A Franc Assessment

• The 'safe haven' CHF has defied this reputation of late

• But EUR/CHF has consistently responded to positivity

• The SNB's position may help the bears

Despite its status as the world's principal safe haven currency, movements in the CHF have shown little regard for convention thus far this year - a thought many investors may have had amid the price action these past twenty four hours..

Over the past four months, there has been a negligible relationship between the performance of EUR/CHF and the daily gyrations in the major stock indices. Nor, for that matter, has the pair taken any note of the concurrent movements in either oil, gold, the VIX or the JPY (ostensibly, its safe haven counterpart).

In fact, of the currency’s top 10 daily gains against the EUR since the turn of the year, fewer than half transpired on days in which it could be reasonably said that sentiment was unequivocally in retreat.

Where it gets rather more interesting, however, is when it is realized that EUR/CHF has proved to be rather more responsive to days in which the mood was somewhat brighter.

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Indeed, "risk on" days have coincided with nine out of the franc’s top 10 falls against the EUR this year and such information is potentially of some value as we head into a summer in which investors may be looking to the support of the generic central bank ‘put’.

Certainly, it helps the bears’ case that the SNB’s is fully prepared to double-down on its current policy settings.

**EUR/CHF has proved to be rather more responsive to days in which the mood was somewhat brighter**

SNB Chairman Thomas Jordan told *Blick* recently: “We always have the possibility of lowering rates further. We have already gone quite far, but still we’ve got the necessary room to manoeuvre.”

He added: “Against the current backdrop, our unconventional monetary policy, with the negative interest rate and our willingness to intervene in the foreign exchange market as necessary, remains both essential and appropriate”.

Of course, as Mr Jordan wished to avoid another spike higher in a currency that the SNB still regards as “highly overvalued”, his re-commitment to the Bank’s extreme
policy settings could be deemed an all-too-familiar obligation; but then the promise of more should not be dismissed out of hand, even for a central bank that has learned to live with appreciable risks of policy error and repeated calls for further action in a low inflation, low growth environment.

A slowing eurozone economy has been keenly felt in Switzerland

Indeed, a slowing eurozone economy has been keenly felt in Switzerland.

While PMI data suggests that manufacturing activity has contracted for the first time since 2015, the KOF indicator augurs badly for any improvement over the next few months.

Meanwhile retail sales posted their largest fall in six months in March and an economy that remains dominated by exports was never going to escape the raft of growth downgrades unveiled by the IMF last month.

In as far as the ECB remains politically hamstrung on timely policy moves, the SNB’s firm assurances – whether a matter of obligation or not – may be all that matters for CHF bears.

We shall see, but with short-speculative positions in the EUR running at a two-year plus high (just as the currency has shown some signs of life), the possibility of an upside surprise in EUR/CHF is far from remote.

Indeed, readers will note from BNY Mellon’s iFlow data that selling of the CHF – which has mirrored the currency’s post-March slide - continues unabated (see chart above).

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