

SGMCS CAPITAL

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VIEW ON THE FOREX MARKETS FOR 2021



- ✦ DRIVERS OF EXCHANGE RATES AND THE INTERPLAY OF FACTORS
- ✦ OUR APPROACH TO THE WORLD OF INVESTMENTS
- ✦ THEMES THAT HAVE PLAYED OUT IN THE FX MARKETS OVER THE RECENT PAST
- ✦ SOME THEMES LIKELY WILL PLAY OUT IN THE COMING MONTHS
- ✦ SPECIFIC THOUGHTS ON EURUSD / USDJPY
- ✦ THOUGHTS ON HEDGING EXPOSURES
- ✦ THOUGHTS ON FX OVERLAY
- ✦ THE CARRY TRADE
- ✦ OUR THOUGHTS ON VALUATION



DRIVERS
OF
EXCHANGE
RATES

SHORT TERM

- Trend following
- Positioning and sentiment
- Volatility

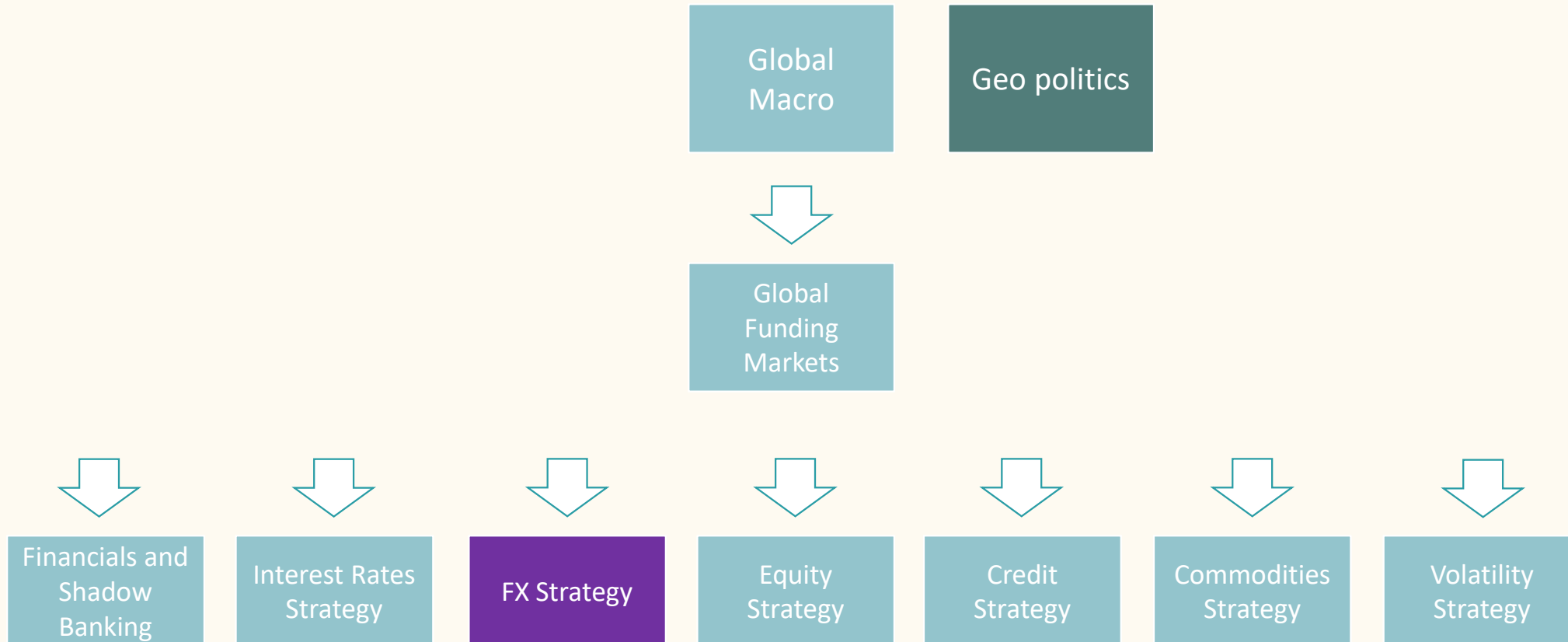
MEDIUM TERM

- Monetary policy and real interest rate differentials
- Current account trends
- Capital flows
- Fiscal Policy
- Economic growth
- Portfolio balance

LONG TERM

- Purchasing Power Parity
- Net foreign assets
- Productivity trends
- Savings / Investment balance trends
- Persistent trend in Terms-of-Trade

OUR APPROACH TO THE WORLD OF INVESTMENTS



THEMES THAT HAVE PLAYED OUT IN THE FX MARKETS OVER THE RECENT PAST

- * GLOBAL FINANCIAL CRISIS (2008 - 10): USD DEPRECIATION
- * CONTAGION SPREADS TO EUROPE (2011 - 15): EURO DEPRECIATION
- * BREXIT (JUNE 2016 - WE'RE GETTING THERE ...)
- * TRUMP PRESIDENCY AND STRONG US FISCAL STIMULUS (2018): USD APPRECIATION
- * PRECIOUS METALS RALLY (ONGOING SINCE JUNE 2019)
- * GLOBAL FUNDING MARKETS SEIZE UP (FEB - APR 2020)

SOME THEMES THAT ARE PLAYING OUT OVER THE COMING MONTHS

* PRESIDENT BIDEN'S AGENDA?

* US FEDERAL RESERVE'S BALANCE SHEET EXPANSION (RESTARTED FROM SEPTEMBER 2019): USD DEPRECIATION?

* EU JOINT DEBT PLAN RATIFIED (JUNE 2020 ONWARDS) ?

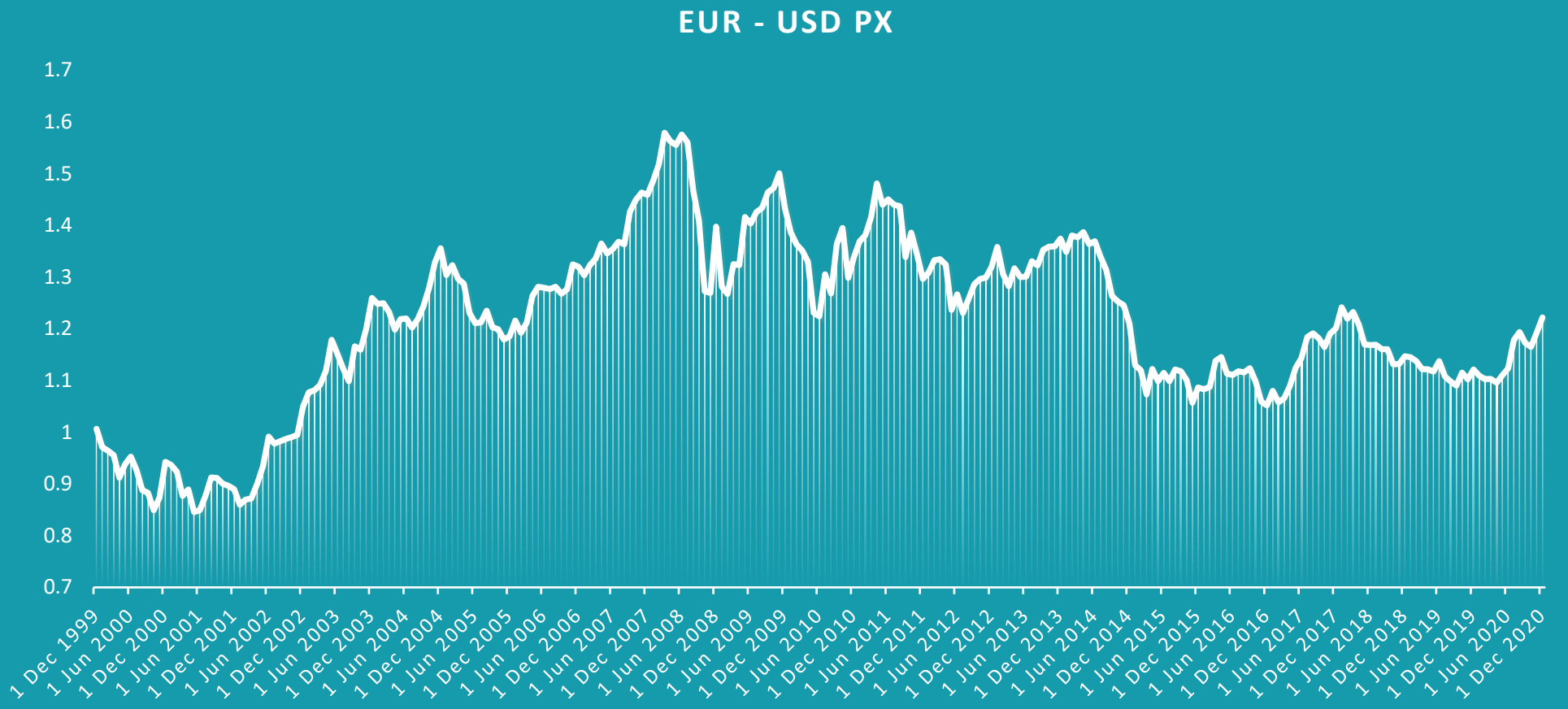
* US / CHINA RELATIONS (TRADE / TECHNOLOGY / SPHERES OF INFLUENCE)?

* CHINA'S NEW GROWTH MANDATE: A FOCUS ON THE DOMESTIC ECONOMY?

* COVID CURE / VACCINE AND THE RESUMPTION OF "NORMALCY"?

* CONTINUING FISCAL AND MONETARY STIMULUS?

SPECIFIC THOUGHTS ON EURUSD

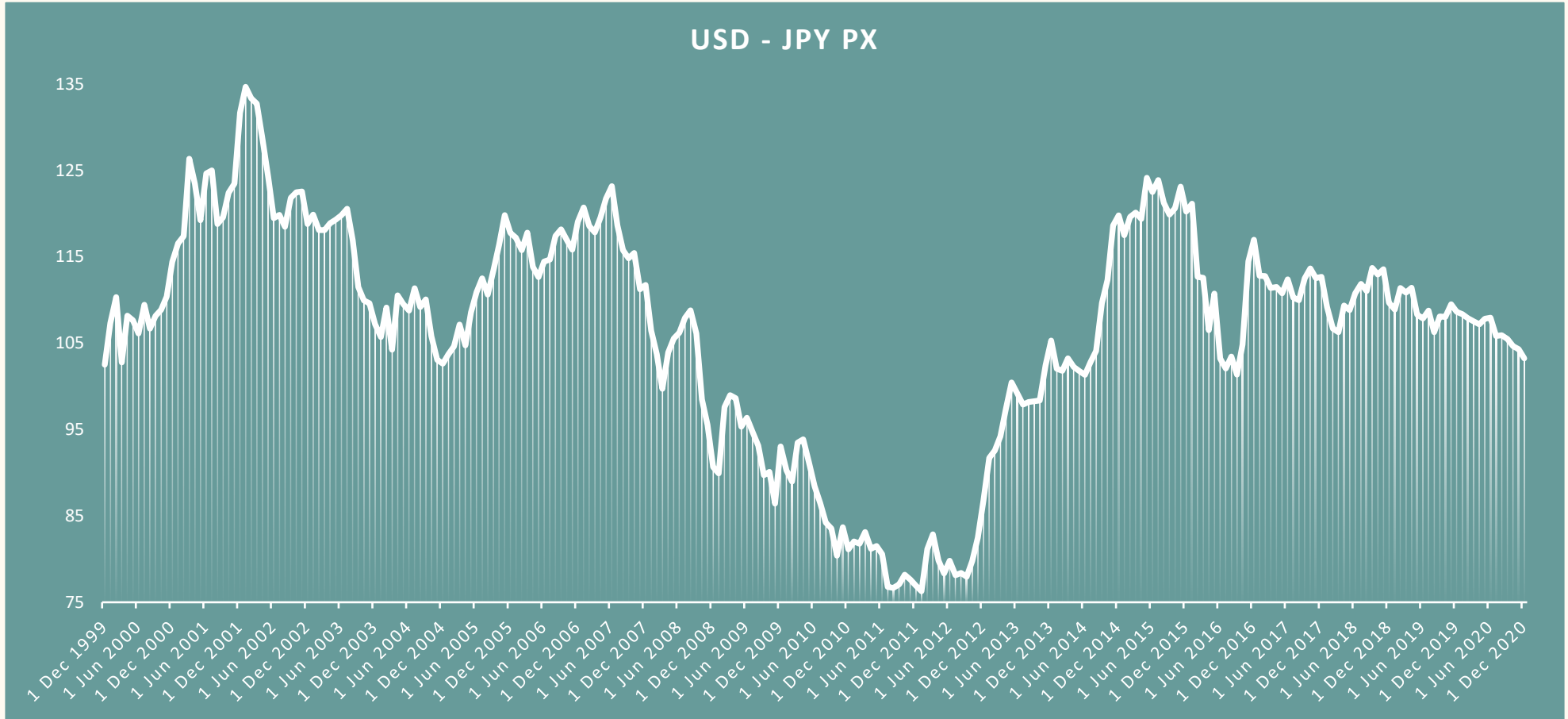


SPECIFIC THOUGHTS ON EURUSD



- CLOSER EUROPEAN INTEGRATION ... YES OR NO ?
- BIDEN'S AGENDA ?
- RELATIVE GROWTH OUTCOMES ?
- US TECH DOMINANCE
- US FUNDING ISSUES

SPECIFIC THOUGHTS ON USDJPY



SPECIFIC THOUGHTS ON USDJPY



- **DIRECTION OF THE JAPANESE ECONOMY UNDER PM SUGA**
- **EVOLVING RELATIONS IN ASIA PACIFIC** (*CHINA, KOREA, TAIWAN, INDIA, AUSTRALIA AND JAPAN*)
- **CHINA'S ONE BELT ONE ROAD AND ITS IMPACT ON NEIGHBOURING COUNTRIES**

A person is paragliding over a vast mountain range. The paraglider's canopy is primarily orange with blue accents. The background features a series of mountain peaks, some with snow, under a hazy, overcast sky. The overall scene is serene and expansive.

THOUGHTS ON HEDGING EXPOSURES

SCENARIO

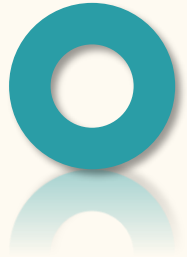


- A European exporter expects to receive **USD 10 M** over the **next 3 months** for goods and services sold
- **EURUSD** trades @ **1.2175** currently
- The exporter believes the **EUR** is **undervalued** and **would like to lock in the current rate** for his receivables three months forward

SUGGESTION

- The exporter could **buy EUR sell USD 10 M three months forward @ 1.2200**
- The difference in the current rate and the forward rate is primarily on account of interest rate differentials






SCENARIO

- A European exporter expects to receive **USD 10 M** over the **next 3 months** for goods and services sold
- **EURUSD** trades **@ 1.2175** currently
- The exporter is **unsure of the direction of the currency** in the next three months but would like to **protect against an adverse move** in currency rates

SUGGESTION

- The exporter could **buy an option** contract which gives him the right to **buy EUR sell USD 10 M after three months @ 1.2200** by paying a **premium of 1.32 %**

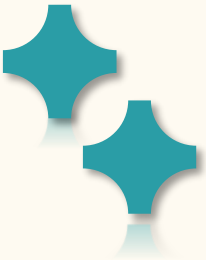





THOUGHTS ON FX OVERLAY

THOUGHTS ON FX OVERLAY

SCENARIO

- 
- A European exporter expects to **receive** as well as **make** multiple **foreign currency payments** over the **next 12 months** for goods and services sold
 - The exporter would prefer to **focus on its own area of expertise** and **leave** the management of the **FX exposure risk** to an **external FX manager**

SUGGESTION

- The exporter **engages** an **external FX** overlay manager to manage the **FX risk inherent to its cashflows**:
 - This can be done either **passively or actively**
- 



THE CARRY TRADE

THE CARRY TRADE (CIRCA 2007)

SCENARIO

- Interest rates in Jan 2007



USD
4.25%



EUR
4.00%



GBP
5.50%



AUD
6.75%



JPY
1.00% (appx)

- Borrow in JPY and place deposits or buy high yielding assets in any or all of USD, EUR, GBP, AUD and earn a significant pick up in yield
- “Turbo-charge” the trade and buy assets issued by even higher-yielding Emerging Market bond issuers
- Further juice things up by leveraging up (borrow against your initial capital and place a higher multiple in deposit to potentially earn outsized returns)

THE CARRY TRADE (CIRCA 2007)

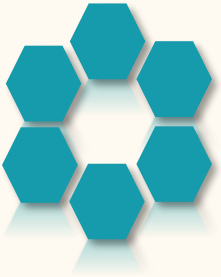
THE PROBLEM

- ✦ Everyone engages in the same trade at the same time
- ✦ The moves in FX rates get exaggerated reinforcing the herd-like behavior
- ✦ An exogenous trigger leads to some investors exiting the trade
- ✦ Others follow and this leads to a mass exit, further leading to an exaggerated move in the opposite direction
- ✦ Over-leveraged investors are then left with losses and in the worst case, a total loss of capital

THE CARRY TRADE (CIRCA 2020)

SCENARIO

- o Interest rates in Jan 2020



USD



EUR



GBP



AUD



JPY

- o Borrow cheap and buy either high yielding assets or low yielding assets which show a significant potential for price appreciation
- o Further juice things up by leveraging up (borrow against your initial capital and place a higher multiple in your desired asset to potentially earn outsized returns)

THE CARRY TRADE (CIRCA 2020)

THE PROBLEM

- ✦ Everyone engages in the same trade at the same time
- ✦ The moves in FX rates / asset prices get exaggerated reinforcing the herd-like behaviour
- ✦ An exogenous trigger leads to some investors exiting the trade
- ✦ Others follow and this leads to a mass exit, further leading to an exaggerated move in the opposite direction
- ✦ Over-leveraged investors are then left with losses and in the worst case, a total loss of capital

OUR THOUGHTS ON VALUATION

◆ VALUING AN ASSET IS A HIGHLY SUBJECTIVE ENDEAVOUR

◆ THERE IS A MULTITUDE OF PLAYERS IN GLOBAL FINANCIAL MARKETS; EACH WITH THEIR OWN SPECIFIC AGENDA AND THERE ARE:



Individual investors



Institutional investors



Corporate investors



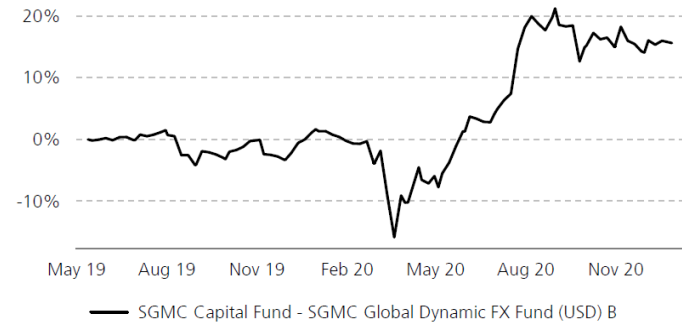
Sovereign investors

◆ IN THE FINAL ESTIMATION:

- VALUATION IS THE MOST IMPORTANT CRITERION WHILE MAKING DECISIONS IN THE FX OR OTHER MARKETS
- RELATIVE DIFFERENCES IN PRODUCTIVITY DRIVES RELATIVE VALUATION

SGMC Global Dynamic FX Fund (USD)

Performance rebased since inception



Performance in %

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-1.85	-3.57	-6.71	4.79	7.70	2.77	13.50	2.60	-5.20	0.18	-0.90	1.35	13.76
2019	-	-	-	-	0.22	-0.30	1.58	-5.52	0.96	3.13	-3.14	5.11	1.64

Performance

NAV	USD 1'156.35
Last month	1.35%
Last 3 months	0.61%
Last 12 months	13.76%
Since inception	15.63%
Year-to-date	13.76%
Maximum monthly return	13.50%

Fund characteristics

Inception date	13/05/2019
Type of Fund	Open
Fund domicile	Liechtenstein
Management Company	LGT Fund Management Company Ltd.
Depository	LGT Bank Ltd.
Portfolio Manager	SGMC Capital Pte. Ltd.
Total fund assets	USD 10.19 million
Fund currency	USD
ISIN	LI0471005640

Risks

Volatility	16.26%
Sharpe Ratio	0.60
Maximum Drawdown	-17.20%
Sortino Ratio	0.87

CONCLUSION

- WE EXPECT THE US \$ TO CONTINUE WEAKENING OVER THE COMING QUARTERS
- WE EXPECT THE NORWEGIAN KRONER TO BE A WINNER IN A WORLD WHERE GOVERNMENTS NEED TO BE SUPPORTIVE OF THEIR DOMESTIC ECONOMIES
- WE ADVISE THE USE OF COMBINATION OF TRADING STRATEGIES TO GET THE BEST RISK-ADJUSTED RETURNS
- CRYPTOCURRENCIES ARE BACK IN VOGUE GIVEN THE STRONG PRICE MOMENTUM – THIS TIME AROUND THEY ARE BETTER UNDERSTOOD AND ARE RECEIVING INSTITUTIONAL INTEREST TOO

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