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Currency trench warfare

*Multi-speed global growth ignites policy scrapes and market volatility. The thoughts of **Matthew Addison**, Managing Director, Platinum Capital Management Limited.*

Diverging currency expectations set the pace for 2015. These first months have offered investors (and especially currency markets) a clanging wake-up call as to global imbalances and differentiation of economies staggered across a full business cycle. While the anticipated economic releases confirmed existing fundamental trends, central bankers delivered awaited headlines. Predictably, the BOJ continued pumping liquidity into the moribund Japanese economy, and US Fed Governors hinted at tightening. Draghi's ECB formalized Eurozone Quantitative Easing – a step welcomed with a rally across asset classes. understood Draghi was serious.

Competitive devaluation and the attendant uncertainty create spillover from currency markets to fixed income and equities, which received capital flows from asset rotation and re-priced P/E's. Not only are European equities being flattered by unprecedentedly low interest rates but also the relative appreciation of non-Eurozone earnings. The great Eurozone export proxy of Germany further confirmed this translational advantage when posting its latest all-time-high trade surplus.

Markets across asset classes and geographies are actively resetting relative relationships, and this changing of the guard represents a compelling opportunity for active portfolio management. In addition, the extraordinary focus on the "main event" of capital flows between benchmark investments has allowed compelling prospects to emerge in peripheral markets and target sectors. Opportunity knocks!

	Central Bank Assets	Increase vs '08	vs GDP	Overnight Rate	10-Year Rate
US - Fed	$4.4 trn	5.5x	25%	0.10%	2.18%
EU - ECB	$2.5 trn	1.2x	19%	-(0.07)%	0.70%
JPN - BOJ	$2.6 trn	2.6x	55%	0.10%	0.62%
CHN- PBOC	$5.5 trn	2.4x	53%	3.18%	4.10%

Source: Haver Analytics; World Bank

The surprise so far this year, however, was Switzerland. Policy-mandated fixed exchange rates are unstable when economies are not linked together with natural balancing features such as labour mobility, cross-border service delivery, and uniform capital controls. The mid-January withdrawal of the four-year-old Franc/Euro exchange rate peg destabilized European fixed income markets and swamped several levered currency market participants. Clearly, the SNB

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