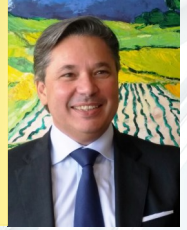


WEEKLY ANALYSIS

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CURRENCIES

Towards a depreciation of the Swiss franc. The euro is logically suffering from an unfavourable interest rate differential. Renewed attractiveness of bonds and the dollar. Can the sterling benefit from the nominal rate differential?

Key Points

- Towards a depreciation of the Swiss franc
- The euro is logically suffering from an unfavourable interest rate differential
- Renewed attractiveness of bonds and the dollar
- A weak yen remains essential
- Temporary weakening of the yuan

Towards a depreciation of the Swiss franc

The Swiss National Bank does not see any reason to fear inflationary pressures for the time being and is not particularly concerned about the current rise in import prices. Like the Federal Reserve, it likely believes that the current trend will not last. For the time being, it considers that the Swiss economic recovery is consolidating and that it is taking hold without any real effects on price levels. In its latest comments, it therefore reiterated that it will be maintaining its accommodative monetary policy unchanged by keeping its key rate at -0.75% and continuing its strategy of intervention on the foreign exchange market to stabilise the franc against the euro. The SNB's inflation outlook remains below 1% for 2021, 2022 and 2023.

Chairman Jordan nevertheless expressed a clear opinion on the high valuation of the franc, pointing out that, if the franc had not been overvalued, inflation in our country would have been higher. Therefore, should we not expect a weakening of the franc as desired by the SNB, which would then have inflationary effects proportional to its degree of weakening? Against the dollar, the franc has appreciated by about 6% since February 2020, while it has depreciated by barely -1% against the euro.

Total sight deposits in Switzerland have remained stable at around CHF 710 billion over the past year. However, the SNB's currency reserves have increased further and now stand at CHF 930 billion. The SNB still seems to have to intervene in the foreign exchange market to reinforce the trend, a sign that interest in the Swiss franc and Swiss franc assets is waning.

Unlike the other major central banks, which have been active in supporting their respective countries' economies in recent years by stepping up their government debt purchase programmes, particularly during the pandemic, the Swiss central bank has limited its action to an exchange rate stabilisation target that remains valid for 2021.

The Swiss franc had rather benefited from the anxiety-inducing stock market climate of 2020 at the start of the pandemic by initially appreciating against most currencies. The prospects for a global economic recovery are expected to reduce the franc's appeal as a safe haven. Since mid-August, the weakness of the franc seems to be solidifying.

The SNB still considers the franc to be overvalued, and the Bank's tolerance for an appreciation of the franc remains low. Our currency is expected to weaken in 2021 and 2022 against most major currencies. In purchasing power parity (PPP) terms, the franc is still overvalued by 10-15% against the euro. A rise in the euro above 1.15 is therefore possible in 2021.

The euro is logically suffering from an unfavourable interest rate differential

The beginning of the year marked an initial inflection point for the euro, which logically lost strength as the economic outlook weakened and the growth differential became more favourable to the US.