safe Haven)	0	No significant inflows on global recession concerns
	Interest Rate Differentials	-/0	Swiss rates have become positive but the gap to US rates remains large
	SNB Policy Intervention	0/+	The SNB continues to reduce its foreign currency reserves gradually
<b>Sentiment</b>	Business Sentiment	0	Swiss surveys remain behind US surveys
	Risk Sentiment	0	Changes in risk sentiment had little impact so far this year
<b>Technical</b>	Price Action	-	Technical has shifted short CHF
	Spec Positions	0	Net CHF position is modestly short
	PPP Valuation	+	CHF is about 19% undervalued versus USD

### USDCHF and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

## GBPUSD

We remain fundamentally bearish on the GBP given the negative Brexit fallout, growing stagflationary pressures and policy uncertainty. We maintain our neutral Macro position, however, given the cur-

rent political relief and year-end uncertainties. Our Business Sentiment and Technical positions both remain short GBP and the balance of all our strategies is half short GBP.

	FX Factors	GBP Impact	Comment
<b>Macro</b>	Current Account Balances	0/-	The UK has like the US a twin deficit problem, but the current account deficit is widening faster
	Interest Rate Differentials	0/-	UK interest rates have fallen below US rates as the funding squeeze faded
	Oil Price	0	Oil price decline likely to stabilize in wider range
<b>Sentiment</b>	Business Sentiment	-	Momentum in UK surveys remains below US surveys
	Risk Sentiment	-	Political uncertainty remains despite leadership change
<b>Technical</b>	Price Action	-	Technicals remain short GBP
	Spec Positions	0	Net short GBP position declined somewhat
	PPP Valuation	+/0	The GBP is 24% undervalued

### GBPUSD and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

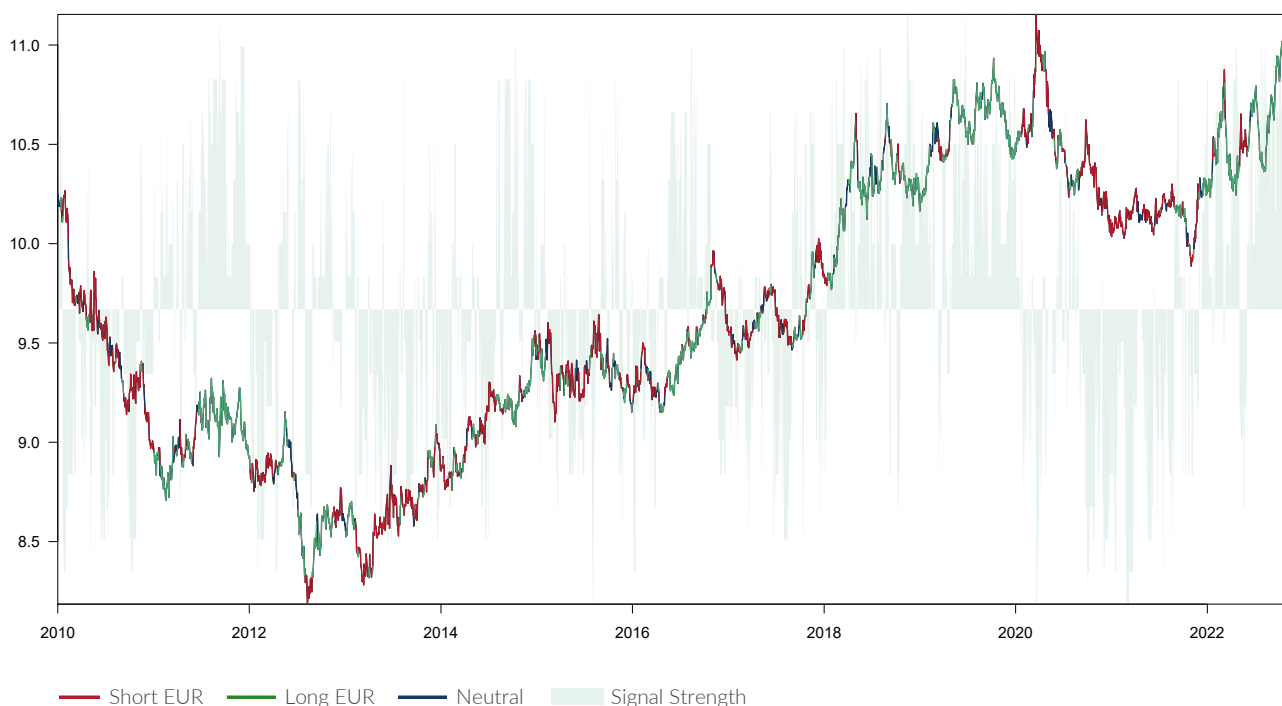
## EURSEK

The Swedish economy is holding up well and the SEK is undervalued. We maintain the neutral discretionary Macro position, however, given concerns over the impact of rising interest rates on housing debt and year-end uncertainties. The interest rate

Macro model went neutral and Business Sentiment and Technical remained short SEK. The balance of all strategy positions is half short SEK versus the EUR.

	FX Factors	SEK Impact	Comment
<b>Macro</b>	Current Account Balances	0/+	Sweden's surplus suffers less terms of trade losses compared to the Euro area
	Interest Rate Differentials	0	The Macro interest rate model went to neutral
<b>Sentiment</b>	Business Sentiment	-	Surveys remained short SEK
	Risk Sentiment	-	Uncertainties related to energy crisis have declined but risk aversion remains elevated
<b>Technical</b>	Price Action	-	Technical stayed short SEK
	PPP Valuation	+	The SEK is 25% undervalued versus the EUR

### EURSEK and QCAM Strategic Positioning



Source: QCAM Currency Asset Management



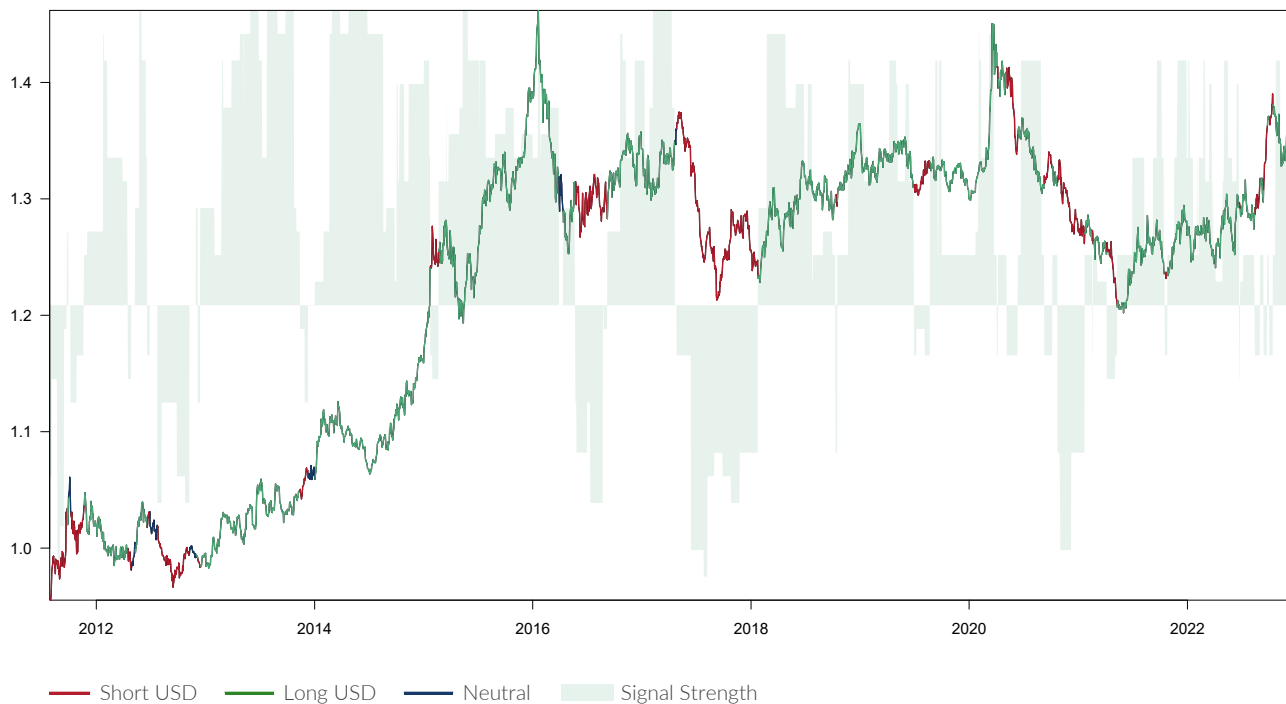
## USDCAD

Canada's fundamental position remains solid although the current account dipped back into deficit in the third-quarter. Inflation is a bit lower than in the US and the BoC is moving in line with the Fed. Our discretionary Macro position stays neutral given year-end un-

certainties and the Macro oil price model remained short CAD. Business Sentiment stayed short CAD, while Technical moved to neutral. As a result, the overall position is half short CAD.

	FX Factors	CAD Impact	Comment
<b>Macro</b>	Current Account Balances	0	Canada's current account fell back into deficit but remains small versus US deficit
	Oil Prices	0	Oil price decline likely to stabilize in wider range
	Interest Rate Differentials	0	CAD short-term and long-term rates are moving closely in line with US rates
	USD DXY Trend	0	Negative correlation with USD is small
<b>Sentiment</b>	Business Sentiment	-	Canada has weaker momentum versus the US in the surveys
	Risk Sentiment	0	No particular risk drivers at the moment
<b>Technical</b>	Price Action	0	Technicals went neutral
	Spec Positions	0	Net short CAD position declined somewhat
	PPP Valuation	0	CAD is about 14% undervalued versus the USD

### USDCAD and QCAM Strategic Positioning



Source: QCAM Currency Asset Management

# QCAM Products and Services

**Our edge derives from a focus on professional currency management, the absolute transparency and the careful examination of risk. It is our mission to offer our clients innovative transparent solutions, in a thoughtful and risk-controlled environment, and to surpass investment goals.**

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## Currency Overlay

Risks under control – opportunities in sight: QCAM Currency Overlay offers customised solutions for individual needs and investment goals. Our Passive Overlay focuses on risk management, reduction of transaction costs and the customer specific management of resulting cash flows. Our Dynamic Overlay aims to generate returns based on QCAM's proprietary FX Analytics, embedded in a strict risk budgeting framework.

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## FX Best Execution

With larger foreign currency transactions, even a small difference in pricing leads to a major impact on costs and revenues. While it is unattainable for most players to keep the full overview of the deals available in the market, independence and transparency are essential. We carry out a Transaction Cost Analysis for our clients to evaluate potential cost savings. Also, QCAM assists its clients in the design of an optimal multibank-setup and conducts clients FX transactions transparently, independently and in the client's best interests.



## Money Market Plus

QCAM's Money Market Plus Strategy «MMP» enhances yield via the use of the FX interbank swap-market. Also, we take advantage from excellent conditions which we receive from our large pool of partner banks and highly rated debtors for money market and currency transactions QCAM's MMP strategy has outperformed its peers for many years on a constant basis.

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## FX Alpha

Currencies as an attractive portfolio diversification via QCAM FX BIAS. The focus on QCAM's Business Intelligence Alpha Strategy is on business indicators which we have successfully used for many years. The strategy is market-neutral, no specific market environment necessary. Diversification via a pool of eight different currencies and their respective trading signals.



# QCAM Profile

## About us

QCAM Currency Asset Management AG is an independent financial services provider with a specific focus on currency and liquidity management. QCAM brings together a team of internationally experienced Currency and Asset Management specialists, who are managing assets of institutional clients of approx. USD 5 billion.

Our core competences are Currency Overlay Services, FX Transaction Execution according to „Best Execution“ principles, FX Alpha and Liquidity Management.

Long-standing customers of QCAM are pension funds, family offices, investment funds, companies, NGOs and HNWLs.

### Headquarters

Zug, Switzerland

### Founded

2005

### Regulation

FINMA since 2007  
 SEC since 2014

## Independent and Transparent

- Interests directly aligned with those of our clients

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- Client focused solutions, tailored to each individuals requirements

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- Independent selection of suitable external services providers

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- No principal-agent conflicts

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- Transparent fee model – no hidden costs

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- Transparent reporting

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