

FX Alpha

Close GBP/CHF

Key takeaways

- Perfect storm of strong UK data and weak CHF data encourages us to close this trade. Initial cost 0.47%. Close at 0.82% GBP
- Risk-reward compels us to close trade ahead of Jan UK CPI data and reduce some short CHF exposure - still long EUR/CHF
- Scope for GBP/CHF upside intact - relative shift in rates pricing and favourable carry backdrop. Risks: SNB cuts earlier.

A perfect data storm

This morning could not have been more conducive to our long GBP/CHF which we opened on 5th February (see: [FX Alpha: Tactical Trade: Buy GBP/CHF 05 February 2024](#)). The trade was opened at 0.47%. Price action this morning and a higher GBP/CHF (through our 1.1100 upper strike) compels us to close this trade at 0.82%. (See: [Global FX weekly](#) for a list of opened and closed trades).

Risk-reward = close

The scale of the move this morning has compelled us to close this trade as GBP/CHF breaches the upper strike of 1.0950/1.1100 call spread and the 200DMA at 1.1111. Ahead of UK CPI, we think it prudent to take some risk off the table with the option nearly doubling in value. We still remain long EUR/CHF via a 1x1.5 ratio call spread (strikes 0.9320/0.95. See [FX Alpha: Buy EUR/CHF](#)). Risks are for a spike in volatility or an early move by the ECB.

Diverging rate paths

Today's data add credence to the view that the SNB and BoE are on a diverging rate path. It also supports our view that the BoE will cut later rather than sooner whilst the risks are that the SNB may have to move earlier than our official call for a September rate cut. We note that the Swiss OIS market is increasing the odds that the SNB may have to move in March and today's data will encourage with receiving at the front end. At the very minimum, weak Swiss CPI should encourage further interventions from the SNB who may have to harden their rhetoric on CHF strength. Net-net, we think the case for further GBP/CHF remains compelling. We think this pair remains a compelling manifestation of the carry trade in a low volatility environment.

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SNB- Swiss National Bank

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