

FX Alpha

Buy EUR/CHF

Key takeaways

- We take opp to fade recent vol spike in EUR/CHF buying opening a 1x1.5 ratio call spread in EUR/CHF. Trade costs 0.53% EUR
- SNB symmetric reaction function implies intervention to weaken CHF or (more likely) less FX sales to taper balance sheet
- CHF strength on TWI basis not as important as once was as a tool to ring fence Swiss economy from global inflation

The trade

We recommend buying 3mth 1x1.5 EUR/CHF ratio call spread options. Using spot ref: 0.9320, buy a 3mth EUR/CHF 1x1.5 ratio call spread, strikes 0.9320 vs 0.95 using vol refs: 5.8% (0.9320) and 5.25%/6.46% (0.95). Trade cost 0.53% EUR. New language on FX policy response is more symmetric and year-end CHF strength expected to fade. Risks are that SNB takes a more benign approach to CHF strength should inflation remain elevated. For a complete list of our open/closed trades over the past year, please see here: [Global FX weekly: Ending the year with a bang 15 December 2023](#)

A strong end to 2023.

Having already established itself as the G10 outperformer in 2023, CHF strength has been further enhanced by a strong close to December. We would attribute this to month-end rebalancing flows rather than a directional play for lower EUR/CHF. The SNB is concerned enough with the strength in both nominal and real TWI that it has tweaked the language around FX with a more symmetric bias (see: [European Watch: SNB review: neutral FX stance 14 December 2023](#)). The two key messages are as follows: 1) the need for an excessively strong CHF to ring-fence Switzerland from global inflationary pressures has abated; 2) whilst the symmetrical language on FX raises the chances of intervention to weaken CHF, more likely is that FX sales to taper the balance sheet (which is still around 100%) is likely to be the path of least resistance.

We are likely to learn much more over the coming week with the release of key data: 03-Jan: Sight deposits (Dec 29th); 08-Jan: CPI (Jan); 09-Jan: FX reserves (Dec). Of the three, the sight deposit data will once again be back in play. Having declined from CHF750bn to currently stand at CHF462bn, we will be watching these dynamics closely – recall sight deposits have historically been a good lead indicator into SNB intervention activities to weaken CHF in previous years. The transparency around intervention will as usual be rather opaque until the official FX reserves data has been released.

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