



## Swiss franc

**AUTHOR**

Christian Apelt, CFA  
 phone: +49 69/91 32-47 26  
 research@helaba.de

**EDITOR:**

Claudia Windt

**PUBLISHER:**

Dr. Gertrud R. Traud  
 Chief Economist/  
 Head of Research

Helaba

Landesbank

Hessen-Thüringen

MAIN TOWER

Neue Mainzer Str. 52-58

60311 Frankfurt am Main

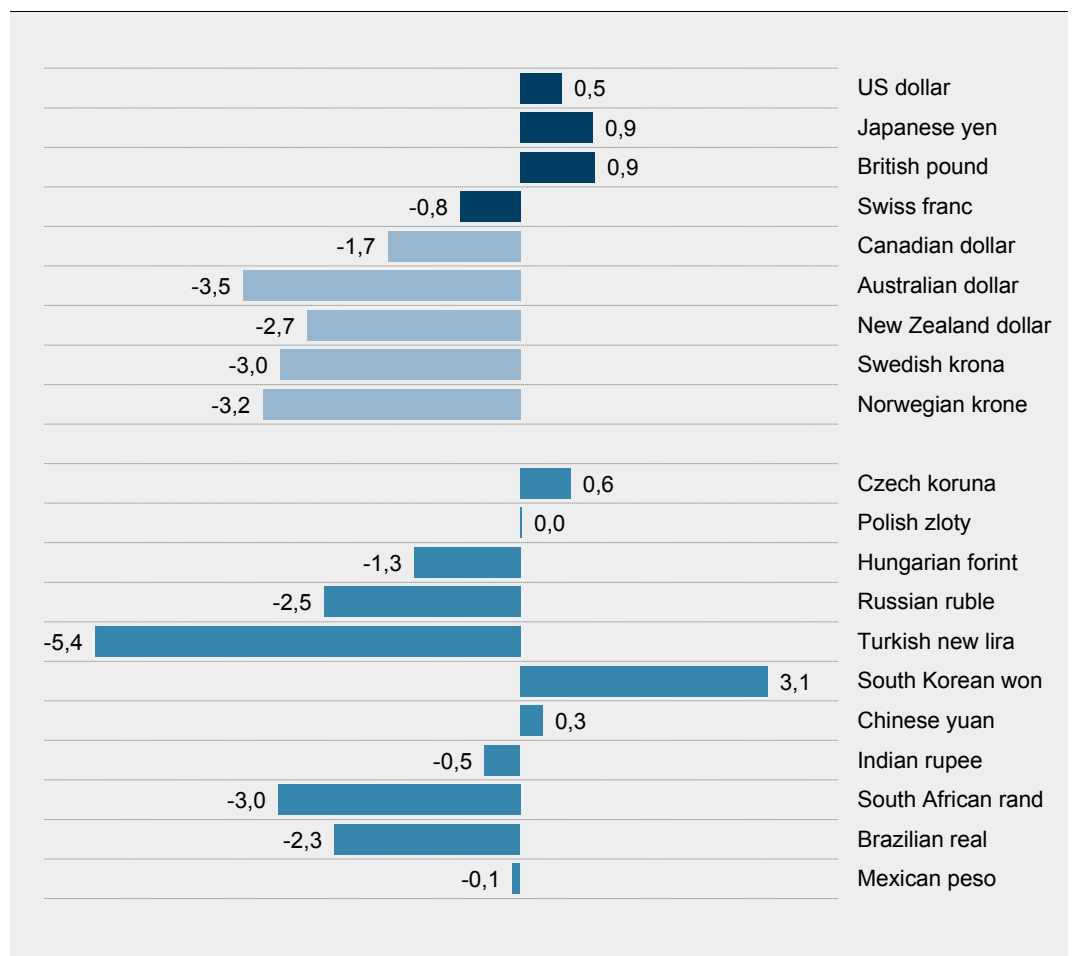
phone: +49 69/91 32-20 24

fax: +49 69/91 32-22 44

- Most recently the euro depreciated slightly against the US dollar and the British pound, but it moved up sharply against many other currencies – including the Swiss franc.
- The Swiss franc was among the big losers in 2017. The fundamental development in Switzerland differs hardly from that in the euro zone. The Swiss central bank will continue to take its cues from the ECB and will accordingly not raise its key rate in 2018. At this time, the interest rate differences tend to argue in favour of the franc. The currently optimistic euro mood could receive a damper. The long-term overvaluation of the Swiss currency has eased. As a result, the euro-franc exchange rate should hardly continue its rise in 2018, and, with temporary setbacks, hover around 1.15.
- Helaba Currency Forecasts

### Performance on a month-over-month basis

% vs. euro compared to the previous month (from 10/19 to 11/17/17)



Legend: ■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets  
 Sources: Bloomberg, Helaba Research

This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only. The data is based on sources that we consider reliable, though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.

## CHF: a new balance?

Who said anything about sailing in calm waters? After the euro-franc rate hovered for about two years in a narrow band around 1.08, it started to surge in the summer. By now, one euro costs 1.17 francs – the highest level since the SNB abandoned its minimum exchange rate in January 2015. What put the Swiss franc under such pressure?

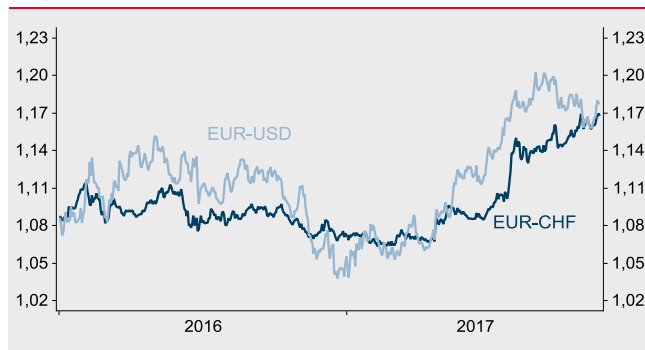
Simple question, difficult answer: in recent years, the usual suspect was the Swiss National Bank (SNB). It often intervened against its own currency – but usually during phases of appreciation. In fact, its currency reserves actually grew in recent months by just under 50 billion francs. However, those reserves are measured in the Swiss currency, which means that every franc depreciation automatically boosts the reserves. The rise in the currency holdings can thus be explained largely as the result of valuation effects.

### Euro optimism

The euro advanced on a broad front this year, especially against the US dollar. The upward dynamism accelerated especially in the wake of the French presidential elections, when it became clear that Marine Le Pen, the candidate hostile to the EU, would lose. However, the euro-franc exchange rate barely showed any reaction to that. The general euro appreciation picked up pace in the summer, since, on the one hand, growth in the currency zone accelerated, and, on the other hand, political uncertainties surrounding President Trump weighed on the US dollar. This time the Swiss currency, too, lost substantial ground to the euro. In addition, the penchant for risk in the financial markets rose noticeably. As a result, the franc is needed less as a safe investment haven.

### General euro strength so far this year

CHF, USD

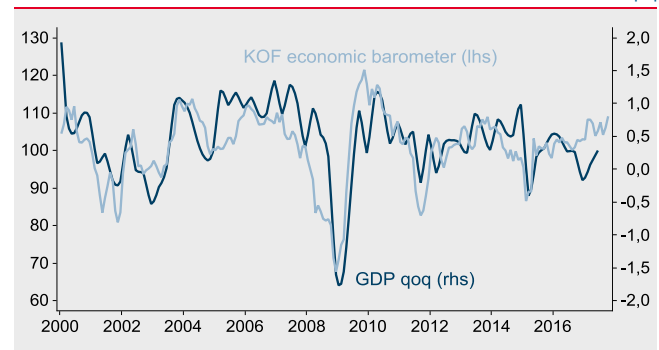


Sources: Macrobond, Helaba Research

### Swiss economy dynamism pointing upward

Index

% qoq



Sources: Macrobond, Helaba Research

### Growth picking up

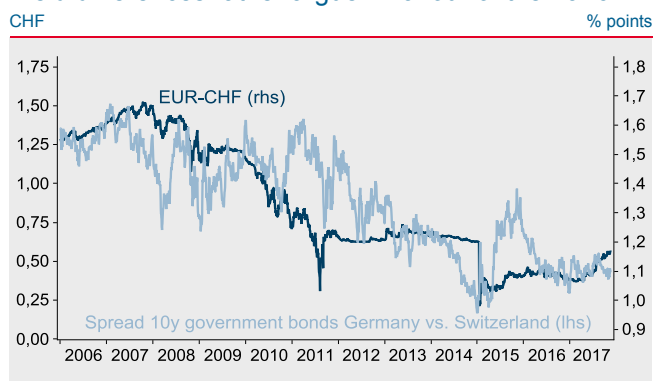
The development in Switzerland can hardly explain the movement in the exchange rate. After a lean period in the winter months, the economy has picked up strength. The most recent data and leading indicators point to a pronounced acceleration. Private consumer spending is slowly picking up; business investments have been growing markedly for some time already. Economic growth should double more or less to 1.5 % in 2018. With that, Switzerland is linking up again with the European trend.

Inflation rose into clearly positive terrain and stood in October at 0.7 % compared to the previous year. On average in the coming year, inflation will stay at the level of 0.7 %. The difference in inflation to the monetary union is thus below average. With that, the SNB is not under pressure to take action. Although the ECB reduced its asset-buying program, hikes in the key rates are not on the horizon any time soon. Should the ECB finally turn the interest rate screw, possibly in 2019, the SNB could easily follow suit without having to fear larger effects on the exchange rate.

Smaller interest rate disadvantage of the franc

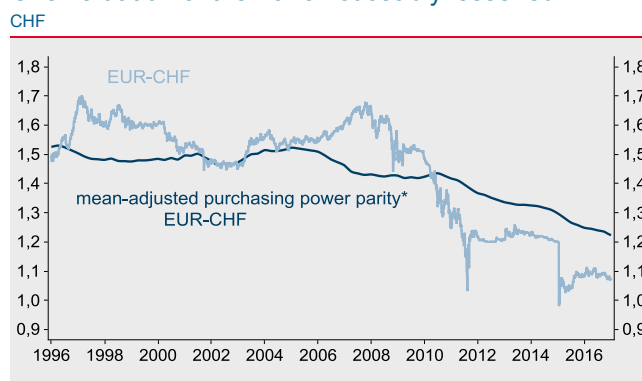
To be sure, the Swiss key rate of -0.75 % (mean value of the Libor band) is below the ECB rates. However, on two-year bonds, the euro has only a marginal yield advantage, which has barely changed especially in recent months. The euro's advantage over the franc is slightly higher on ten-year bonds, though it is low in historical terms. The interest rate policy not only does not explain the most recent franc depreciation, but it currently tends to serve rather as an argument for a stronger franc.

### Yield differences rather argue in favour of the franc



Sources: Macrobond, Helaba Research

### Overvaluation of the franc noticeably lessened



\* PPP adjusted by the mean deviation of 21,6 %;  
Sources: Macrobond, Helaba Research

Overvaluation has been reduced

The shorter-term influencing factors thus hardly explain the franc weakness in the recent past. Long-term indicators such as purchasing power parities or real exchange rate indexes have pointed for many years to an overvaluation of the franc. While this does not necessarily explain the short-term tendencies, at least it justifies it. Now, the Swiss currency remains expensive, but not nearly to the extreme degree as before. The SNB, too, acknowledged that in its most recent assessment of monetary policy. Since the Swiss current account balance, irrespective of the overvaluation, shows persistent surpluses of more than 10 % of GDP, a continuing franc weakness is by no means a foregone conclusion.

The rise in the euro-franc exchange rate is probably driven above all by the long-term undervaluation and the general euro optimism. The first argument remains fundamentally in play, though it is losing force. The second explanation could reverse itself over the next few months – also in dependence on the development in the US. Moreover, if the penchant for risk currently prevailing in the global financial markets declines noticeably, the Swiss investment haven should profit. The euro-franc exchange rate should thus not simply continue its uptrend, but should settle in 2018 around a new balance level of 1.15, a trend that will also include rate fluctuations down to 1.12 or up to 1.18.

## Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q4/2017	Q1/2018	Q2/2018	Q3/2018
<b>vs. Euro</b>	(vs. Euro, %)						
US dollar	-10,8	0,5	1,18	1,15	1,10	1,15	1,15
Japanese yen	-7,0	0,9	132	130	127	125	125
British pound	-4,3	0,9	0,89	0,85	0,85	0,90	0,90
Swiss franc	-8,0	-0,8	1,17	1,15	1,12	1,15	1,17
Canadian dollar	-6,1	-1,7	1,50	1,48	1,44	1,50	1,47
Australian dollar	-6,4	-3,5	1,56	1,51	1,47	1,49	1,47
Swedish krona	-3,6	-3,0	9,93	9,70	9,50	9,40	9,20
Norwegian krone	-6,5	-3,2	9,72	9,40	9,10	9,00	8,90
Chinese yuan	-6,0	0,3	7,81	7,71	7,48	7,88	7,88
<b>vs. US-Dollar</b>	(vs. USD, %)						
Japanese yen	4,3	0,4	112	113	115	109	109
Swiss franc	3,0	-1,3	0,99	1,00	1,02	1,00	1,02
Canadian dollar	5,3	-2,2	1,28	1,29	1,31	1,30	1,28
Swedish krona	8,0	-3,6	8,43	8,43	8,64	8,17	8,00
Norwegian krone	4,9	-3,7	8,24	8,17	8,27	7,83	7,74
Chinese yuan	4,8	-0,2	6,63	6,70	6,80	6,85	6,85
<b>US-Dollar vs. ...</b>	(vs. USD, %)						
British pound	7,1	0,4	1,32	1,35	1,29	1,28	1,28
Australian dollar	4,9	-4,0	0,76	0,76	0,75	0,77	0,78

\*17.11.2017

Sources: Bloomberg, Helaba Research ■