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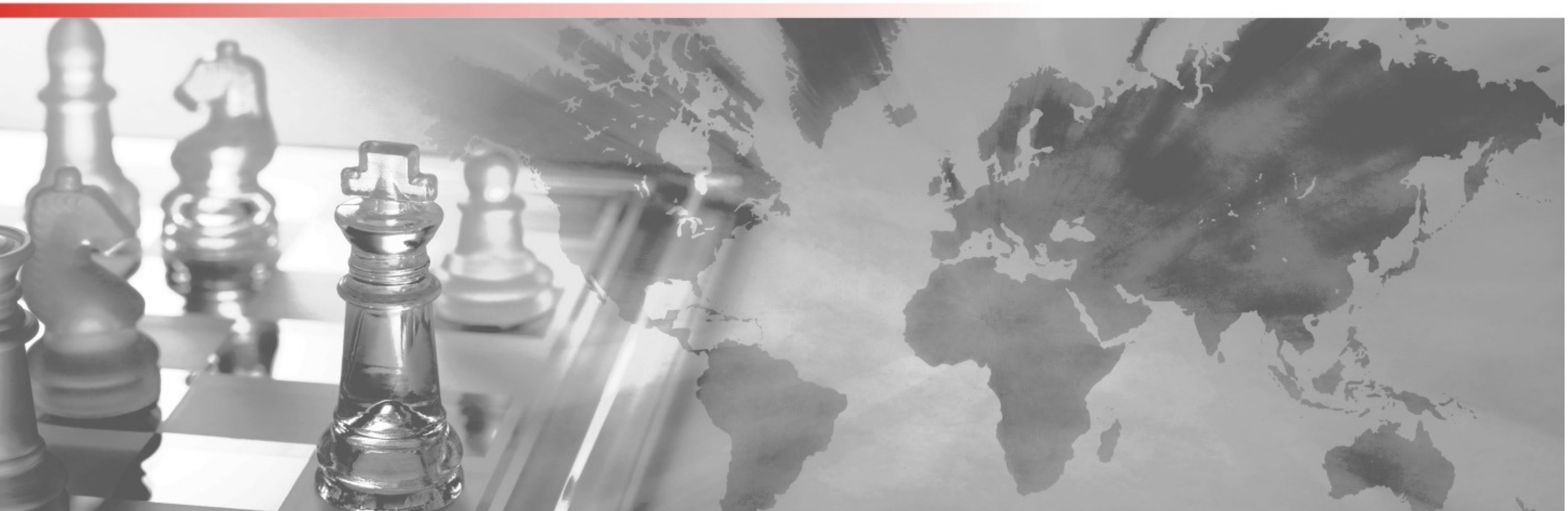

Expert Commentary

Alvin Tan, FX Strategist at Societe Generale, on Swiss economy and CHF

I think the near-term issue for the Swiss Franc, particularly, in the Euro Swiss cross is that we are likely to see the European Central Bank easing policy further.

Alvin Tan
FX Strategist
Societe Generale
UK

Consumer prices in Switzerland have fallen on an annual basis for most of the past four years. Can we say the Alpine country is in the deflation territory?

Consumer prices hit a milestone last month with an annual price drop of 1.4%, which was the biggest decrease in more than five decades. Even after food and energy prices were stripped out, core prices fell 0.7%. On the other hand, evidence of deflation's pernicious side effects such as recession, weak employment and rising debt burdens, is pretty much non-existent. However, we can still say that Switzerland is indeed in the deflation territory.

Do you think that the latest pessimistic results in the value of the Franc will impact the Bank's monetary policy or even the government's fiscal policy so that the SNB can make a regular pay-out to federal and state shareholders?

I definitely think that the valuation of the reserves in Swiss Franc terms is very important for policy makers in Switzerland. After having posted a loss of nearly 34 billion Swiss francs ($34.36 billion) during the first nine months of 2015, Switzerland's Central Bank made a hefty profit of 16.2 billion Swiss francs ($16 billion) during the third quarter as the Franc eased. To my mind, the SNB will surely like to see further Swiss Franc weakness going forward as a result.

What will be the major headwinds for the Swiss Franc and what are your forecasts for EUR/CHF until the end of this year?

I think the near-term issue for the Swiss Franc, particularly, in the Euro Swiss cross is that we are likely to see the European Central Bank easing policy further. We actually think that there will be a rate cut by the ECB in December. Thus, the problem here is that the EUR/CHF will be under some downside pressure. This means that if the SNB wants the Swiss Franc weaker, and we think that this is what they want, they need to ease even further. That, in turn, means even more negative interest rates. Besides, they will probably have to do this immediately after the ECB or maybe even just before.

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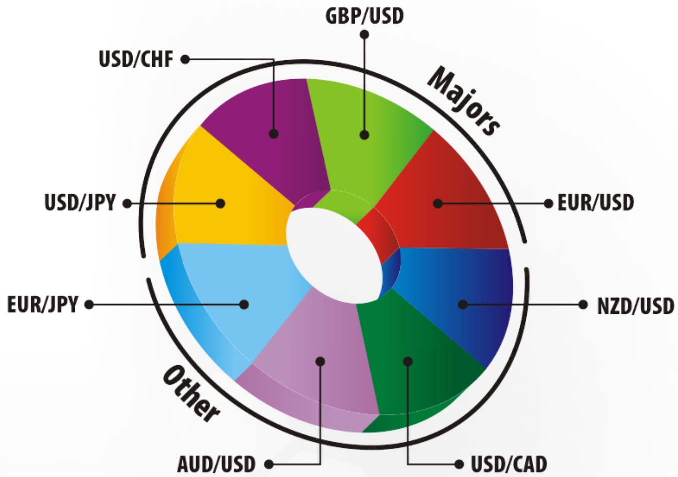

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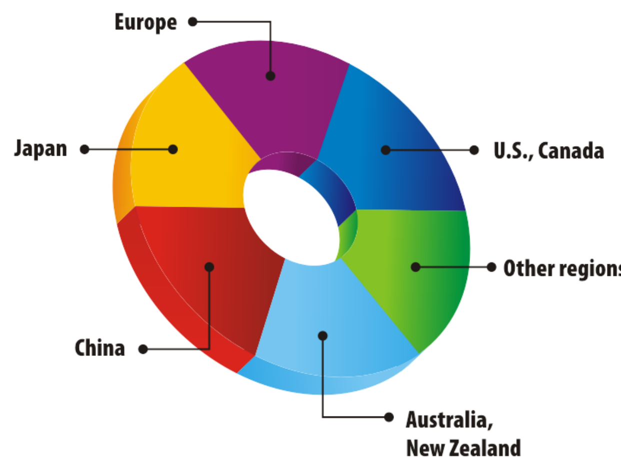

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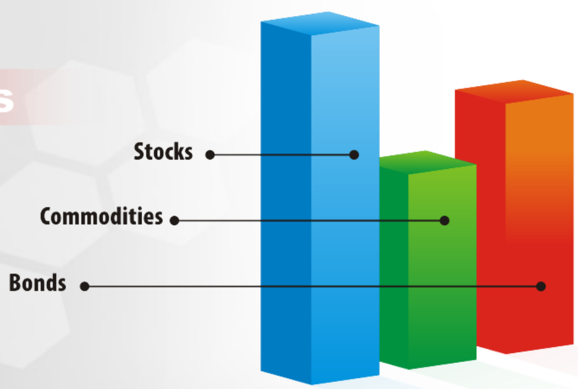

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