GLOBAL MARKETS RESEARCH

FX Thoughts

9 February 2024

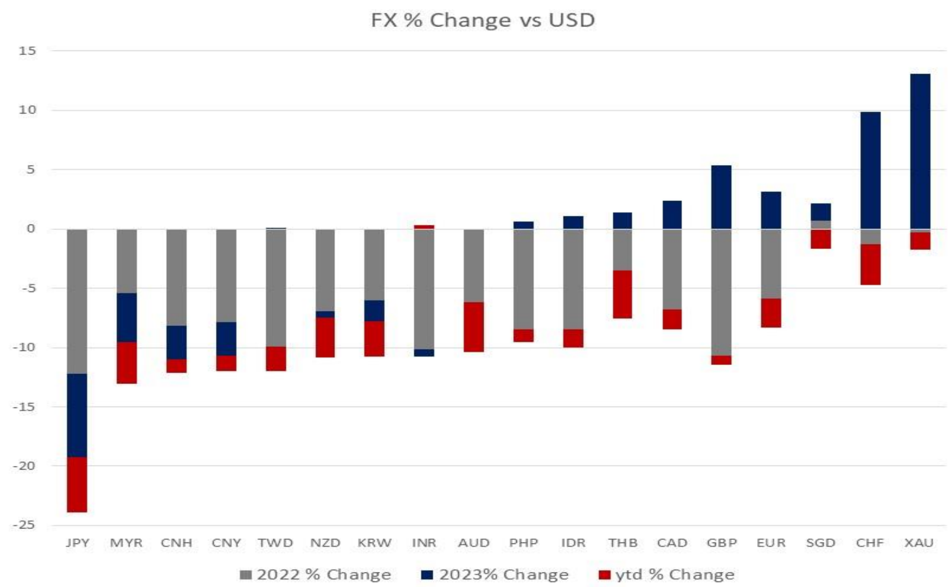
CHF – Some Softening Ahead

Christopher Wong
FX Strategist
+65 6530 4367
christopherwong@ocbc.com

The outperformance of Swiss Franc (CHF) seen in 2022 and 2023 may not repeat this year. We see room for prior CHF strength to ease further. There may be lesser incentive for policymakers to hold on to strong FX policy as the cost may outweigh its benefits. Growth is slowing in Switzerland; inflation is gradually coming to objective and domestic companies are feeling the pain. Taken together, we see room for SNB's tight monetary policy to ease and that should also include allowing for a softer CHF ahead. Risk to this view is a resurgence in inflationary pressures.

In the near term, USDCHF may correct higher as Fed has yet to embark on rate cut while markets may be pricing a dovish shift in CHF policy. Beyond the near term, we look for a rather flat forecast trajectory as a moderate and soft USD outlook (premised on our view that Fed will start cutting rate from 2Q) may offset against a soft CHF outlook. For CHFSGD, we see room for downside to play out on the back of potential MAS-SNB policy divergence.

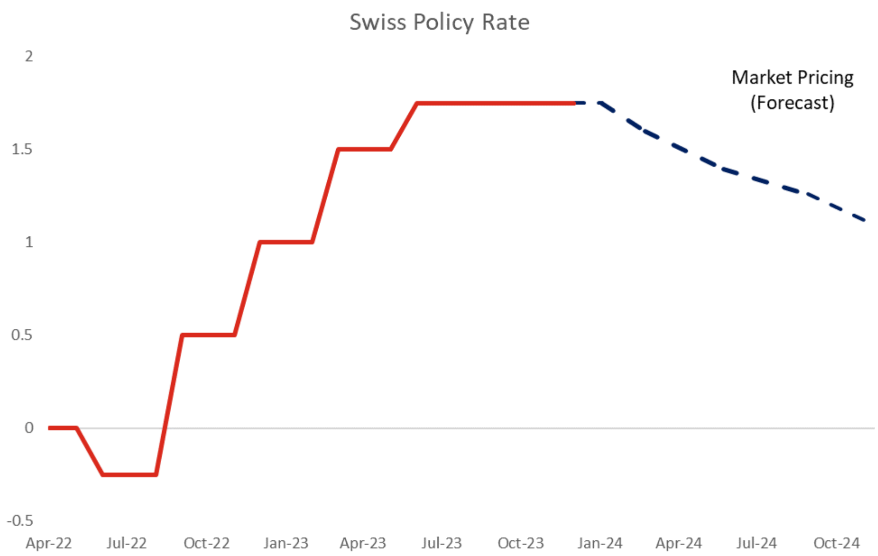
Taking Stock: Apart from gold, CHF has been one of the outperformers in 2023, gaining by nearly 10% vs. USD. The CHF also had a similar performance in 2022, as it fell by less, relative to its peers. The CHF strength can be attributable to a combination of a few factors including: 1/ SNB's desire for strong FX (via intervention in FX markets – sell foreign FX, buy CHF) as one of the tools to curb imported inflationary pressures; 2/ SNB tightening of monetary policy since Jun 2022 (250bps in total to bring policy rate to 1.75%); 3/ rising and large current account surplus; 4/ benefiting from its status of "safe-haven" due to geopolitical risks (Russian-Ukraine conflict, Israel-Hamas war).



Note: YTD as of 7 Feb 2024. Currencies ranked in order of cumulative % change over 2022 – 2024 YTD.
Source: Bloomberg, OCBC Research

Looking on and taking into account recent market developments: The CHF strength seen in 2022 and 2023 may potentially ease further this year. First and foremost, SNB's tightening cycle has concluded. The Dec 2023 SNB meeting can be characterised as a dovish hold. In particular, SNB Chairman Thomas said it would no longer focus on selling foreign currency and do not forecast any tightening given the situation so far. Markets have also priced in 50bps cut for 2024, starting in 2H of the year.

SNB Tightening Cycle Ended… Rate Cut Priced in

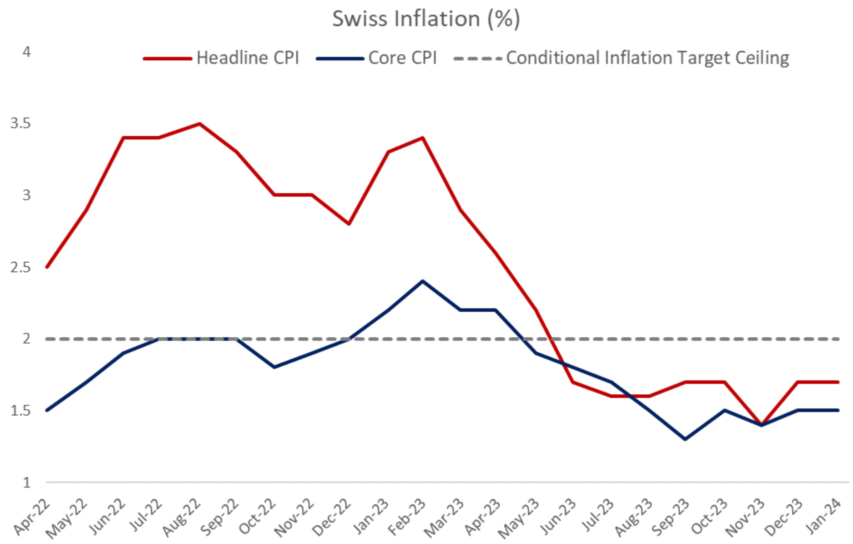


Source: Bloomberg, OCBC Research

Separately in a recent interview, **SNB's Jordan indicated that inflation is under control** (below the 2% mark; SNB's conditional inflation forecast is 0 - 2%) and he attributed this to the measures taken by SNB (including the nominal appreciation of the CHF) over the last 2 years. At the same time, he also **acknowledged that a strong CHF has also been painful for domestic companies**.

The next MPC meeting is scheduled on 21 Mar and it would likely be one that is closely watched for any further change in policy stance or tone/language.

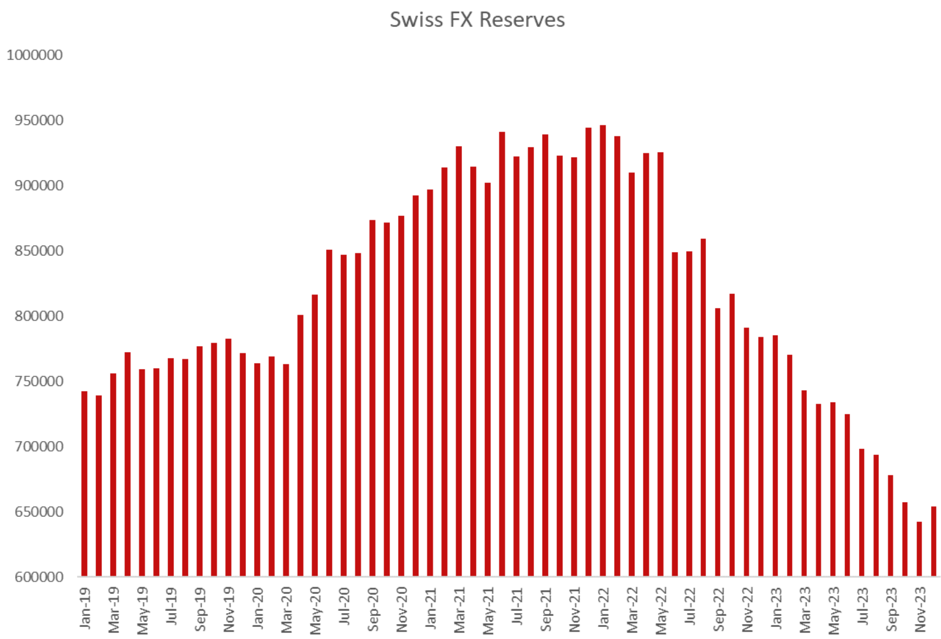
Next, the **disinflation trend in Switzerland appears well underway** (headline and core CPI printed at 1.7%, 1.5% y/y, respectively in Dec). Release of inflation report on 13 Feb will be of interest. Another set of softer inflation print should add to the bias that preference for stronger CHF may not be as needed in today's environment.



Source: Bloomberg, OCBC Research

Elsewhere, the recent publication of Swiss FX reserves had also captured some attention. Jan FX reserves rose to CHF662.4bn, from CHF654.2bn. The increase in FX reserves has spurred speculation that the SNB had stopped FX intervention to support the CHF and possibly switched to selling the CHF instead.

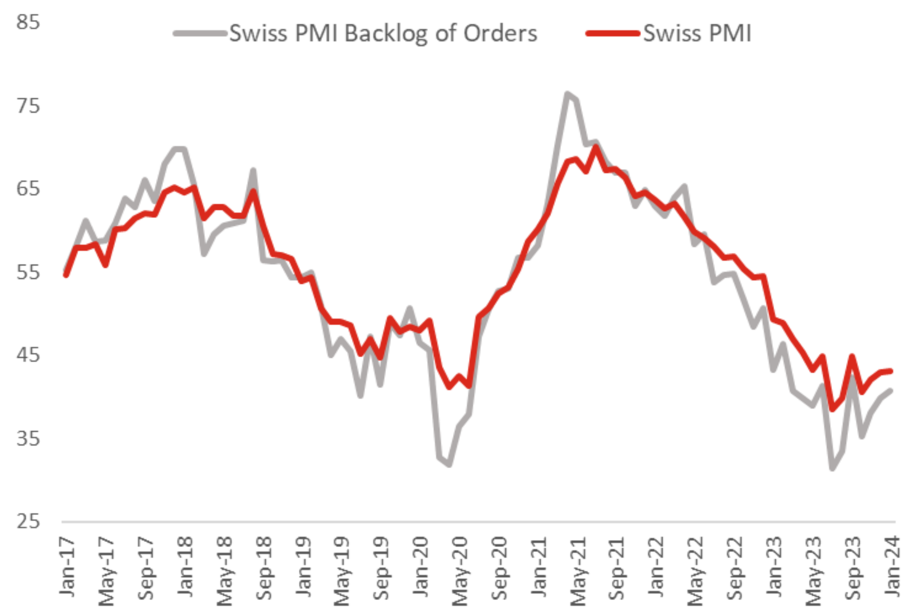
Rebound in FX Reserves Spurred Speculation that SNB Stopped Intervention to Support CHF



Source: Bloomberg, OCBC Research

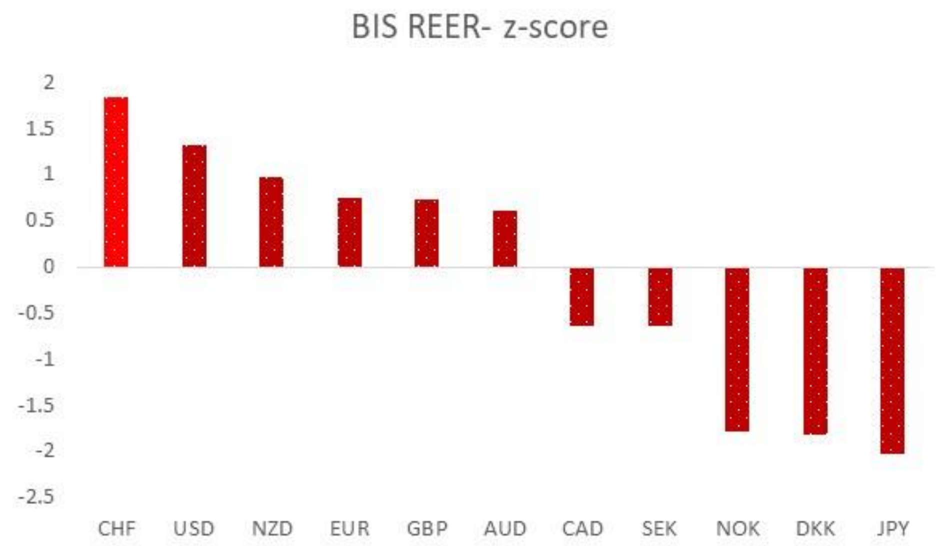
It is also key to point out that the **SNB is tasked with ensuring price stability, while taking due account of economic developments**. The Swiss economy is potentially facing its weakest growth in 4 years amid tight monetary policy. SNB projected the economy to grow in the range of 0.5% to 1% for 2024. With inflation coming to objective, growth slowing and domestic companies feeling the pain, we see room for SNB's tight policy to ease and that also include allowing for a softer CHF ahead.

Economic Growth Slowing in Switzerland



Source: Bloomberg, OCBC Research

Room for CHF Strength to Correct



Note: BIS REER (broad series), z-score derived from 10y average between Feb-2014 and 2024 and standard deviation.
Source: Bloomberg, OCBC Research

USDCHF: In the near term, USDCHF may correct higher as Fed has yet to embark on rate cut but markets may be pricing a dovish shift in CHF policy. Our forecast trajectory is largely flat for USDCHF, taking into account 1/ a moderate and soft USD view (premised on our view that Fed will cut rate, possibly as early as 2Q 2024) and 2/ that Swiss policymakers may no longer pursue a strong CHF policy as well as the risks for SNB rate cuts in 2H 2024. These effects should in some way offset each other.

EURCHF: While SNB may not pursue a strong FX policy, the EUR may also come under pressure in the near term owing to lacklustre economic activities in the Euro-area region, growing risk of an earlier than expected ECB rate cut cycle (possibly as early as in Apr-2024) and election risks in Europe. On net, the negative effects for EUR and CHF may offset each other for 1H. But into 2H 2024, we are expecting Euro-area growth to stabilise, and that the ECB rate cut cycle to be more modest (our house view expects 75bps cut for 2024) while SNB may potentially begin rate cut cycle in 2H 2024 (market expectation). The policy divergence between ECB-SNB, growth stabilisation in Euro-area and SNB's pursuit for not a strong CHF can potentially support an upward trajectory for EURCHF.

CHFSGD: For CHFSGD, we see room for downside to play out on the back of potential MAS-SNB policy divergence. At MAS's quarterly MPC (29 Jan), MAS maintained policy status quo (appreciation stance) as widely expected and one of the main touchpoints was that core CPI is "expected to rise in current quarter…to step down by 4Q and fall more in 2025". On this note, S$ strength may still persist over its trade partners in the interim. That said, we do look for S$ strength to fade against its trade peers at some point this year should core inflation in Singapore start to ease. At that point, the S$ strength we've seen for large part of 2023 can potentially taper off against some of its major trade partners.

Currency Pair	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
USD-CHF	0.8800	0.8800	0.8900	0.9000	0.9000
EUR-CHF	0.9460	0.9548	0.9790	0.9990	0.9990
CHF-SGD	1.5000	1.4977	1.4764	1.4544	1.4522

Source: OCBC Research

Technical Thoughts

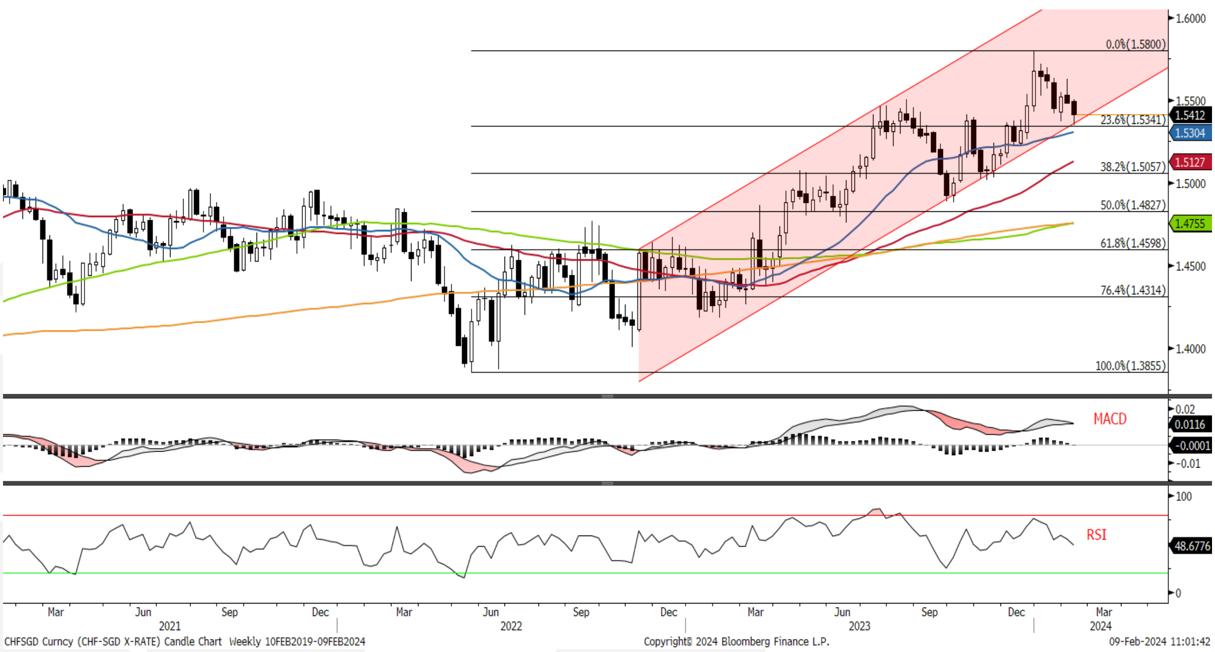
USDCHF rebounded off lows in late-Dec and was last seen at 0.8735 levels. Bearish momentum on weekly chart is fading while RSI is rising. Risks are skewed to the upside. Resistance at 0.8760 levels (23.6% fibo retracement of Dec-2022 high to Dec-2023 low), 0.8890 (50WMA) and 0.9030 (38.2% fibo). Support at 0.8570, 0.84 levels.

USDCHF (Weekly Chart) – Room for Gains

Source: Bloomberg, OCBC Research

CHFSGD has risen ~14% since mid-2022 to trade a high of 1.58 (Dec-2023). Since then, the cross has retraced lower. Last at 1.5415 levels. Bullish momentum on weekly chart faded while RSI is falling. There appears room for retracement play to continue. Support next at 1.5300/40 levels (23.6% fibo retracement of 2022 low to 2023 high, 21WMA) before 1.5130 (50WMA), 1.5060 (38.2% fibo). Resistance at 1.5505, 1.5650 and 1.58 (recent high).

CHFSGD (Weekly Chart) – Room for Retracement



Source: Bloomberg, OCBC Research

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herbertwong@ocbcwh.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com

Co.Reg.no.: 193200032W