

EURCHF

Long Term Trend: 

Sideways, but not boring

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Chief Investment Office GWM

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- We maintain our EURCHF forecast at 1.07 at end-1Q20, but see a return to the current spot rate of 1.10 for the rest of the year.
- We think EURCHF upside is limited as there is rising domestic opposition to negative rates. The Swiss National Bank (SNB) would likely use any weakness in the CHF to lift rates.
- The downside potential in EURCHF is probably greater, given that the SNB has little room to ease compared to the Fed or the ECB.

Mounting pressure on SNB raises risk of CHF appreciation

We see a bias toward appreciation for the CHF in the months ahead. One possible scenario would see rising trade uncertainties leading to further Federal Reserve rate cuts and even further easing by the European Central Bank (ECB). The SNB would then face a dilemma as it has far less room to ease than the two major central banks. We think markets, when confronted with this risk, will price the CHF stronger. We therefore keep our EURCHF forecast at 1.07 for end-March, which corresponds to our forecast trough for US GDP growth. Should we be wrong with our assumption of a US growth slowdown, EURCHF is likely to stay around 1.10. The upside is, however, limited. We assume that the SNB would use any weakness in the CHF to either reduce negative interest rates or revert past interventions.

Negative interest rates have been met with increasing opposition from the domestic financial industry and Swiss corporations who believe it is damaging the outlook for savings and investment plans. Interventions, on the other hand, run the risk of damaging Switzerland's reputation; so far the country has avoided being branded a currency manipulator, although further interventions might lead to such a charge by the US Treasury Department. In sum, we think the SNB has three policy choices: negative rates, interventions, and a stronger CHF. The balance appears to be shifting toward a stronger CHF for now. Thus, if we are right that the global economy reaccelerates in 2H20, EURCHF should be supported, but only to a limited extent.

Investment considerations

Prospects: EURCHF runs the risk of falling further in the coming months and hedging euro exposure seems the appropriate course of action, in our view. In summer 2020, we expect a slight rebound of the euro.

Boundaries: We identify a key support for EURCHF around 1.05, where economic repercussions could become more serious for Switzerland. On the upside, 1.12 should be difficult to breach as long as global economic uncertainties remain elevated.

Risk factors: The main risk is very strong easing by the Fed and the ECB that urges the SNB to allow more CHF appreciation.

EURCHF

06 Dec 19:	1.10	PPP*:	1.20
Mar 20:	1.07	TEEER*:	1.15
Jun 20:	1.10		
Sep 20:	1.10		
Dec 20:	1.10		

Thomson Reuters, Macrobond, UBS calculation. *Purchasing Power Parity (PPP) is not a forecast per se, but a long-term equilibrium value for an exchange rate, calculated by UBS. TEEER refers to the 'trend-extrapolated equilibrium exchange rate', which is a three-year projection of the PPP.

EURCHF over the last five years and our forecasts

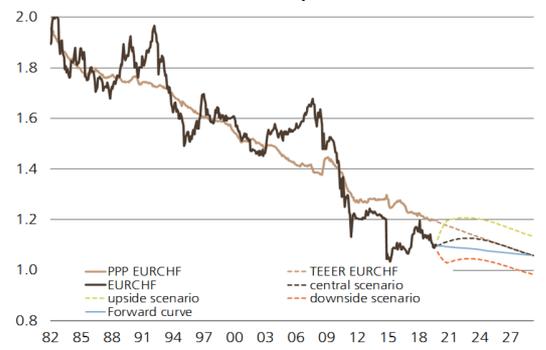
Price performance, forecast and implicit volatility



Source: Refinitiv, UBS

EURCHF long-term development and fair values

PPP and TEEER (see notes to currency forecast table)



Source: Macrobond, Refinitiv, UBS

Fundamental influence

	Curr	GDP F	CPI F	3MLibor (1)	10Yield (1)
2020	EUR	0.8	1.2	(0.6)	(0.4)
2021	EUR	1.2	1.3	-	-
2020	CHF	0.9	0.5	(1.0)	(0.7)
2021	CHF	1.3	0.7	-	-

F=Forecast, (1) Year end

Source: UBS

Appendix

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