



Julius Bär

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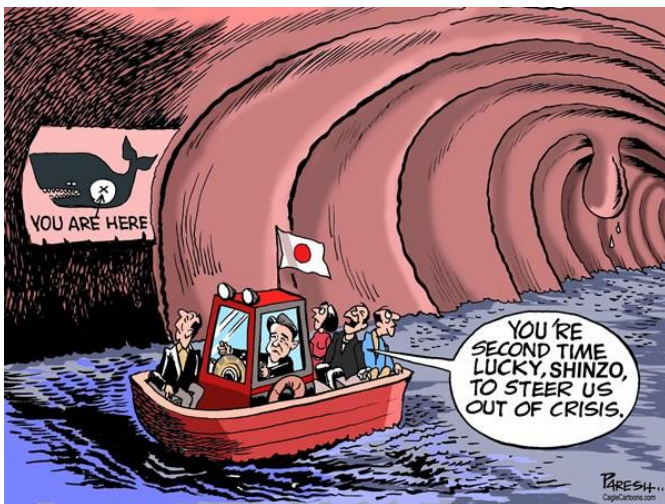
CURRENCIES & MORE OUR INSIGHT INTO THE WORLD'S LARGEST MARKET

Yen: The upcoming election in 10 days will also have an impact on the next BoJ Governor
Gold: Our short-term bullish case is playing out as the 100-day moving average is holding
Euro: The Spanish Prime Minister Mariano Rajoy was asking Puigdemont for more clarity

Yen: Will elections have an impact on the BoJ?

In 10 days, on 22 October, Japanese citizens will go to the polls to elect the 465 members of the House of Representatives. Incumbent Prime Minister assumed office in December 2012 and was re-elected for the third time two years later (he already has been Prime Minister from September 2006 to September 2007 but resigned for health reasons).

Captain Ahab, eee... Abe



Source: Nath Paresh / Cagle Cartoon

The House has a fixed term of four years but the Cabinet may instruct the Emperor to dissolve the House before the end of the term at will. In this case, elections must be held within 40 days after dissolution. Abe's approval rate declined to 30 percent in July after allegations of cronyism but then recovered above 50 percent in September, he called snap elections. Abe's Liberal Democratic Party has

held 288 seats in the previous 475-seat House. Together with its coalition partner Komeito (35 seats), Abe's Government holds a slim two-thirds majority which is needed to push forward changes in the Japanese Constitution. While he is still expected to attract the most votes, a lower share is very likely as his approval ratings have since sagged again. A recent poll by public broadcaster NHK showed that Abe's LDP has a support of only 31 percent of the voters. The entrance of popular Tokyo Governor Yuriko Koike's Kibō no Tō (Party of Hope) into the race poses and additional risk to the LDP-led coalition's continued dominance of Parliament. This would be lowering the chances that Haruhiko Kuroda would be reappointed as BoJ Governor when his current term ends in April. Furthermore, Kuroda is already 72 years old and a second full term would break precedent. A poor election result could also weaken the prospects of other potential candidates seen as close to the Prime Minister, including his longtime friend Etsuro Honda (currently Ambassador to Switzerland). Therefore, the upcoming election will add to the uncertainty about the future leadership of the BoJ, which is more than four years into a radical monetary easing program (QQE) meant to generate 2 percent inflation and economic growth.

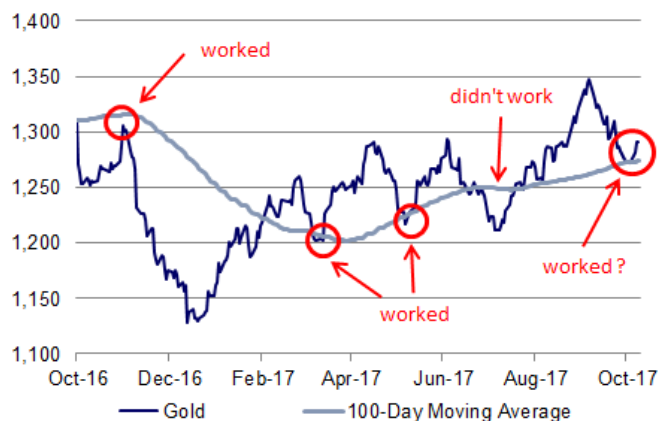
Conclusion: The upcoming election in 10 days should be on the radar screen of investors. We keep you posted.

Gold: The 100-day moving average held

In our 5 October edition, we explained why we are short-term bullish on Gold. The increased physical demand, which we mentioned, has picked up even more after the Chinese Golden Week ended and Diwali, the Hindu festival of lights, starts next week. Premium for 1-kilo bars in Shanghai have risen to \$ 13 – \$ 15 currently, from around a usual level of \$ 5, confirming increased physical demand.

Another indicator mentioned in the previous report was the support of the 100-day moving average, which is closely monitored in bullion markets. At that time, it was just sitting at this line and it would have been premature to call it confirmed. As Gold indeed turned north since then, we believe the support has worked (see chart below).

Gold in the past 12 months



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: We went long Gold via a seagull structure for our trading book and stick to this position.

QUICK NEWS HEADLINES (time in CEST)

The following two headlines might have an impact on currency markets today:

- Sweden: CPI is expected to have risen 2.4% in September y/y (09:30).
- U.S.: Producer prices (final demand) are expected to have increased 0.4% in September (14:30).
- Mexico: Manufacturing production is expected to have risen by 3.1% in August y/y (15:00).

Euro: Rajoy demands clarity

As Catalan President Carles Puigdemont stopped short of an unequivocal declaration of independence on Tuesday evening, Spanish Prime Minister Mariano Rajoy – in return – stopped short of suspending Catalonia’s Government yesterday. Rajoy said he will seek an explanation from Puigdemont and demand absolute clarity on independence. This formal demand for clarity may be a first step toward disbanding the regional Government and moving control to Madrid. It seems possible that the conflict could drag on for the coming weeks, even months. If Article 155 is triggered in the near term, a key factor will be whether a hard or a soft version is implemented as the Article itself is very general and gives leeway to the central government

to choose (see attachment in our 6 October edition). If triggered, the severity and speed of the legal process against some of the separatist members of the Government, especially Puigdemont, will play a role. Overall, we still believe that independence remains highly unlikely as it would require important constitutional changes, which currently seem very remote.

€/SFr past 12 months



Source: Bloomberg Finance L.P., Julius Bär

Conclusion: The ongoing price action of €/SFr does not point at all in favor of safe-haven buying which was the case ahead of the Dutch and French elections.

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