

FX Alpha

Close long EUR/CHF

Key takeaways

- We opened long EUR/CHF 1x1.5 c/s on Jan 02 which cost 0.53% EUR. EUR/CHF hits upper strike so we close at premium of 1.1% EUR
- We expect continued CHF underperformance in 2024 which will remain the funding currency of choice as CB's stall on rate cuts
- Structural headwinds (BoP deterioration) is also cause for concern and may finally trigger correction of overvaluation.

Closing Long EUR/CHF

We opened long EUR/CHF via a 3mth 1x1.5 call spread (c/s) structure on January 2nd (see: [FX Alpha: Buy EUR/CHF 02 January 2024](#)). Using strikes 0.9320/0.95, the trade cost 0.53%. With CHF underperformance continuing into February, and EUR/CHF approaching the upper strike, we take this opportunity to close this trade at 1.1% EUR. For a full set of opened and closed trades, please see [Global FX Weekly: On track 16 February 2024](#). The closure of this trades follows our decision to close GBP/CHF on 13th February (see: [FX Alpha: Close GBP/CHF 13 February 2024](#)).

Still Bearish CHF

Lower CHF remains a high conviction call for us. In the absence of sizeable CHF buying from the SNB and now intermittent selling, we think CHF remains one of the key funding currencies not only in G10 FX but versus higher yielding EM FX which has been a popular expression of the lower CHF view. We have recently made some tweaks to our CHF profile and now expect a faster depreciation towards parity in EUR/CHF (see: [FX Watch: CHF: Forecast Revisions 14 February 2024](#)).

Watch BoP Dynamics

We noted in a recent note (see: [European Viewpoint: Switzerland in '24: Slowly slowly 19 February 2024](#)) some concerning dynamics in Swiss balance of payments data which is a concern for the medium-term outlook. Switzerland has seen a sharp deterioration in the its basic balance (current account adj FDI and portfolio flows) and the risks are for a more precipitous outflow of capital from Swiss asset markets in search of yield. Whilst this is not Japan, it is worthy of keeping on the radar. If the trend materializes, this paves the way for a more meaningful correction in CHF due to significant overvaluation.

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SNB- Swiss National Bank

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