PPI Currency Absolute Return

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Monthly Report - January 2012

January Highlights

Monthly Return: -0.22%

A Super-dovish Fed, pushed its central expectation for the first Fed rate rise out to late 2014, compressing Treasury yields and swap rates in the intermediate segment of the US yield curve. Furthermore, happy to keep dangling the carrot of further balance sheet expansion, going a long way to restoring faith in the risk-positive, weak dollar theme. Whether the ECB (and BOE) will trump the Fed in terms of future easing measures remains to be seen. We certainly believe the ECB will, starting with the next LTRO allocation announcement at the end of February, as well as further rate reduction and quite possibly “conventional” QE-type measures only later on in the year.
The European budget pact is a German-sponsored treaty by which Eurozone countries would be legally bound to balance national budgets over time - a price that European leaders see themselves paying to ensure Berlin’s austerity might continue to back the single currency. The treaty which will be formally signed in March is the first move in carefully orchestrating a strategy which will play out over the next two months to win market confidence. The second step is likely to come by mid-February, when EU officials hope to resolve how to pay for an increasing gap in Greece’s budget. Once a tough debt restructuring has been imposed on Greece’s private creditors, the country’s fate will have less impact on other bond markets; as reforms in Italy and Spain will gain momentum, the distinctions between Greece and others will become clearer. Furthermore, over the coming months European leaders, with luck, will agree on a permanent way to boost their rescue funds; as a result making the spectre of a Greek exit much less frightening for the rest of the euro zone. Greece’s European rescuers should offer the country a clear choice; embracing tougher reforms, getting fresh funds and a gradual reduction of its official debts. However, if it continues in its current path of inaction, an exit route is merely unavoidable, as costs to others of a Greek departure from the euro fall, leading threat becoming more credible.

PPI’s performance for January was marginally negative as we navigated a very challenging environment with a long exposure in USD/JPY and EUR/CHF, which unfortunately did not benefit from our base case scenario which was a little bit astray.
Looking ahead, we still believe in our core positions and will increase them on any significant pull back. We strongly believe that the Fed’s pessimism is not warranted, as there are signs that the recovery is accelerating: factory production is now 15% above its recession lows, orders for durable goods rose 3 % in January, exports have been growing and account for about half of US economic growth and finally the housing market is also showing signs that it might finally have hit some bottom. All those good US numbers are definitely backing our long core USD/JPY position. We are aware that we are against some consensus, however actually like it very much. Lastly, we would like to short some AUD/CAD above 1.0740 and EUR/USD above 1.3400.

Monthly Performance Overview

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2005			0.23%	0.58%	1.50%	-1.01%	-1.62%	0.54%	-1.40%	0.10%	-0.32%	-0.13%	**-1.56%**
2006	-1.37%	0.55%	1.97%	2.32%	1.05%	0.56%	-0.40%	-2.07%	-0.15%	-0.22%	1.09%	0.24%	**3.53%**
2007	2.32%	1.60%	0.11%	-0.97%	-0.17%	-0.98%	1.02%	-0.04%	-0.93%	-1.20%	1.65%	0.26%	**2.64%**
2008	0.18%	0.84%	-0.03%	0.54%	-0.72%	0.11%	0.15%	1.35%	-2.01%	-2.05%	-1.06%	0.95%	**-1.81%**
2009	0.97%	-0.67%	1.19%	1.78%	1.96%	2.22%	0.19%	-0.24%	0.38%	-0.20%	0.47%	0.33%	**8.68%**
2010	1.23%	1.22%	0.15%	-0.20%	-1.25%	-0.43%	0.48%	-0.42%	1.67%	-0.46%	-0.14%	-0.64%	**1.18%**
2011	0.72%	0.08%	-0.02%	0.46%	-0.46%	0.08%	-0.55%	-0.07%	0.54%	-0.12%	0.08%	0.07%	**0.82%**
2012	-0.22%												**-0.22%**

Trading Strategy Returns	
Compounded Annual Return	1.87%
Cumulative Return	13.61%
Trailing 12 months	-0.12%
Trailing 3 years	9.56%
Largest Monthly Gain	2.32%
Largest Monthly Loss	-2.07%
% Positive Months	55.42%
% Negative Months	44.58%

Risk	
Annualised Volatility since Inception	3.53%
Volatility trailing 12 months	1.72%
Sharpe Ratio since Inception	0.53
Sortino Ratio since Inception	0.81
Max Drawdown Trailing 12 months	1.93%
Return / Max Drawdown	0.97