Q&A: NICOLAS BOITOUT

# Using forex fluctuations to best advantage for clients

Nicolas Boitout, fund manager-currency specialist at Crédit Agricole Asset Management in London, speaks about predicting exchange rate fluctuations, building a diversified portfolio and current market conditions

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COMBINING SOME STRATEGIES WITH DIFFERENT INVESTMENT HORIZONS IS KEY TO CONSTRUCTING A ROBUST CURRENCY PORTFOLIO
Nicolas Boitout

**Can we forecast exchange rates movements?**
Exchange rates used to be perceived as unpredictable by academic researchers, as most macroeconomic models failed to beat the random walk.

However, two striking stylised facts of the currency market are unanimously recognised: the forward rate is a poor predictor of future spot rate movements and therefore betting against it allows one to determine long-term moves.

On the other hand, short-term quantitative strategies based on price action only are profitable strategies. Therefore, any combination of these two uncorrelated strategies allows you to generate some positive returns.

Exchange rates determination relies on demand in the market, namely on capital flows. Central banks seeking to diversify their reserves can influence short-term market participants but overall, high interest rates attract capital flows. This is central to understanding currency movements.

**To what extent is this asset class well-diversified?**
First of all, we have already noticed that combining some strategies with different investment horizons is key to constructing a robust currency portfolio.

Then, as the divergence between monetary policies is persistent, even among countries from the same geographical area, it is always possible to implement uncorrelated or low-correlated relative-value trades. At last, emerging currencies now offer some good opportunities for cautious investors. Unlike fixed income, where opportunities vary over time, the FX market is structurally inefficient which means that there are always opportunities. Research shows that, on a risk-adjusted basis, a number of currency managers have posted positive performances over the past 10 years.

**In the current situation, would you advise investors to add to their active positions in this asset class?**
The currency market is weakly correlated with other asset classes and, therefore, provides considerable diversification opportunities in asset allocation. For example, an equity market often stops climbing when its underlying currency starts to appreciate, and then moves upwards again when the currency stabilises.

If you manage equities only, your performance will vary sharply over time and you will miss opportunities. But an investment strategy combining both asset classes delivers higher and more regular returns.

As it has been shown that the currency management industry is able to generate some outperformance in the long-run, and that this asset class is overall weakly correlated with the other asset classes, it is optimal to actively manage currencies in a global portfolio.