Trade Idea – Multi Asset

Volatility presents opportunities

1st July 2016

Uncertainty prevails

- The shock decision of the UK to leave the European Union (EU) has plunged global markets into turmoil, as uncertainty over the future impact of the outcome has subjected the valuation of financial assets to considerable volatility. The result has forced market participants to re-evaluate the fundamental outlook for their asset allocations with very little clarity on the final trade and business agreements between the UK and the EU. Matters have been made worse by the absence of strong political leadership in the wake of the result, with both leading parties in the UK engaging in divisive infighting. For investors, this uncertain environment offers a multitude of tactical trading opportunities across asset classes, as near term price movements are likely to reflect sentiment rather than clear cut fundamentals. Below we explore the key themes that we expect to emerge in coming months and the relevant Exchange Traded Products (ETPs) that can be used to express these views.

Currencies: Safe havens buoyed by Brexit

- Following the referendum result, risk averse sentiment has dominated trading activity on currency markets, with the GBP/JPY currency pair (a good barometer of market confidence) experiencing a 14.5% fall since Thursday’s close. Underlying Brexit-induced uncertainty has been responsible for a jump in broader FX market volatility to levels last experienced during the height of the Eurozone debt crisis three years ago (see Figure 1). The prevailing theme of risk aversion is likely to characterise FX markets at least until the Conservative party announces a new leader and trade negotiations commence. The party’s executive committee has suggested that David Cameron’s successor will not be announced until the 9th September, which would imply over two months of ongoing ambiguity.

Figure 1: Brexit boosts volatility Sterling

- In the next few months, we expect weaker macroeconomic data releases from the UK and concerns over the future economic health of the wider EU to keep the GBP and EUR offered, particularly against perceived safe havens like the JPY, CHF and USD. For those investors who wish to hedge against further Sterling downside there is ETFS Bearish GBP vs G10 Currency Basket Securities (SGGB), which offers short exposure to the GBP against a trade weighted basket of G10 currencies. For other more tactically motivated investors that wish to gain from risk-off sentiment in coming months, there is ETFS 3x Long JPY Short GBP (JPP3) which offers leveraged exposure to the daily performance of a short position in GBP against the JPY which

*All figures quoted are sourced from Bloomberg unless stated otherwise.

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has recently benefitted from Sterling weakness. Alternatively, to express a more broad based bearish view on the Sterling there is ETFS Bearish GBP vs G10 Currency Basket Securities (SGGB), which offers exposure to the GBP against a trade weighted basket of G10 currencies.

**Commodities: Precious metals shine**

- Within the commodity complex, the precious metals sector has exhibited the strongest response to the Brexit, climbing on average 2% since the vote to leave. Risk aversion amongst market participants has driven long positions in gold and silver to record highs as investors seek a safe store of value. We expect that with the market positioned so bullishly towards the precious metals complex and uncertainty likely to remain an underlying market theme for some time, we could see scope for further upside, particularly for gold. According to our model estimates, present conditions could see gold rise as high as $1,440/oz over the next 12 months, 9% upside from current levels (see [Gold’s fair value at US$1440 as uncertainty reigns](#)).

- The largest and most liquid gold ETPs in Europe are ETFS Physical Gold (PHAU) and Gold Bullion Securities (GBS) which have seen a combined US$2.0bn of net inflows year to date, the largest inflows of any commodity ETP in the region.

**Equities: Negotiations dictate earning prospects**

- In Europe, financial and industrial sectors have, until now, borne the brunt of Brexit related worries and led benchmark equity indices lower. These sectors have suffered as they are directly exposed to concerns over the future level of European economic growth and the ongoing stability of the continent’s financial system. Unfortunately, these anxieties are unlikely to be placated until negotiations occur and so we expect further volatility in the months ahead.

- Investors can trade oscillations in the European equity market using ETFS 3x Daily Long Euro Stoxx 50 (EUL3) and ETFS 3x Daily Short Euro Stoxx 50 (EUS3) which offers leveraged exposure to the daily performance of large cap stocks in the Eurozone.

**Investors wishing to express the investment views outlined above may consider using the following ETF Securities ETPs:**

**Currency ETPs**

**GBP Base**
- ETFS Long EUR Short GBP (GBUR)
- ETFS Short EUR Long GBP (URGB)
- ETFS Long USD Short GBP (GBUS)
- ETFS Short USD Long GBP (USGB)

**USD Base**
- ETFS Long GBP Short USD (LGBP)
- ETFS Short GBP Long USD (SGBP)

**3x**
- ETFS 3x Long GBP Short EUR (EGB3)
- ETFS 3x Short GBP Long EUR (GBE3)
- ETFS 3x Long GBP Short USD (LGBP)
- ETFS 3x Short GBP Long USD (SGB3)

**5x**
- ETFS 5x Long GBP Short EUR (EGB5)
- ETFS 5x Short GBP Long EUR (GBE5)

**Basket**
ETF Securities

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- ETFS Bullish GBP vs G10 Currency Basket Securities (LGBB)
- ETFS Bearish GBP vs G10 Currency Basket Securities (SGBB)

**Equity ETPs**

- ETFS FTSE 100® Super Short Strategy (Daily 2x) GO UCITS ETF (SUK2)
- ETFS FTSE 100® Leveraged (Daily 2x) GO UCITS ETF (LUK2)

- ETFS DAX® Daily 2x Long GO UCITS ETF (DEL2)
- ETFS DAX® Daily 2x Short GO UCITS ETF (DES2)

- ETFS 3x Daily Long FTSE 100 (UK3L)
- ETFS 3x Daily Short FTSE 100 (UK3S)
- ETFS 3x Daily Long DAX 30 (GY3L)
- ETFS 3x Daily Short DAX 30 (GY3S)
- ETFS 3x Daily Long CAC 40 (FR3L)
- ETFS 3x Daily Short CAC 40 (FR3S)
- ETFS 3x Daily Long FTSE MIB (IT3L)
- ETFS 3x Daily Short FTSE MIB (IT3S)
- ETFS 3x Daily Long Euro Stoxx 50 (EU3S)
- ETFS 3x Daily Short Euro Stoxx 50 (EUL3)

The complete ETF Securities product list can be found [here](#).
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