NO. 4, 20 DECEMBER 2022

CIC FX News

Purchasing power vs. inflation – central banks in a grappling match

USD/CHF 0.9275 – EUR/USD 1.0600 – EUR/CHF 0.9850 – GBP/CHF 1.1275 – XAU/USD 1,800

The coronavirus pandemic and subsequent lockdowns (especially in China, with its zero-COVID policy), supply chain bottlenecks, the war between Russia and Ukraine, Chinese sabre rattling over Taiwan, "potential" energy shortages (in Germany in particular), inflation, monetary policy (shrinking central bank balance sheets), rate hikes at unprecedented speed and in large steps – there have been plenty of things to make life somewhat uncomfortable for investors. New challenges are emerging every day. We are facing a high degree of uncertainty and it seems to me that many participants in the financial markets are standing on the sidelines and watching how things unfold. There is also often talk of an imminent recession, bringing job losses and/or falls in income. A loss of purchasing power due to negative real interest rates is something that affects us all, and the hunt is on for alternatives to sitting on cash. I am frequently approached by people wanting to know how to protect their assets. Is now the time to dump equities? Or is it time to get on board? Will the dollar carry on falling? Isn't this a good time to buy sterling? What's going to happen to the euro? Are interest rates going to keep on going up? Do crypto assets offer a chance to get rich quick at their current level?

Plenty of questions, but not many answers. One thing I can say for certain is that no one can predict what is going to happen on the financial markets. That's what makes them so exciting. People have been predicting the death of volatility for years, but now it's back with a vengeance. And volatility is a good thing, because it throws up all sorts of opportunities, and in my view it smooths out even a well diversified portfolio. What matters is that you face up to the situation, stick to the investment strategy you have set and don't panic – stay cool. That's easy to say, but it's also the recipe for long-term investment success.

Currency movements are an issue that should not be underestimated when investing in securities. Foreign currencies often make up a large part of a portfolio, but get little or no attention. My FX News is an attempt to provide an overview of the latest developments in particular currency pairs.

For some months now the currency markets have been driven mainly by expectations of interest rate moves by the various central banks. These are basing their decisions on the latest releases of economic data that affect rates, such as inflation (CPI/PPI) and labour market figures. They have moved away from their former transparent "forward guidance", further unsettling the markets and creating plenty of room for people to speculate. The dollar has been benefiting from expectations of rising rates since May 2021, and up until the end of September it looked as if 2022 was set to be the year of the dollar. But there has been a fundamental change since then; after a very aggressive interest rate policy by the Fed, the expectation that this would be kept up has gradually faded. On top of this slightly weaker, but still very high, inflation data have been sufficient to prevent the turning point in US key rates from being raised any even further (at the moment the markets are assuming the cycle in the fed funds rate will peak at 5.1% – against 4.375% right now). This has caused the dollar to run out of steam. If inflation genuinely weakens over the next few months and key rates are hiked as expected until March 2023, there is in fact a chance that real interest rates in the USA will be positive. The prospects of this ought to support the dollar (and put pressure on the stock market). That's one view. Another view is that the US may well fall into a recession due to the rapid rise in interest rates. Debt servicing costs have shot up, forcing consumers to be cautious. Consumption in the USA makes up around two-thirds of gross domestic product.

In Europe and the UK, the picture for real interest rates is totally different. The economic problems in these two economic areas (to say nothing of the political ones) pose entirely different challenges for central bankers. They are venturing into unexplored territory, and although we often hear that history repeats itself, at the moment we can't rely on anything from the past. Many things have changed totally over the last two decades. Globalisation, digitalisation and above all the vast expansion of the money supply and borrowing all over the world have created a situation which lacks any historical precedent. How are the people running the central banks at the moment supposed to know how to respond?

They're on a tightrope walk that may come to an unexpected end. Circumstances have changed so drastically that much of what we know about economics no longer applies to the present situation for the short to medium term. But of course, this also means there is a huge number of opportunities waiting for us. Above all, though, I firmly believe that over the long term, the trends we

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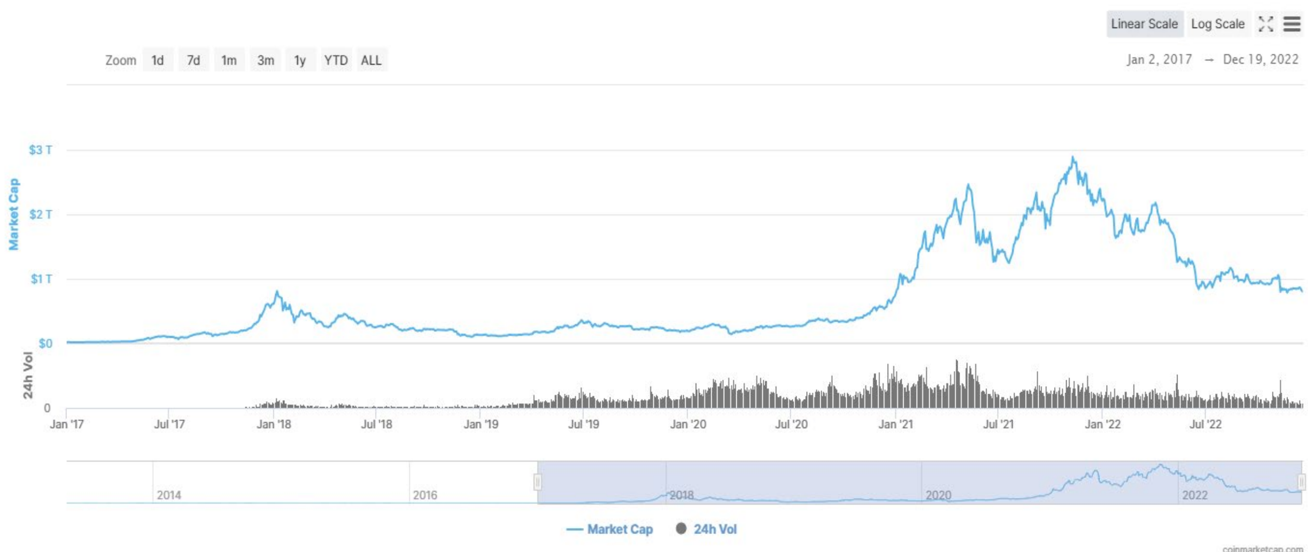
learned about in our theory lessons will prevail. Which is to say that if a country has negative real interest rates, its currency will depreciate accordingly.

A much larger challenge facing central banks is crypto assets. Because regulation has proven to be insufficient or non-existent and because they have collapsed in value. After the boom came the bust. The market capitalisation of all crypto assets (of which there are currently 22,086 – source www.coinmarketcap.com) has tumbled within a year from just under USD 3 trillion to USD 800 billion right now. Of this, USD 700 billion relates to just the ten largest tokens – the rest are more or less worthless. That's less than the value of all the stocks in the SMI (CHF 1.04 trillion). In my view, crypto assets do not have the characteristics of money, nor are they suitable for investment or protecting against inflation.



EUR/USD 1.0600

A few days after my last FX News dated 19 September 2022, EUR/USD lost another 5% and reached a low of 0.9536 on 28 September. The closing rate that day was 0.9706. This resulted in a bullish engulfing pattern (the candlestick of 26 to 28 September 2022), suggesting a bottom was being formed – and this was indeed the case. A sharp upward correction then set in, leading to a struggle around 1.0340 between 11 and 23 November. Ultimately the EUR prevailed and EUR/USD hit a high of 1.0735 on 15

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December. A very impressive 12% rally in just ten weeks, which is a rarity. The indicators are therefore in overbought territory and the uptrend is slowly running out of steam. There is also a strong downtrend line at this level (the highs of September 2021 and February 2022). I therefore expect this pair to retreat towards parity in the next few days (which is equivalent to the 61.8% Fibonacci correction of the last move upwards). The first confirmation would be if it breaks 1.0550 – this should result in retesting the old area of resistance (which is now support) at 1.0350. There is a strong area of resistance between 1.0850 and 1.0950 (see the weekly chart), with 1.1000 as a psychological barrier.

So in conclusion: sell EUR/USD at best with a price target below 1.0350 to 1.000. Stop loss at 1.0750.

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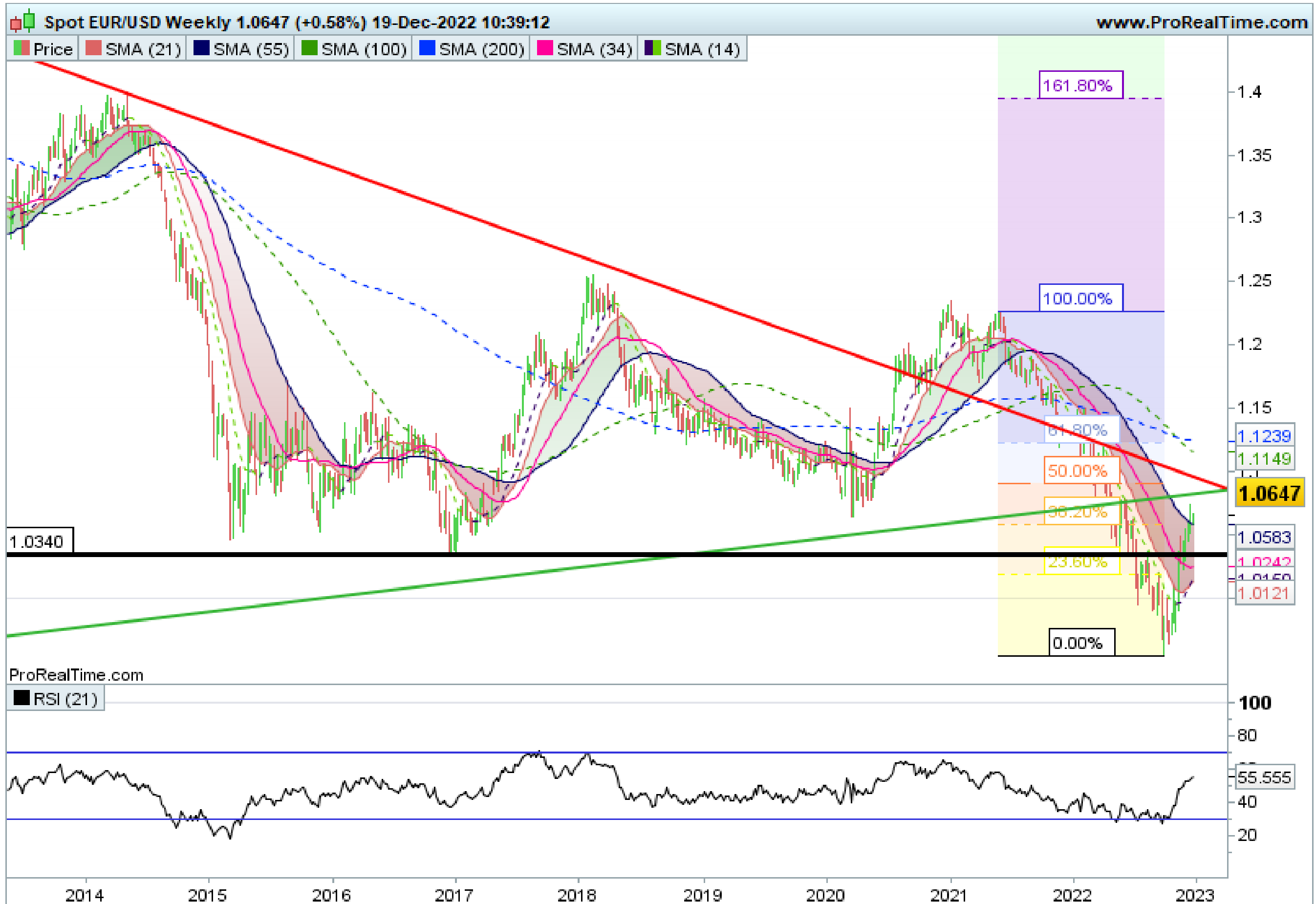

EUR/CHF 0.9850

EUR/CHF managed to break away from the low of 0.9400 and almost reached parity at the end of October. This was probably due to the fact that the ECB may well be willing to consider hiking rates more aggressively than the SNB because inflation is much higher in the eurozone at 10%. As mentioned above, currency pairs are driven by expectations of future interest rates. These can change at any time. We are currently in December, which is a month of low liquidity, so sharp movements in both directions may occur. Real interest rates in the eurozone are in negative territory and the ECB cannot just keep putting rates up to change this, not least because of the level debt among the countries in the south. The financial burden of interest rates rising further could put the survival of the euro at risk. The expanding yield differential against the CHF may support the EUR in the short term. Parity remains a major psychological resistance level. If this is broken, I expect a short squeeze and recommend hedging at that stage.

So in conclusion: I am sticking to my guns and continue to expect the Swiss franc to appreciate by between 1% and 2% per annum. As long as no extraordinary events change the situation fundamentally, I would still hedge the euro.

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USD/CHF 0.9275

Contrary to my expectation, the dollar firmed against the CHF to above 1.01 and formed a triple top at 1.0150 in late October/early November. On 4 November 2022 a strong reversal pattern formed, immediately triggering a great wave of selling. In the week that followed, USD/CHF lost no less than 7%. 14 December saw an intermediate low of 0.9216, roughly equivalent to the 61.8% Fibonacci correction to the uptrend from January 2021 to October 2022. Since then, a bottom seems to have been forming. If USD/CHF struggles over 0.9400 again, a correction up to 0.9800 can be expected. Otherwise there is nothing to stop a further sell off, and the old lows may be tested again.

So in conclusion: sell USD/CHF above 0.9700 with a stop loss at 1.0200, downside potential to around 0.8800 and lower.

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Spot USD/CHF Daily 0.9285 (-0.02%) 20-Dec-2022 08:26:10 www.ProRealTime.com

Price | SMA (21) | SMA (55) | SMA (100) | SMA (200) | SMA (34) | SMA (14)

RSI (21)

Spot USD/CHF Weekly 0.9287 (-0.00%) 20-Dec-2022 08:23:30 www.ProRealTime.com

Price | SMA (21) | SMA (55) | SMA (100) | SMA (200) | SMA (34) | SMA (14)

RSI (21)

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GBP/CHF 1.1275

Who would have thought after my last FX News on 19 September 2022 that the pound sterling would lose another 10% in a week? The decisions taken by freshly elected Prime Minister Liz Truss caused the financial markets to wobble. The political pressure became too much, and after only 44 days in office she announced her resignation. 26 September marked a low of 1.0175 and five weeks later, once the political situation had calmed down a little, GBP/CHF recovered to just 1.1578. The UK has been suffering in various sectors since Brexit, on top of which came the coronavirus pandemic and the Ukraine conflict. It will take many more months, if not years, for the situation in the country to return to normal and the United Kingdom to recover its economic strength. So I would be cautious about taking positions in the currency and continue to recommend hedging. If it comes to extreme sell offs, as we have repeatedly seen in recent years, investors may be able to buy cheaply; the country cannot be written off and there are bound to be a few opportunities in the long term.

So in conclusion: hedge the pound sterling on strength (>1.1400). Short-term weakness (<1.0200) can be used as a long-term entry point.

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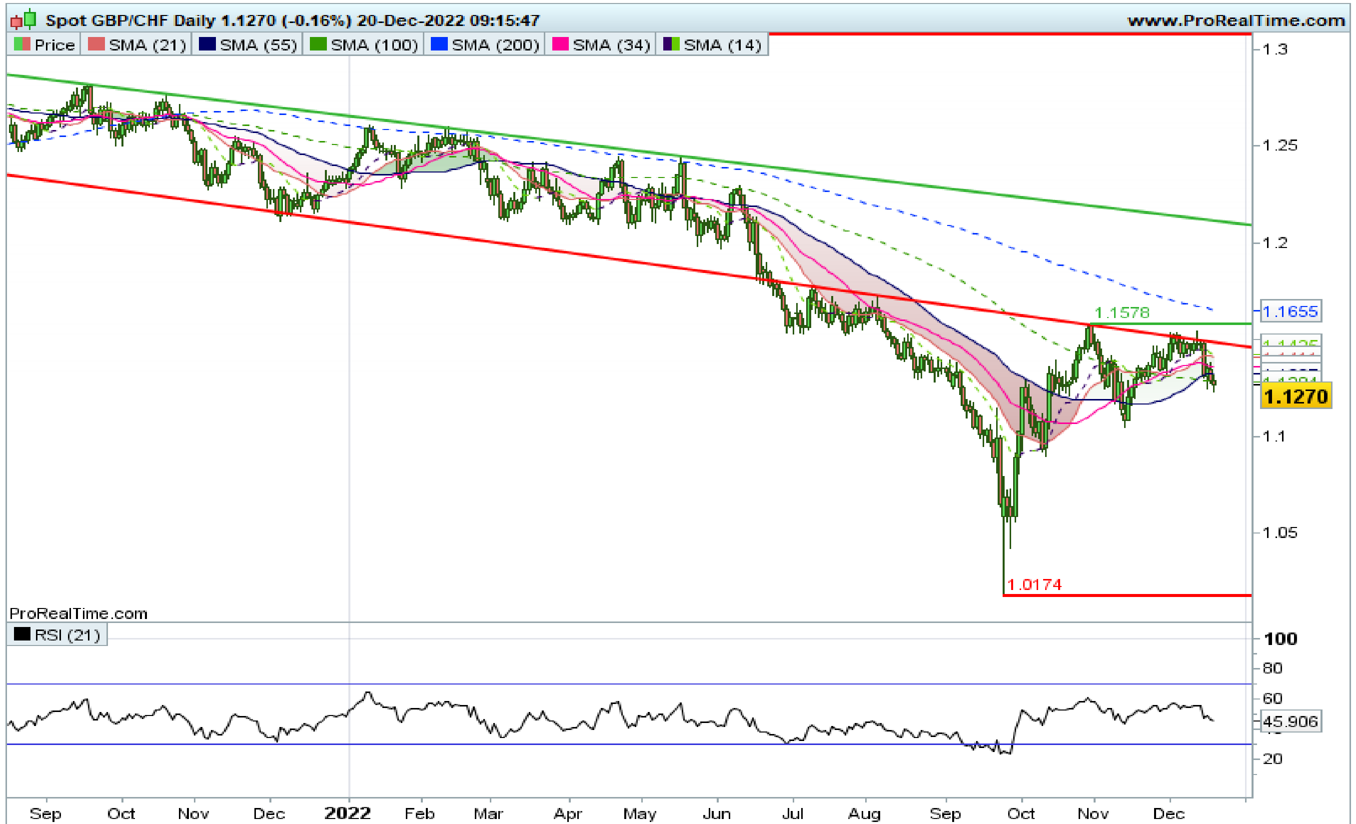

XAU/USD 1,800

Gold was strong last quarter, which is logical, as you read in my last FX News. The price recovered from USD 1,615 to USD 1,825. I remain firmly convinced that gold has a place in a well diversified portfolio. The current environment is likely to give the yellow metal an opportunity to outperform over the coming months and years. I would not be surprised to see a sharp rise above USD 2,200, whatever the trigger may be.

So in conclusion: gold should be bought on weakness (below USD 1,700) and has a place in a well diversified portfolio for the long term. One way to build up a position is to buy double currency units (DOCUs). With this product, you invest the sum you wish (in your investment currency) with a high coupon (e.g. 7% p.a.), with the associated possibility of securing gold at a lower price than the current spot price upon maturity (e.g. one month). Please do not hesitate to contact your relationship manager for an individual offer.

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Ounce Gold USD Daily 1,796.37 (+0.51%) 20-Dec-2022 09:29:44 www.ProRealTime.com

Price | SMA (21) | SMA (55) | SMA (100) | SMA (200) | SMA (34) | SMA (14)

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The content of this publication reflects the author's personal opinion.

Currencies, 20 December 2022/rb

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English

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