

## FX Alpha

## Buy GBP/CHF via 2m risk reversal

## Key takeaways

- The Trade: Buy 2mth 1.10/1.13 GBP/CHF risk reversal. Skew remains heavily discounted for GBP puts.
- Sharp squeeze in GBP/CHF positioning makes holding longs more attractive with UK rates pricing out near-term easing.
- Relative inflation argues for a slower normalisation in UK policy rate vs SNB. CHF a more reliable carry short than JPY.

## The trade

Using spot ref 1.1213, buy 2mth 1.10- and 1.13-strike GBP/CHF risk reversal (initially receive 0.074% GBP, vol refs 7.342 and 7.464 for the long 1.13-strike call and short 1.10-strike put, expiry Oct 17 2024). Option skew remains wide for GBP puts. Risks to the trade are renewed volatility/geo-political concerns.

## Dipping back into long GBP/CHF

Long GBP/CHF has been a core piece of our carry theme since the start of the year. At its peak, this trade would have delivered nearly 10% in spot returns. But H2 has proved more difficult, culminating in the brutal 8% sell-off through Jul/Aug. The squeeze has had little to do with the relative merits of GBP vs CHF but more a reflection of the contagion impacts of the unwind in JPY crosses. Some semblance of normality has returned to markets and GBP/CHF is now off the lows. We still think the trade makes sense on many levels, not least because of the relative shift in positioning: IMM data reveals a sizeable squeeze in both CHF shorts and GBP longs (Exhibit 1, Exhibit 2). At one point, GBP/CHF longs stood at record high levels. Our proprietary signals also suggest the market has room to add to GBP/CHF longs (see report: [LCBF 19 Aug '24](#)). With increased two-way risk around JPY, CHF offer perhaps the best alternative for the funding leg of carry trades, in our view.

## The fundamental case

The arguments for a higher GBP/CHF remain valid – though both central banks have eased this year, the relative inflation outlook – Switzerland is undershooting its target – whilst UK inflation (across a number of metrics) remains elevated. Higher for longer UK rates vs further SNB policy easing and interventions suggest to us that GBP/CHF should benefit from relative policy divergence. Whilst our options structure is relatively short-term, relative valuation and rising concerns about the impact of a strong CHF on local corporates will keep the SNB alert for further signs attrition (see report: [FX Watch: CHF: Calm after the storm 19 August 2024](#)). The UK remains the growth story of 2024 with our UK economics team revising 2024 GDP forecasts to 1.1%. Above-trend growth in H1 with upside risks in H2, potential labour market tightening going forward and lingering inflation persistence risks point to a slow easing cycle.

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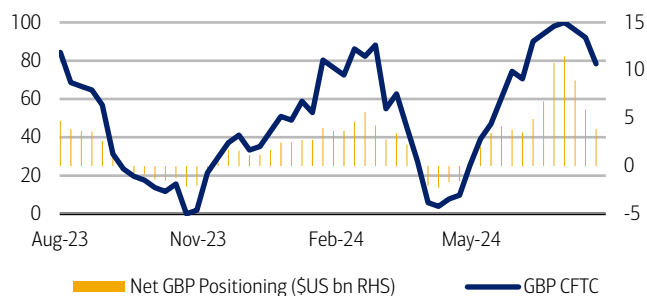
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**Exhibit 1: GBP COT (Commitments of Traders) report**

GBP longs somewhat pared back according to COT report...

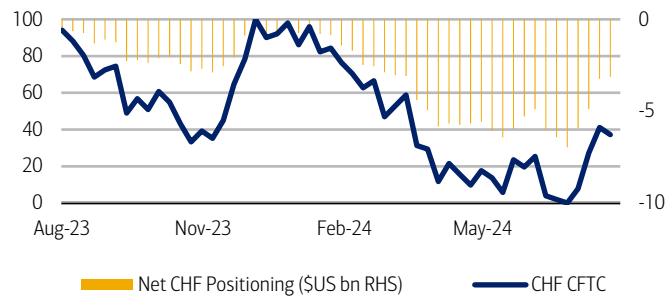


Source: BofA Global Research, Bloomberg

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**Exhibit 2: CHF COT (Commitments of Traders) report**

...and so are CHF shorts



Source: BofA Global Research, Bloomberg

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## Options Risk Statement

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