

WYSS & PARTNER

Swiss National Bank abandons minimum exchange rate

In a completely surprising move The Swiss National Bank (SNB) decided to abandon its minimum exchange rate policy of 1.20 to the Euro. At the same time the negative interest rate of -0.25% on sight deposit account balances at the SNB was changed to -0.75 %.

The first market reaction was impressive:

- Swiss Franc up by roughly 14 percent against almost all currencies
- Stock market (SMI) down by 10 percent
- Yield on 10 year government bond down to 0.08 percent from 0.18%

With that decision the SNB is decoupling from the monetary policy of the **European Central Bank (ECB)**. **It's well known that ECB is entering a probably longer lasting policy phase of quantitative easing thereby "producing" downward pressure on the currency.** Obviously, unlimited intervention by the SNB in the case of a minimum exchange rate would have raised the potential economic damage to unacceptable levels for the National Bank.

The direct effects on the Swiss economy are:

- One time drop of price level resulting in a negative inflation rate
- Negative effect on exports
- Lowering GDP growth by probably less than 1%

The short term effects on a USD portfolio:

- Loss on Swiss equities but gain on Swiss currency which more than offset the loss
- All other currency exposures are not affected

Financial markets overreacted to the news and we expect normalization at different levels from today:

- CHF will tend to weaken over time towards 1.10 vs Euro and 1.0 to the USD driven by interest rate differential, worsening economic fundamentals and potential market intervention by the SNB
- Swiss companies operating global with low CHF exposure are hardly affected. The current slump in stock prices could be an attractive entry point

Wangs, 15 January 2015



Wyss & Partner
Vermögensverwaltung und
Anlageberatung AG

Bahnhofstrasse 17
7323 Wangs, Schweiz
P +41 81 720 06 88
F +41 81 720 06 89
info@wysspartner.ch
www.wysspartner.ch