

What is your current currency positioning?

James Klempster, CFA

‘The prospect of the European Central Bank’s quantitative easing programme has seen the euro weaken against the pound and dollar, while bullish sentiment towards the dollar has reached fever pitch. It now looks increasingly likely that the Federal Reserve will raise interest rates in September, or even in June. In light of such central bank decisions, how are managers dealing with currency movements?’

James’ response:

Our currency positions are diversified, but with a large exposure to the base currency of our funds. Central banks remain crucially important to the short term path taken by a variety of asset classes and markets, including currencies. While the European Central Bank and the Bank of Japan have upped their commitment to Quantitative Easing (QE) the market is now speculating that the US is likely to increase interest rates this year and that the UK will follow suit in reasonably short order. Perhaps unsurprisingly the US dollar and sterling have strengthened whereas the euro and yen have weakened. While Central Banks have been excellent in recent years in telegraphing their likely actions, moves such as the Swiss National Bank’s in January shows that we must never become complacent. This is because, despite the concerted efforts (and seas of liquidity) of central banks, currencies remain unpredictable and occasionally pernicious investments. As a result we avoid taking low conviction currency bets and only hold open positions that are a risk diversifier or that offer significant potential upside. While it is a consensus view that the euro and yen will weaken it is also relatively well priced in given the moves over recent months so it is important to tread carefully.

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