

FX Watch

CHF: SNB has been Intervening

Key takeaways

- Jan FX reserves data supports evidence from sight deposits. The SNB have been intervening, whilst pulling back from FX sales
- Val adj important - bond returns down, CHF TWI down, MSCI up. Adj suggests SNB have been intervening.
- Data supports structural bearish case for CHF. We are long GBP/CHF & EUR/CHF. Both are undervalued vs FV metrics

Confirmation of Intervention.

We had placed great store in the release of SNB January FX reserves to gauge the extent (if any) of SNB interventions to weaken CHF as proxied by the weekly sight deposit data. Our priors have been confirmed: The SNB intervened in January as the CHF Real Effective Exchange Rate (REER) hit a new record high. The SNB has placed great store in the value of the REER as it becomes increasingly concerned by the impact on Swiss corporates. We continue to emphasise that the enhanced FX policy introduced at the SNB policy meeting in December is two-pronged: limiting FX sales and selling the CHF. Whilst the SNB has so far stopped short in characterising the CHF as “significantly overvalued”, further CHF strength may trigger such a response and we think the March meeting is “live” as the SNB has one eye on developments in ECB policy as well.

Looking at the numbers.

January Swiss FX reserves rose CHF8bn from December. As Exhibit 1 highlights, this is the largest %m/m increase in FX reserves since January 2022. On a y/y basis, FX reserves are still lower but we suspect the pace of declines will slow dramatically against the backdrop of this enhanced FX policy. As ever, valuation adjustments are important with the SNB portfolio composed of both bond and equities. Whilst the MSCI rose 1%, bond returns fell by 1.3% and according to our calculations, SNB reserves were approximately CHF660bn. This suggests some attrition on the headline number but the message is clear. The SNB has been intervening and comparing this to the valuation adjusted December reading, we estimate, that January interventions could be as large as CHF20bn.

We Remain Short CHF

Today's date reinforces our structurally bearish CHF call. We are positioned long GBP/CHF and long EUR/CHF through call spread structures (see: [Global FX Weekly](#) for a full list of open/closed trade). Though the GBP/CHF has a large cyclical element to it, the trade is enhanced by the significant CHF overvaluation. The SNB will not stop here as they guide CHF lower. Swiss CPI data on 13th February will be a key event. Further slippage in headline inflation emboldens the SNB to continue to weaken CHF. There is also the risk to base case scenario that the SNB cuts sooner rather than later. All in all, CHF remains our funding currency of choice in carry trades.

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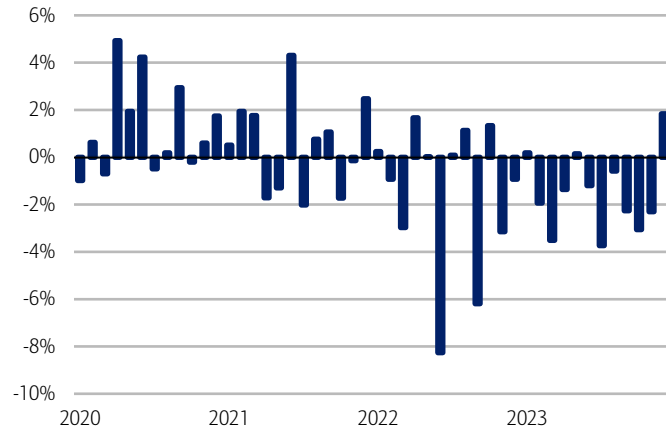
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SNB – Swiss National Bank

Exhibit 1: % M/M Change in Swiss FX Reserves

Build in Swiss FX Reserves largest since January 2022

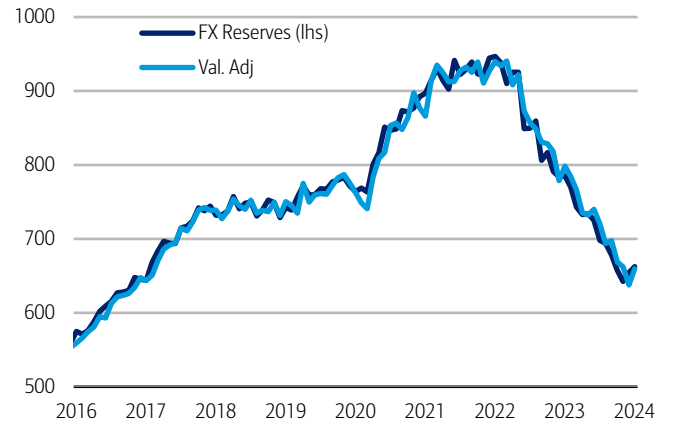


Source: BofA Global Research, Bloomberg

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Exhibit 2: Swiss FX Reserves. Nominal vs Val adjusted.

Val adj still suggests that SNB intervened



Source: BofA Global Research, Bloomberg

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