

FX Watch

Swiss FX Reserves: Steady

Key takeaways

- Key focus on Swiss FX Reserves to gauge SNB appetite to sell FX. Data suggests SNB slowed the pace of FX sales.
- Combined with increase in sight deposits, evidence suggests a more symmetric response to CHF strength. Keep long EUR/CHF.
- Reiterate that tapering FX sales effective to be more likely response to CHF strength than CHF selling.

Signs of slowing FX sales

The December release of Swiss FX reserves has been widely anticipated for signs that the enhanced language on CHF was being put into practice. Recall that at the December Monetary Policy (MP) meeting, the Swiss National Bank (SNB) adopted a more symmetric approach to CHF, stating that it was prepared to intervene on either side. Much of the previous 18 months had been spent arguing that a strong CHF was needed to ring fence the Swiss economy from the worst excesses of global inflation tailwinds. In combination with rate hikes, the SNB has sold close to CHF300bn in FX and reduced its balance sheet from 143% GDP to 100% GDP. This wall of money has been an important dynamic in CHF price action, helping to propel it to the strongest G10 currency versus USD in 2023. With the change in language, markets have been focussed on how this has translated into FX selling and sight deposits.

Evidence is building

The SNB sight deposit data gave us some (albeit inconclusive) evidence of this change in tone. Exhibit 1 shows the 1-week change in SNB sight deposits, which grew for the week ending January 5. The CHF6bn rise was the largest since July 2023, leading the market to conclude that the SNB has been actively selling CHF. We are somewhat more sceptical that this is indeed the case and would prefer to wait for more evidence (another weekly rise or the February data). Nonetheless, taken in conjunction with the release of December FX Reserves data and subsequent CHF price action, we think that this market is interpreting the combined data set to mean that the pace of FX sales has slowed whilst the SNB has been intervening to weaken CHF. Headline FX reserves rose CHF653bn from CHF642.4bn. During that time, the MSCI Index rose 5%, whilst CHF TWI rose 3%. Applying valuation adjustments, we estimate that CHF reserves are nearly CHF20bn higher than valuation would imply (Exhibit 2). Based on our numbers, we believe that there is reason to believe that the SNB has slowed the sale of FX exchange.

Focus on Reserves than Deposits

We reiterate the case for a higher EUR/CHF. The basis of that view is not entirely premised on the view that the SNB will intervene to weaken the currency. Rather, the more effective strategy, in our view, would be the reduction in FX sales, which has been a significant tailwind for the CHF over the past 18 months.

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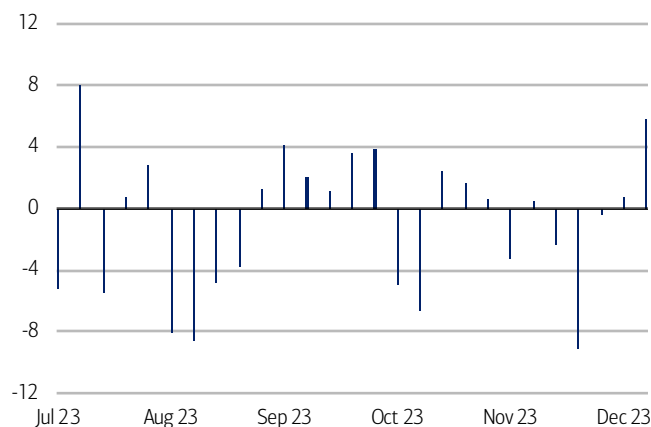
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We liken the SNB decision to sell FX in large quantities to a large reserve shift by central banks. Both have a similar impact on markets – dislocation of currencies from their fundamentals but some mean reversion once the flow has stopped. We would see this as a far more significant tailwind to CHF weakness than intervention to sell the CHF. Arguably, the monthly FX reserves numbers will be more important than the weekly sight deposit data.

Exhibit 1: 1-week change in SNB sight deposits CHF bn

Largest 1-week build in deposits since July 2023

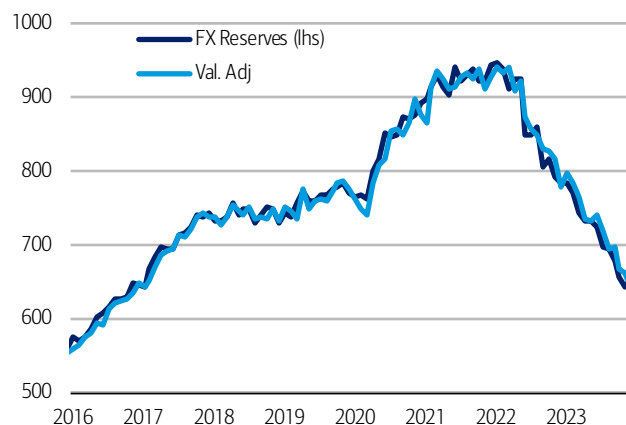


Source: BofA Global Research, Bloomberg

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Exhibit 2: SNB FX reserves, actual versus valuation adjustment, CHF bn

Reserves rose by more than valuation adjustment implies



Source: BofA Global Research, Bloomberg

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