



Swiss franc

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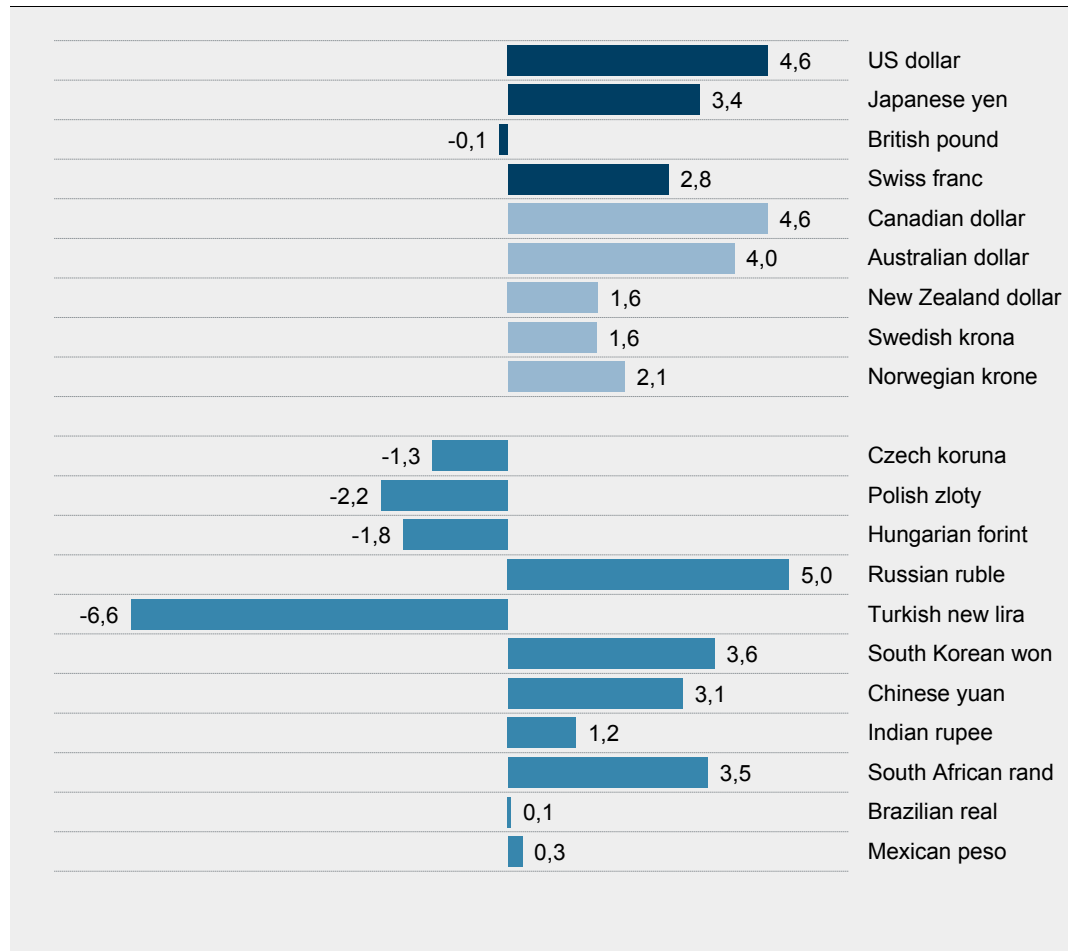
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- The US dollar recently appreciated significantly, but the currencies of almost all other industrialized countries also gained against the euro. By contrast, several emerging market currencies came under pressure, especially the Turkish lira.
- The Swiss franc was able to make up for its previous losses against the euro in just a few days. Concerns about Italy increased the demand for the safe investment haven. The uncertainties will probably not dissolve quickly, even without an escalation of the Italy problem. Other factors such as interest rate differentials or purchasing power parities point to a stable Swiss franc. The Euro-Franc exchange rate is likely to hover around the mark of 1.15.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 04/24 to 05/23/18)



■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets

Sources: Bloomberg, Helaba Research

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CHF: Safe haven reloaded?

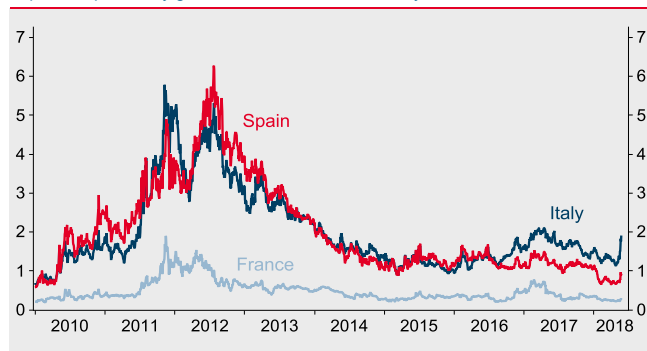
The Swiss franc has not had an easy time in recent months. The Swiss currency came under pressure against the euro. The Euro-Franc exchange rate even climbed above the "magic" level of 1.20 - the former minimum rate of the Swiss central bank. But instead of setting out for new shores, the exchange rate quickly turned around, and the Euro-Franc exchange rate fell below the level of 1.17 at the beginning of the year – thanks to Italy!

Euro optimism
is waning

Although the European debt crisis was not regarded as having been resolved, it was increasingly forgotten. Thanks to Mario Draghi's guarantee to save the euro, and later the massive ECB bond purchases, the financial markets relaxed and risk premiums on the southern European government bonds narrowed considerably. When the sword of Damocles, Marine Le Pen, disappeared last year in the French presidential elections, and when a pro-European took office in the person of Emmanuel Macron, Euro-scepticism waned more and more. The safe Swiss investment haven was no longer in demand, and the euro was able to appreciate significantly in the last year from 1.06 to the aforementioned 1.20 francs. However, the emerging new Italian government coalition of the 5-Star Movement and the Lega has put a considerable damper on euro optimism.

Welcome back, debt crisis?

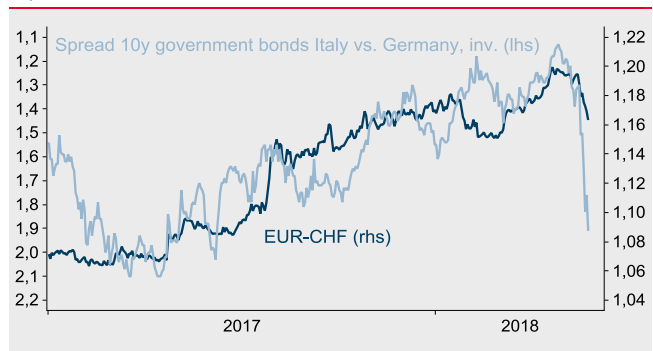
% points, spread 10y government bonds vs. Germany



Sources: Macrobond, Helaba Research

Italy concerns helping the franc

% points, inverted



Sources: Macrobond, Helaba Research

Italy's new government seems to be seeking a confrontation with the EU. According to plans, it wants to disregard the European deficit criteria in order to finance, among other things, tax cuts and higher social benefits. Isolated voices from the putative government camp about a euro exit referendum or debt restructuring should probably be taken less seriously. The risk premium for ten-year Italian government bonds compared to German bonds rose by more than 70 basis points.

No cause for panic
... presumably

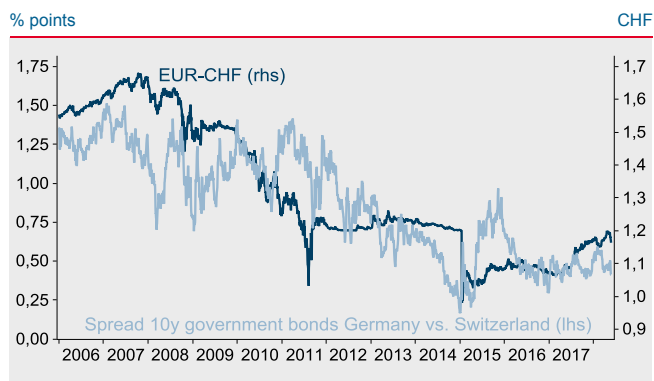
Concerns about the euro zone are thus back. However, the Italian risk premium at the peak of the European sovereign debt crisis was about three times as high as it is today. Moreover, it is unclear which of its plans the new Italian government will be able to realize and whether this unusual coalition can in fact survive for a longer period of time. A new edition of the debt crisis should therefore not be expected in the same manner. Still, the political uncertainties are likely to persist for at least a few months and could temporarily weigh on the euro against the Swiss franc.

Against this background, the ECB is not very likely, for the time being, to change its already very cautious move away from expansionary policies. Interest rate hikes are almost certainly not on the agenda this year. The yield advantage of the euro against the franc remains at a very low level and argues against a markedly higher euro-franc exchange rate. Conversely, since the Swiss central bank is strongly oriented towards the ECB, a noticeable narrowing of interest rate differentials is unlikely.

Business as usual
in Switzerland

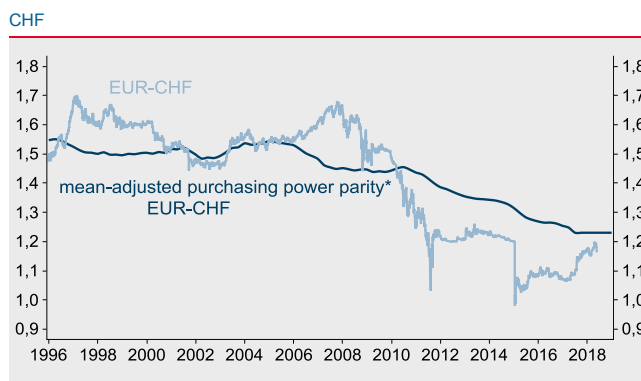
The Swiss economy will probably develop somewhat more strongly in 2018 than in the previous year. Gross domestic product should increase by around 2 %, even if the sentiment indicators already indicate the peak in the growth dynamic. Inflation in April was 0.8% year-on-year and is expected to fluctuate around this level for the remainder of the year, which would be the strongest price increase in Switzerland after the global financial crisis. Nevertheless, there is no acute need for action, which means that Swiss monetary policy remains in a wait-and-see position. Only when the ECB actually acts on the interest rate front the door will open for Swiss increases, but that would not happen until the end of 2019, at the earliest. Currency market interventions by the SNB are currently not an issue. Fluctuations in foreign exchange reserves are largely explained by valuation effects.

Smaller yield disadvantage of the franc



Sources: Macrobond, Helaba Research

Overvaluation of franc lessened



* PPP adjusted by the mean deviation of 20.5 %
Sources: Macrobond, Helaba Research

Euro-franc exchange rate
around 1.15

From a long term perspective, the Swiss franc continues to be overvalued against the euro, though not all that much. In fact, in the wake of the weakness of the Swiss franc, the overvaluation was for a time virtually non-existent. However, as long as the ECB does not make a clear turnaround in interest rates, there is little to suggest that the euro-franc exchange rate will rise significantly. The recent sunshine over the euro zone will probably not return so quickly either, even if the problems surrounding Italy do not escalate. The euro-franc exchange rate is therefore likely to fluctuate around the 1.15 mark for the remainder of the year.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q2/2018	Q3/2018	Q4/2018	Q1/2019
vs. Euro (vs. Euro, %)							
US dollar	2,6	4,6	1,17	1,15	1,15	1,15	1,20
Japanese yen	5,1	3,4	129	125	125	123	125
British pound	1,3	-0,1	0,88	0,90	0,90	0,85	0,85
Swiss franc	0,5	2,8	1,16	1,15	1,17	1,15	1,15
Canadian dollar	0,5	4,6	1,50	1,50	1,47	1,47	1,51
Australian dollar	-0,6	4,0	1,55	1,49	1,47	1,47	1,50
Swedish krona	-4,0	1,6	10,25	10,10	9,90	9,70	9,50
Norwegian krone	3,9	2,1	9,47	9,00	8,90	8,80	8,80
Chinese yuan	4,4	3,1	7,48	7,48	7,48	7,48	7,68
vs. US-Dollar (vs. USD, %)							
Japanese yen	2,4	-1,1	110	109	109	107	104
Swiss franc	-2,1	-1,7	1,00	1,00	1,02	1,00	0,96
Canadian dollar	-2,0	0,0	1,28	1,30	1,28	1,28	1,26
Swedish krona	-6,6	-2,9	8,76	8,78	8,61	8,43	7,92
Norwegian krone	1,3	-2,4	8,10	7,83	7,74	7,65	7,33
Chinese yuan	1,9	-1,3	6,39	6,50	6,50	6,50	6,40
US-Dollar vs. ... (vs. USD, %)							
British pound	-1,2	-4,5	1,33	1,28	1,28	1,35	1,41
Australian dollar	-3,2	-0,6	0,76	0,77	0,78	0,78	0,80

*23.05.2018

Sources: Bloomberg, Helaba Research ■