



MONEX

USDCHF UPDATE

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Upside in USDCHF to be capped by EURUSD downside and SNB intervention

AUTHOR

SIMON HARVEY

Head of FX Analysis

+44 (0) 203 650 6472

Simon.Harvey@monexeurope.com

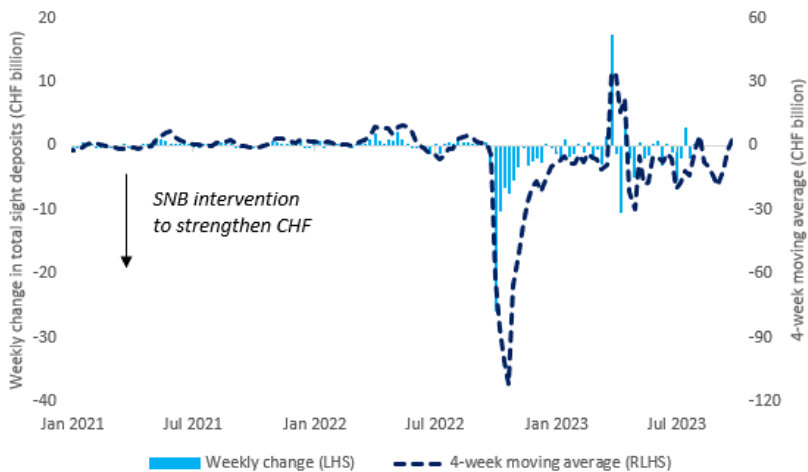


At eleven successive days and counting, the current rally in USDCHF is the longest since 1975. In a market that has lacked durable trends, the unfettered rally in USDCHF has unsurprisingly drawn a lot of attention, especially since the Swiss National Bank's latest decision to hold rates at 1.75% renders the franc as an optimal funding currency. However, we think upside in USDCHF is now limited and the path higher from current spot levels is unlikely to be as smooth as the recent trend suggests.

SNB intervention likely to prevent EURCHF rising above 0.97

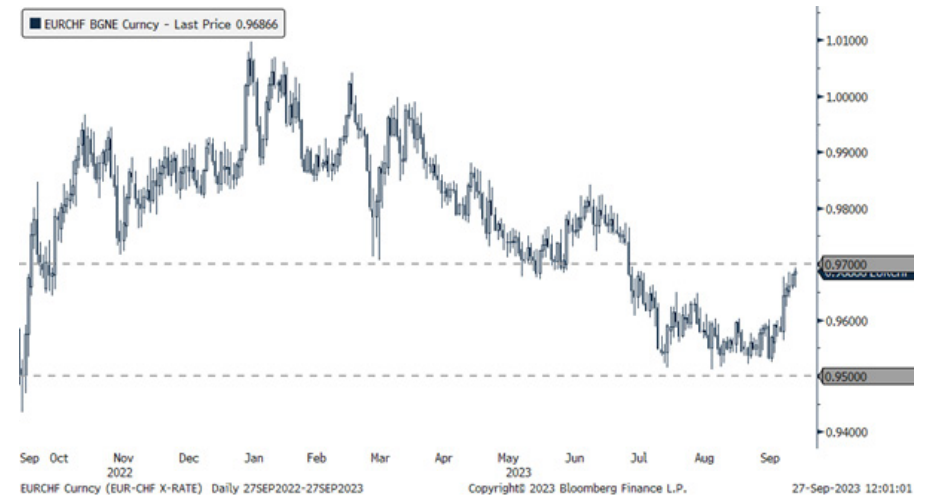
As we argued after last week's interest rate announcement, FX intervention is now the SNB's primary policy tool given domestic growth has stagnated and most of the expected resurgence in inflation is due to be imported. While not officially confirmed, it is common knowledge that the SNB monitors the EURCHF exchange rate as opposed to an undisclosed trade-weighted index to determine when to intervene. This is unsurprising given that Switzerland conducts 43% more trade with just five of eurozone nations relative to the US and China together, in which we assume trade is conducted in US dollars. In fact, this figure more than triples to 135% when looking at Swiss imports alone in 2022, which is naturally the focus for imported inflation.

While the SNB's intervention efforts have reduced recently, we expect sight deposit data to reflect increased activity



With upside risks to the SNB's inflation projections building amid the rise in oil prices and the percentage point rally in EURCHF since last week's policy decision, a development that has taken the cross towards the top of its recent range, we think the central bank is likely to make good on its commitment to intervene in FX markets to maintain a strong franc. While such actions weren't visible in sight deposit data for last week, suggesting that the SNB didn't intervene in FX markets aggressively to smooth the market response to their decision to hold rates, we think the upcoming weekly data should begin to suggest increased activity from the central bank now EURCHF trades close to the upper end of its recent range.

With the SNB attentive to higher imported inflation, we expect them to prevent EURCHF from rising above 0.97



USDCHF unlikely to break fresh year-to-date highs in Q4

Under our expectation that upside in EURCHF will be capped at 0.97 by SNB intervention to reduce upside inflation risks, a continuation in the trend higher in USDCHF is dependent on price action in EURUSD. While the single currency has generally been trending lower in recent weeks on widening growth and rate differentials, a key hurdle is now present in the 1.05 psychological level.

While there are conditions that could force the single currency to plumb fresh lows—deteriorating activity data or inflation data in the eurozone, a continued bid in the dollar on weak equities and higher long-term Treasury yields, or widening peripheral eurozone bond spreads—all of these factors will likely induce a haven bid in the franc against the euro, offsetting the impact a decline in EURUSD will have on USDCHF.

“In fact, with EURUSD unlikely to approach parity again this year without a sharp recession in the eurozone becoming an economic reality, and the SNB unlikely to become concerned over excessive franc strength above 0.95 on EURCHF, we think upside in the USDCHF will be limited at its current year-to-date highs of 0.944. This would represent a 2.8% rally from current levels.”

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