The Franc - Despite it All

• CHF has conveyed disinterest in the Swiss / EU spat
• Eurozone frailty opens prospect of continued strength
• The SNB will not stand idly by

Safe havens thrive in an uncertain economic environment but the resilience of one in particular, the CHF, is noteworthy all things considered.

In December, the EU delivered Switzerland an ultimatum – to sign up to a revamped deal to replace 120 bilateral agreements governing trade relations between the two, on pain of losing stock market ‘equivalence’.

The Swiss government not only declined to meet the June 30 deadline, but in retaliation for its loss of equivalence, it banned the trading of nearly 300 Swiss-listed stocks on EU-based venues.

Yet, these initial moves in themselves are not the main source of concern for investors. What is of concern, however, as The Telegraph puts it, is that “the clash with Brussels will become increasingly painful as the pressure ratchets up [with] the EU determined to shut down the idiosyncratic “Swiss model”.

The enfeebled health of the
But despite the potentially seismic implications of the ongoing spat, the CHF has conveyed profound disinterest – in fact, it currently stands just a few pips below levels that prevailed as the EU’s deadline approached.

Given that EUR/CHF has remained the truest barometer of currency-related risk-sentiment within Europe – a role that it has taken-on with gusto since the start of the Euro-zone crisis in December 2009 – this is not without significance.

That is to say, the dominance of the franc’s safe-haven status leaves open the prospect of its renewed strengthening given that the enfeebled health of Switzerland’s main export markets in the eurozone has been brought home all too clearly this past week or so.

As things stand, yields on two year government debt in the likes of France, Germany, Spain, Netherlands, Finland, Belgium and Ireland are all in negative territory – a reflection upon the degree of difficulty facing the ECB in its pursuit of inflation with price expectations on the floor.

Switzerland has had little choice but to adapt to the franc’s 25% gains this past decade (the SNB routinely refers to the franc as “highly overvalued”) although of course, the currency has appreciated rather less in real terms over the years given the country’s chronic low inflation (the Swiss CPI has only risen by 10% since 2000 as opposed to the 40% in the eurozone).

However, in view of the deteriorating growth outlook in Switzerland’s key export markets and the ever-present risks of a deflation near miss at home, the SNB would be most unlikely to stand idly by were the CHF to threaten highs reached earlier this year.

**On the Radar**

July 9, 2019

- Jerome Powell (1345 GMT+1)
- James Bullard (1510 GMT+1)
- Raphael Bostic (1900 GMT+1)

**Featured Article**

China Update

Efforts to lift the economy have been extraordinary >
With all this in mind it’s worth remembering that the second half of the year has also proved more difficult for European currencies since 1970, with two thirds of the top 50 monthly declines for the components of the EUR or the EUR itself against the CHF being seen during this time.

Please direct questions or comments to:

AerialView@BNYMellon.com

Disclaimer

Your privacy is important to us. You can opt-out from receiving future Aerial View Newsletters by unsubscribing via this link, at any time. You can also select the Newsletter topics that you want to receive by managing your preferences.

This message was sent from an unmonitored email box. Please do not reply to this message.

Contact Us | webmaster@bnymellon.com

© 2019 The Bank of New York Mellon Corporation. All rights reserved.