

Swiss franc sinks after Credit Suisse moves on deposits

News analysis

The bank's decision to charge some clients to hold the currency is unlikely to change the fundamentals, writes **Alice Ross**

The "chocolate monster" is roaring. That is how foreign exchange analysts are describing the unusual flurry of activity in Switzerland's currency this week, after Credit Suisse said it would charge its institutional banking clients for the privilege of holding Swiss francs.

The franc fell to its lowest level in three months against the euro on Wednesday as traders speculated that more banks could follow suit and impose negative interest rates on deposits.

The move was a reminder of the pressure Switzerland is facing over its strong currency. The Swiss National Bank has been forced to accumulate tens of billions of euros on its balance sheet this year as it has battled to weaken the franc and protect its ceiling of SFr1.20, the level at which it has vowed to buy euros to help its struggling exporters.

When the European Central Bank outlined its plans in September to buy government bonds to address the eurozone crisis, the upwards pressure on the Swiss franc disappeared virtually overnight. Since then, the franc has gradually strengthened, although there has been no more pressure on the SNB to intervene in the currency markets.

This week's move, then, caught many traders by surprise. But any weakening in the Swiss haven

could be shortlived. Those holding franc deposits say they are more determined than ever to keep their insurance against a collapse of the single currency.

To start with, there has been no talk of negative interest rates being applied to accounts held by individuals.

The move by Credit Suisse, which will in effect impose negative interest rates on large short-term cash deposits from other banks, is widely seen as a way for banks that are under pressure to meet new capital requirements to cut costs. Overnight deposits take up capital and provide little return for the banks, as interest rates in Switzerland are already so low. UBS has operated a similar policy since August 2011,

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**Charles MacKinnon,
Thurleigh Investment
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although it only announced the move to a select number of clients and avoided the publicity that Credit Suisse attracted.

Some are speculating that the move by Credit Suisse could pre-empt a similar move by the SNB when it meets next week, with some analysts warning the central bank could impose negative interest rates on deposits from Swiss commercial banks.

Others are pointing to huge long positions in francs already built up that could now be due to unwind, with analysts at Deutsche Bank saying the move by Credit Suisse could be the trigger.

Yet many private client wealth managers are still a

long way from dumping their francs.

"Haven inflows from private clients have tailed off since September but they are certainly not going the other way," says Geoffrey Yu, foreign currency strategist at UBS.

Indeed, holding francs as a hedge against a eurozone break-up is still viewed as a worthwhile strategy among private clients. "For the private individual, holding francs is as a close to a riskless trade as you get," says Charles MacKinnon, founder of London-based family office Thurleigh Investment Managers.

Kehrli and Zehnder, a Zurich-based family office, still tells all its international clients they should shift their euros into franc deposits, because the SNB's promise to hold the ceiling it has in place against the euro is so credible.

"We still think that there could be a break-up of the euro," says partner Dominik Zehnder.

Meanwhile, trade in the Swiss franc has dried up as investors have shunned the currency. Insight Investment's currency team stopped trading the franc this year, arguing that low volatility made it uninteresting. That lack of liquidity means the franc is subject to sharp moves, such as those seen this week.

For the SNB, Credit Suisse's move offers an opportunity. The SNB could take advantage of the weakening in the franc this week to offload further euros from its balance sheet at a better price, having bought the euros close to SFr1.20.

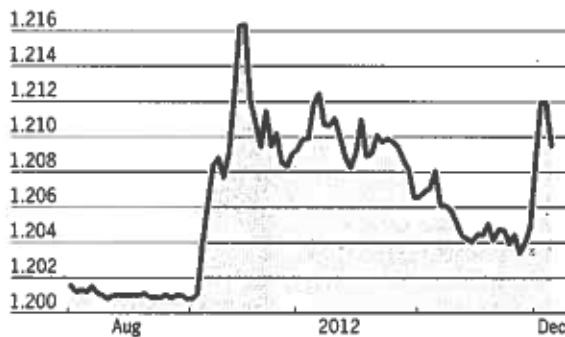
If so, it might have to move quickly. The euro was under pressure again yesterday after the ECB struck a more dovish tone, leading investors to speculate it could cut rates again. That led to a corresponding rise in the Swiss franc against the euro.



For the SNB, Credit Suisse's move could offer a chance for it to offload further euros at a better price

Bloomberg

Swiss franc
Against the euro (SFr per €)



Source: Thomson Reuters Datastream

Swiss foreign currency reserves
SFr bn

