Swiss franc: Unusual bearish forces emerge

US sanctions on Russian-related Swiss investments weigh on the franc, China's yuan dips after a cut in the reserve requirement ratio and the euro slips ahead of CPI data

Source: iStockphoto

USD: Nervous Goldilocks returns as PBoC eases & US-North Korea open talks

In a welcome breather from the mercurial President, global markets have found solace in the PBoC's surprise cut to its reserve requirement ratio (note Chinese banks may end up using most of the extra liquidity to pay off their more costly MLF loans). Still, direct talk between the US and North Korea – albeit at 'extremely high-levels' according to the President – may also be providing a buffer to some of the trade and geopolitical angst that has weighed on global risk appetite. It's difficult to see these rosy conditions lasting given the number of Trumpian risks out there – but investors may look to make hay while the sun shines.

EUR: Absent any Eurozone or UK CPI blips, EUR/GBP may make a dash towards 0.86

The ZEW survey of Eurozone growth expectations fell to its lowest level since July 2016 (post-Brexit), which may be a fairly ominous sign of what to expect at the April ECB meeting; the next set of PMI releases early next week will be crucial to see if Eurozone business activity is also suffering from a short-term dip in confidence owing to a shaky geopolitical backdrop. Ahead of this, we'll get Eurozone CPI data today (final release for March). We also get the latest UK CPI data; worth noting that in this post-Brexit environment UK inflation data tends to send an ambiguous signal for markets – with higher inflation not necessarily GBP positive (need to balance possible BoE tightening risks with weaker activity due to a further squeeze in UK household incomes). Bar a huge CPI miss, look for GBP to stay resilient at these elevated levels; risks are that EUR/GBP makes another dash lower towards 0.86.

CHF: Unusual bearish Swiss franc factors have set EUR/CHF en route to 1.20

EUR/CHF continues to post fresh highs and is trading almost touching distance away from 1.20 – the level which the Swiss National Bank had fixed the currency pair at prior to abandoning the peg in Jan 2015. Though the perennially dovish SNB and CHF's funding currency appeal amid returning carry appetite are logical explanations, we note two more unusual factors that might also account for its recent underperformance: (1) US sanctions on Russian-related Swiss investments (note 14% of total Russian cross-border outflows in 2017 were to Switzerland – almost three times that of the US); and (2) the 'Vollgeld Initiative' referendum on June 10 – a contentious, and potentially detrimental, national vote on whether to abandon the current fractional-reserve banking system. Swiss Finance Minister Ueli Maurer presented the government's arguments against the proposal yesterday, while the SNB also argue that 'growth and prosperity could be jeopardised' under this new radical system. Both reasons are providing food for thought for CHF investors.

CAD: Prior BoC, NAFTA & oil headwinds have turned into strong tailwinds

The Bank of Canada meets today with the central bank broadly expected to stay on hold (only two out of 23 economists surveyed by Bloomberg are looking for a 'surprise' hike). The more applicable question is whether Governor Stephen Poloz signals sufficient confidence over the economic outlook – as well as hopes for a NAFTA deal – such that investors raise their odds of a May BoC rate hike (currently 46% probability priced in). We'll need a fairly explicit hawkish signal from the BoC to trigger any material gains for the Canadian dollar – though with NAFTA talks, higher oil prices and lower risk aversion all turning into tailwinds for the currency, we still think that the balance of risks is titled towards USD/CAD drifting back down to 1.2400/50.

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