

# Currency Profile for the Swiss Franc



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## CHF performance against the U.S. dollar:

*Current bias for the CHF: Negative*

## **CHF set a six-month low in mid-February**

Past week: -0.81%

Past month: -5.19%

Year-to-date: -4.23%

## Sources of CHF strength:

The SNB has already allowed some of its unconventional policy tools to unwind, ending the purchase of corporate bonds and relaxing its CHF weakening intervention.

Swiss manufacturing, as measured by the PMI survey, has risen steadily since August. Activity in the sector is near its highest level since February 2008.

The closely watched KOF leading indicator has risen steadily since falling to a record low in April, a sign that the economy should accelerate further in the coming months.

## Sources of CHF weakness:

While the Swiss National Bank has relaxed some of its currency market interventions to weaken the CHF, it maintains that currency appreciation is not desirable and will not be tolerated in excess.

While the economy has shown broad signs of stabilization, overall levels of activity remain historically low. The SNB is not likely to lift borrowing cost until late 2010 at the earliest.

Switzerland's heavy dependence on external demand, namely from its largest trade partner, the euro zone, leaves its economy vulnerable to another downturn, especially as unemployment rises and final demand remains weak.

Switzerland's unemployment rate has risen since August 2008 and currently stands at 4.1%, near a 12-year high.

While the CPI posted year-over-year gains in December and January, inflation still remains well below the SNB's target.

While consumer spending has held up surprisingly well, rising unemployment could significantly undermine spending.

**Monetary Policy:** The Swiss National Bank (SNB) lowered its key lending rate by 225 basis points since October 2008, to just 0.25%, the midpoint of its targeted three-month LIBOR range of 0.00%-0.75%. Having exhausted its traditional monetary tools, the SNB announced in mid-March, its plan to intervene in the foreign exchange market to weaken the franc. The SNB hopes to mitigate the rise in the value of the Swiss franc, particularly against the euro, which it sees as a key threat to growth in Switzerland's export sector. Most recently, economic data has painted a mixed picture but has highlighted an economy that is very gradually recovering. Switzerland emerged from recession in the third quarter of 2008, largely due to the resilience of domestic demand and the rebound in exports to key trade partner, the euro zone. Government stimulus efforts and lower lending rates around the world have helped underpin global trade and limited the downside of the Swiss economy. However, because Switzerland's recovery remains so dependant on external demand, namely from a struggling euro zone, officials are likely to keep lending rates at record lows for the foreseeable future. Policymakers' tolerance for CHF appreciation appears to have increased moderately, but they still maintain the right to defend the franc against excessive strength, especially against the euro. The SNB has allowed its corporate bond purchases to wind down but is not likely to further tighten monetary conditions until its economy shows more sustainable signs of recovery, likely around Q4 2010.

## CHF Outlook: Balance of market opinion: Negative

The Swiss franc has benefited from the broad U.S. dollar weakness that characterized much of 2009. Its run up against traditional safe harbors like the USD and the JPY was in part, due to the rise in the euro, which generally shares a close correlation with the CHF in most of its major crosses. However, mounting concerns about sovereign credit risk and a mixed economic recovery in the euro zone have undermined some of the single currency's upside in its major crosses and dampened some of the CHF's previous momentum. Investors are likely to continue to shun CHF-denominated assets in an environment of improving risk appetite and improving demand for higher yields. EUR/CHF should continue to suffer from euro-specific issues like mounting concerns about the fiscal health of Greece and other member states. Additional signs that America's economic recovery its gaining momentum would add to the euro's heavier tone and in turn, undermine the Swiss franc in many of its other major crosses.

## Upcoming critical events:

Feb 26: CH February KOF Leading Indicator

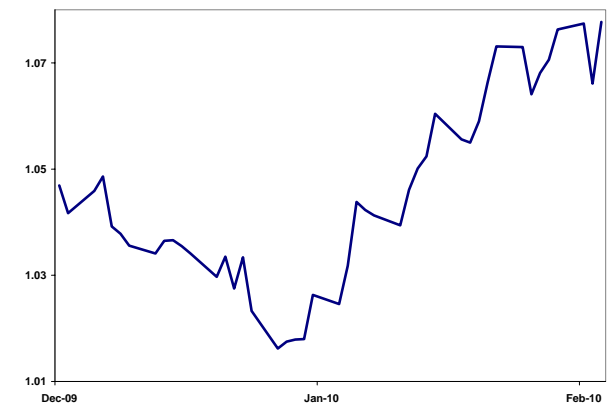
Mar 1: CH February PMI Manufacturing

Mar 2: CH Q4 GDP

Mar 8: CH February Unemployment

Mar 10: SNB Quarterly Monetary Policy Review

Economic indicators	CHF	USD
3-month Deposit Rate	0.13%	0.41%
GDP (annual rate)	-1.5%	5.7%
Inflation (annual rate)	1.0%	2.7%
Unemployment	4.1%	9.7%
Trade Balance (US\$)	+18.7 bln	-517.0 bln



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