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Expert Commentary

Manuel Andersch, Economist at Bayerische Landesbank, on Swiss economy and CHF

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The Swiss National Bank left interest rates unchanged last Thursday, saying its measures continue to help weaken the currency. However, Credit Suisse responded by saying SNB President Thomas Jordan is being too optimistic on the outlook and should have cut rates to weaken the Franc and boost demand. Do you agree with the experts?

If you look at the forecast from the SNB for 2016, I would not say that it is too optimistic and we are slightly below this projection. Hence, in general, my impression from the last SNB meeting was that they are actually pretty confident with the level of the Franc versus the Euro, and I believe they are hoping that the CHF will weaken against the Greenback, especially now, when the Fed has started the tightening cycle.

I do not think that there is huge rationale for SNB action to weaken the Swiss Franc further right now, especially if you consider that they do not have that much ammunition left. The Bank probably has two or three rate cuts that they could conduct, depending on how large it will be. In general the SNB really is more or less at the end of their portfolio, when it comes to monetary easing. Hence, I do not believe they will act in the near future; the main risk in our view is that they would have to act or better react in case the ECB will substantially loosen its monetary policy again in Spring 2016 (March) against market expectations.

What will be the main drivers of the Swiss Franc in Q1 2016?

Let's start off with the role of the Franc as a safe haven currency. The Franc used to be a safe haven currency, but if you look at the reactions – basically during the course of the whole year of 2015 –, to my surprise, the Swiss Franc did not react in a way that you would expect from a safe haven currency. The reason for this change is probably the negative rates. What mainly changed with the negative rates is that the domestic investors do not repatriate assets from abroad in case of market distress like they used to. This is important, since it gives the SNB some comfort that the Franc is not appreciating sharply in times of market turmoil (which would otherwise force the SNB to intervene or to cut interest rates further).

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Also, I would like to point out the Spanish election in the very near future, given a certain surprise development around it. Regardless of our anticipation, it could possibly end up with a left wing coalition, which can spark slight market turmoil, especially given the fact that the liquidity is pretty low towards the end of the year.

Apart from that, the main driver is ECB policy, since the SNB will look at their action and then decide whether to change the monetary policy. Therefore, one of the main drivers will be inflation expectations in the Euro area. In case they come down with the lower oil prices, we believe it is pretty likely that the ECB will act again in March.

What are your forecasts for the EUR/CHF and USD/CHF in the short and long terms?

Our forecast for the EUR/CHF is 1.07, which is actually pretty flat, whilst we do not expect a big appreciation. We anticipate the CHF to weaken against the US Dollar, but not that significant in the near future, since we do not expect the Federal Reserve to hike rates any time soon again, we rather see the second hike in September of 2016. It will take some time for the Greenback to appreciate substantially against the Franc, which will likely happen only in the second half of 2016, towards 1.04-1.05. As you can see, we are not really bullish on the Dollar anymore.

In terms of rates, the short-end will be pretty flat, as long as the ECB is not easing its monetary policy too aggressively and the SNB does not have to react by cutting rates further. There could, however, be some substantial movement of the two years yield again like we saw in November and early December if expectations for ECB easing and thus SNB easing build up again. However, as long as the SNB does not implement another rate cut, I believe it will be temporarily. Since the long end rates are less sensitive to monetary policy they should stay pretty stable. What's more, even if the ECB decides to top up its bonds purchases in March substantially, we don't think that yields for Swiss long dated bonds can head much more negative.

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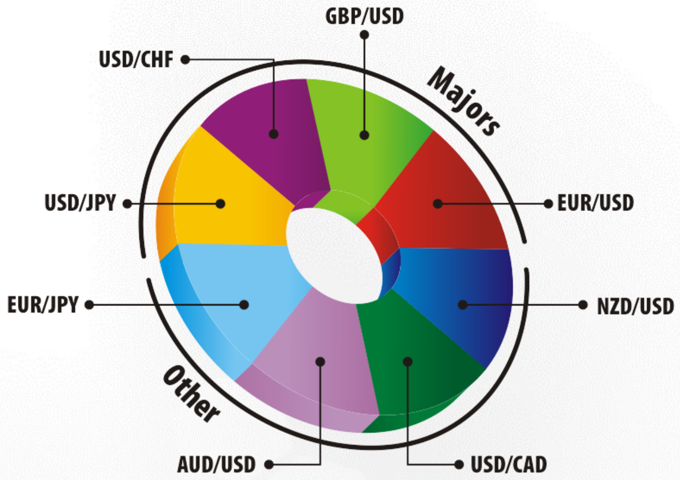

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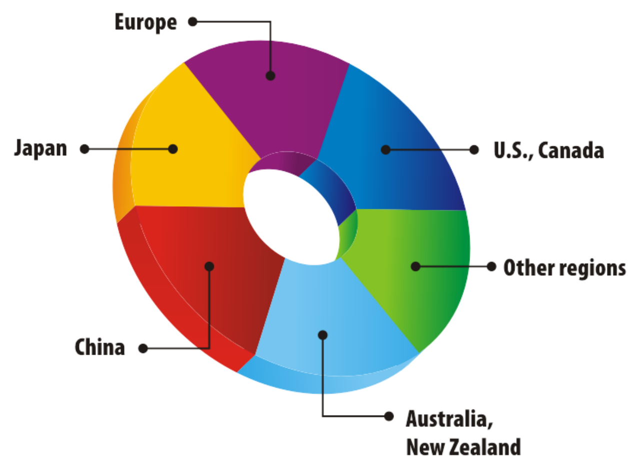

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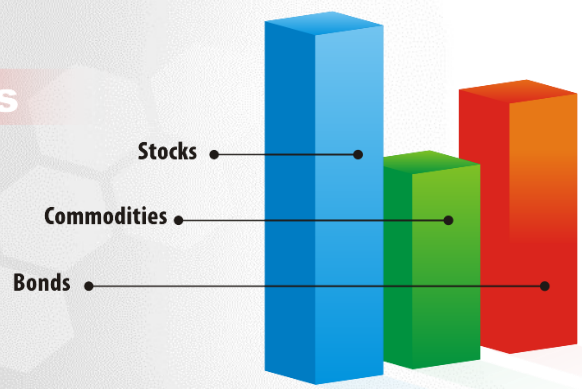

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