

In theory, forecasting with good fundamentals should be enough to deliver rich success. In practical financial markets however, matters are stubbornly imperfect and inevitably, frustratingly, favour poor techniques. To make this point, let's go fish for an analogy.

Imagine watching a Polynesian fisherman. Having waded into the clear blue waters, he holds a spear aloft, & takes clinical aim, yet not at where the fish appears to be. His skill is calculating where his prey will be when contact is made. He is in effect making in an instant three distinct judgements; one based upon physics, another maths, & the third behavioural science. Using these in isolation, the fisherman knows he will fail and go home empty handed. Used collectively, he will return with yield aplenty.

So then, our fisherman knows the position of the fish is distorted. Though not schooled in refractive theory, he is aware of this distortion. The 2<sup>nd</sup> element our fisherman is clued in, is momentum. He can see the fish is in motion & so is aware it will have moved by the time the spear arrives. The 3<sup>rd</sup> simultaneous judgement our artisan makes is the fish's survival instinct. If it has not already been made aware of being stalked by the shadow cast over it, it will certainly become conscious of a threat from the ripples set in motion by the harpoon entering the water.

Despite the complications, with painstaking teaching & practice the 'good' fisherman won't return home empty handed. His family is sure to be well fed, & he will impart to his children, the skills he had learned from his own father or to whoever he was apprenticed; a transfer of knowledge that has almost certainly gone on for generations. Across our Polynesian fishing village bad fisherman have long vanished; Darwinian logic having seen they have. The population of the village has even steadied to reflect sustainable fishing levels. There is in effect, a perfection that financial markets never reached, indeed can NEVER REACH. Here's Why.

Assume 'poor' fishermen suddenly descend on the once tranquil coastal waters that have been the fruitful workplace of our good fishermen. These introduce not only complications to our good fishermen, but a threat to their very survival.

Spears are now being thrown wildly, in such a random way they are a DIRECT danger to our good fisherman, & cause chaos in the waters. Where fish once moved sedately in calm seas, they are now darting around in panic and so proving more challenging targets for even the best of our 'good' fishermen. Matters are made worse still for our good fishermen.

The shoals have moved away from their preferred coastal water habitat, into deeper, colder & more tidal waters. Moreover, through their sheer weight of numbers, the bad fishermen are spearing ever more fish, whilst good fisherman return home empty handed. Before long fish numbers plummet & order in the fishing village has turned upside down. As families of 'good' fisherman go hungry, 'bad' fisherman boast of their successes, deluded they were good, not simply lucky; we come thus to the imperfections of capital markets, NOW AND ALWAYS, UNLESS....

...UNLESS THAT IS, BARRIERS ARE ERRECTED TO ENSURE ONLY THOSE WHO ARE WELL SCHOOLED IN SUCH THINGS ARE ALLOWED IN. Imagine, that any fool was allowed to operate as a medical practitioner. Well, that was once the case until, we wised-up to the cost and imposed strict criteria to who could work in medicine. Is this such a difficult pill to swallow if it means financial markets are freed of "foolish fishermen"?

Table 1: The changing way the PBOC has managed the RMB – Past & FUTURE?

	Post '94	July '05	Jan '16	Jan '17	Jan '20	Jan '21	Jan '22	Jan '23	Jan '24	Jan '25	Jan '26?		Jan '16	Jan '17	Jan '20	Jan '21	Jan '22	Jan '23	Jan '24	Jan '25	Jan '26?
US \$	100	100	26.40	22.40	21.59	18.79	19.88	19.83	19.46	18.90	↓	Swiss franc	1.51	1.71	1.44	1.10	0.76	1.16	1.40	1.55	↓
Euro			21.39	16.34	17.40	18.15	18.45	18.21	18.08	17.90	↓	South African rand		1.78	1.48	1.47	1.21	1.43	1.42	1.44	↑
Japanese ¥			14.68	11.53	11.16	10.93	10.76	9.76	8.96	8.58	↓	Polish zloty		0.66	0.84	0.97	1.05	1.11	1.12	1.13	↑
South Korean won				10.77	10.68	9.88	9.67	9.51	9.05	8.37	↓	Turkish lira		0.83	0.73	0.72	0.82	0.90	1.00	1.12	↑
Australian \$			6.27	4.40	5.20	5.89	5.71	6.07	5.48	5.95	↑	New Zealand \$	0.65	0.44	0.57	0.63	0.61	0.65	0.62	0.57	↑
Malaysia ringgit			4.67	3.75	3.70	4.31	4.44	4.64	5.11	5.12	↑	Swedish krona		0.52	0.58	0.61	0.61	0.55	0.52	0.51	↓
Russian ruble			4.36	2.63	3.65	3.85	3.66	3.85	4.60	4.90	↑	Hungarian forint		0.31	0.37	0.35	0.40	0.41	0.40	0.40	↓
Hong Kong \$*			6.55	4.28	3.57	3.59	3.46	3.60	2.98	3.47	?	Danish krone		0.40	0.40	0.41	0.46	0.47	0.40	0.37	↓
Thailand bhat			3.33	2.91	2.98	3.19	3.35	3.44	3.41	3.43	↑	Norwegian krone		0.27	0.21	0.26	0.37	0.40	0.33	0.21	↑
Singapore \$			3.82	3.21	2.82	3.12	3.02	2.47	2.96	2.97	↑	Macao pataca								0.11	↑
Saudi Arabia riyal				1.99	2.16	2.71	2.28	2.29	2.79	2.82	↑	New Entries?					New Taiwan dollar				
£			3.86	3.16	2.75	3.00	3.13	2.96	2.66	2.71	↑	Brazilian real		Indian rupee		Nigerian naira					
Mexican peso				1.69	1.98	2.11	2.06	2.27	2.45	2.60	↑	Egyptian pound		Romanian leu		Philippine peso					
UAE dirham				1.87	1.57	1.69	1.67	1.90	2.39	2.47	↑	Pakistani rupee		Vietnamese dong		Czech Koruna					
Canadian \$			2.53	2.15	2.17	2.26	2.17	2.15	2.43	2.40	↑	Indonesian rupiah		Colombian peso		Israeli Shekel					

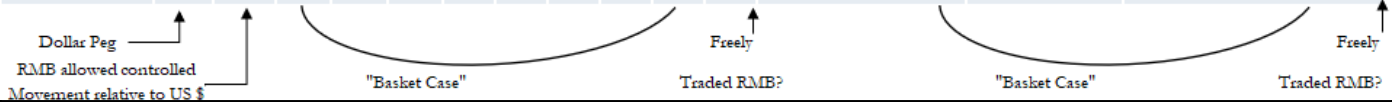


Chart 1: Yuan, weighted by All in the CFETS basket



Chart 2: Yuan, weighted by Non-\$ pegged currencies in the CFETS basket



Chart 3: Yuan, weighted by \$ & \$-pegged currencies in the CFETS basket – China DOESN'T FAVOUR \$'s

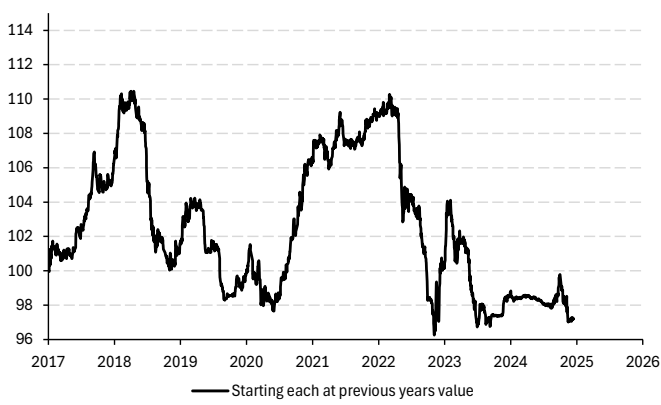


Chart 4: £'s per Yuan – UK HAS CHEAPENED FOR CHINA



Source: CFETS

## Research Disclaimer:

### Important Disclosure Statement from QuantMetriks Research

This document is issued by QuantMetriks Research Limited solely for its clients. It may not be reproduced, redistributed or passed to any other person in whole or in part for any purpose without written consent of QuantMetriks Research. The material in this document is not intended for distribution or use outside the United Kingdom. This material is not directed at you if QuantMetriks Research is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you.

This document is provided for information purposes only and should not be regarded as an offer, solicitation, invitation, inducement or recommendation relating to the subscription, purchase or sale of any security or other financial instrument. This document does not constitute, and should not be interpreted as, investment advice. It is accordingly recommended that you should seek independent advice from a suitably qualified professional advisor before taking any decisions in relation to the investments detailed herein. All expressions of opinions and estimates constitute a judgement and, unless otherwise stated, are those of the author and the research department of QuantMetriks Research only, and are subject to change without notice. QuantMetriks Research is under no obligation to update the information contained herein. Whilst QuantMetriks Research has taken all reasonable care to ensure that the information contained in this document is not untrue or misleading at the time of publication, QuantMetriks Research cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. This document is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to herein. No representation or warranty either expressed or implied is made, nor responsibility of any kind is accepted, by QuantMetriks Research or any of its respective directors, officers, employees or analysts either as to the accuracy or completeness of any information contained in this document nor should it be relied on as such. No liability whatsoever is accepted by QuantMetriks Research or any of its respective directors, officers, employees or analysts for any loss, whether direct or consequential, arising whether directly or indirectly as a result of the recipient acting on the content of this document, including, without limitation, lost profits arising from the use of this document or any of its contents.

This document is provided with the understanding that QuantMetriks Research is not acting in a fiduciary capacity and it is not a personal recommendation to you. Investing in securities entails risks. Past performance is not necessarily a guide to future performance. The value of and the income produced by products may fluctuate, so that an investor may get back less than he invested. Investments in the entities and/or the securities or other financial instruments referred to are not suitable for all investors and this document should not be relied upon in substitution for the exercise of independent judgment in relation to any such investment. The stated price of any securities mentioned herein will generally be the closing price at the end of any of the three business days immediately prior to the publication date on this document. This stated price is not a representation that any transaction can be affected at this price.

QuantMetriks Research and its respective analysts are remunerated for providing investment research to professional investors, corporations, other research institutions and consultancy houses. QuantMetriks Research, or its respective directors, officers, employees and clients may have or take positions in the securities or entities mentioned in this document. Any of these circumstances could create, or be perceived as creating, conflicts of interest. QuantMetriks Research analysts are not censored in any way and are free to express their personal opinions. As a result, QuantMetriks Research may have issued other documents that are inconsistent with and reach different conclusions from, the information contained in this document. Those documents reflect the different assumptions, views and analytical methods of their authors. No director, officer or employee of QuantMetriks Research is on the board of directors of any company referenced herein and no one at any such referenced company is on the board of directors of QuantMetriks Research.

*QuantMetriks Research is an appointed representative of Messels Ltd which is authorised and regulated by the Financial Conduct Authority.*

Residents of the United Kingdom should seek specific professional financial and investment advice from a stockbroker, banker, solicitor, accountant or other independent professional adviser authorised pursuant to the Financial Services and Markets Act 2000. This report is intended only for investors who are 'professional clients' as defined by the FCA, and may not, therefore, be redistributed to other classes of investors.

The content of this report is covered by our Policy of Independence which may be viewed at [www.QuantMetriks.com](http://www.QuantMetriks.com)

The performance history of research recommendations over the last 12 months is available to clients on request.

### Analysts' Certification

The analysts involved in the production of this document hereby certify that the views expressed in this document accurately reflect their personal views about the securities mentioned herein. The analysts point out that they may buy, sell or already have taken positions in the securities, and related financial instruments, mentioned in this document.