

# USDCHF

Long Term Trend: 

Smooth unfreezing is unlikely

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- We forecast USDCHF to fall to 0.92 by December 2020, reflecting our expectations that the Swiss National Bank (SNB) will reach its easing limits and the USD will weaken.
- In recent weeks, USDCHF has been stuck in a very tight range below parity, while option volatility has slipped close to record lows below 4%.
- We forecast a strong CHF and stronger EUR versus the USD next year in response to easing trade tensions and rising election uncertainty in the US.

## The SNB is facing the limits of its easing measures

The two main instruments of the SNB, negative interest rates and interventions, are being opposed by important stakeholders. The domestic financial industry is criticizing negative rates, as their impact on savings and economic efficiency has grown the longer they've been in place. Many companies in the industry have struggled to maintain profits and provide reasonable investment returns. The other instrument, interventions, faces risks from potential international pressure if the SNB were to scale up such efforts again in order to stabilize the CHF.

We anticipate the global economy will enjoy a soft and steady rebound in 2020. In such an environment, the EUR and the CHF are likely to rise against the USD since easing trade tensions and improving global growth benefit the currencies of export regions.

The alternative scenario of continued trade tensions triggering even more global risk aversion would also likely strengthen the CHF. In that case, the Federal Reserve can be expected to cut rates further, while the SNB would run short of easing options if it attempted to match the Fed's moves. Against that backdrop, we would also keep our USDCHF end-2020 forecast of 0.92.

The risk to the forecast would be another year of strong growth exclusively in the US, with the rest of the world hoping for improvement without seeing much of it. Under those circumstances, the USD would remain strong versus its trade-weighted basket of foreign currencies, and USDCHF would likely stick to the upper end of the familiar range.

## Investment implications

**Prospects:** We expect USDCHF to drift down as either the Fed eases its monetary policy in response to risk aversion or global economic strength promotes the currencies of exporters.

**Boundaries:** The SNB wants to control the combined impact of USDCHF and EURCHF. By September 2020, USDCHF could test last year's low of 0.92. On the upside, 1.02 should provide tough resistance unless there is some prospect of Fed rate hikes.

**Risk factors:** The biggest risk to our USDCHF forecast is strong growth exclusively in the US, while the rest of the G10 countries wait hopelessly for a rebound.

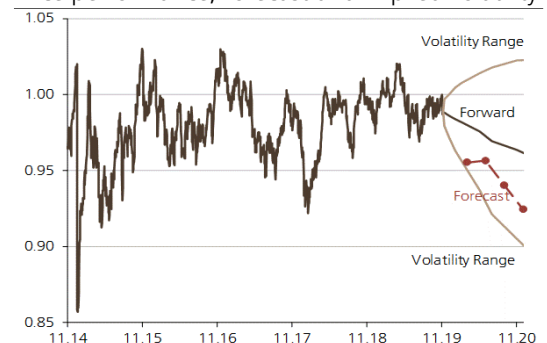
## USDCHF

<b>05 Dec 19:</b>	0.99	<b>PPP*:</b>	0.93
<b>Mar 20:</b>	0.96	<b>TEEER*:</b>	0.88
<b>Jun 20:</b>	0.96		
<b>Sep 20:</b>	0.94		
<b>Dec 20:</b>	0.92		

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.

## USDCHF five-year history and forecasts

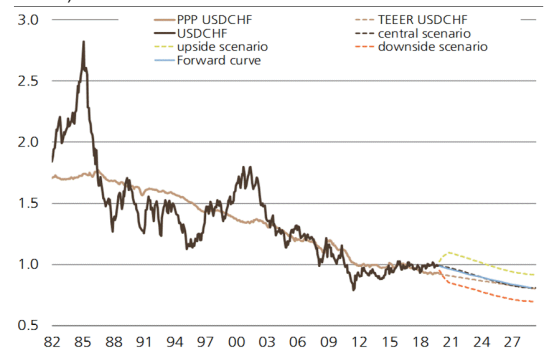
Price performance, forecast and implied volatility



Source: Refinitiv, UBS

## USDCHF long-term development and fair value

PPP, TEEER, and forward rates (see note below table)



Source: Refinitiv, Macrobond, UBS

## Fundamental influence

	Curr	GDP F	CPI F	3MLibor (1)	10Yield (1)
2020	USD	1.1	2.1	1.1	1.8
2021	USD	2.1	1.9	-	-
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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