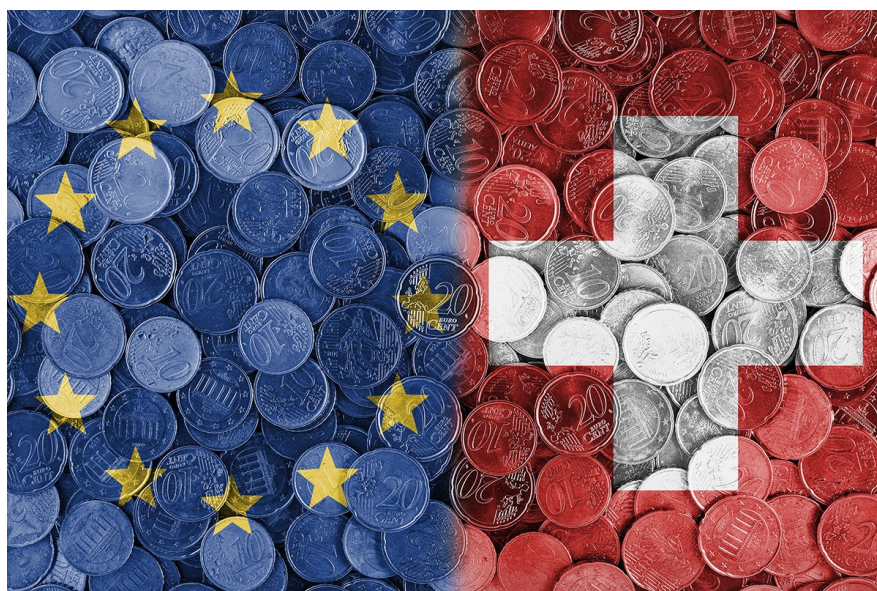


EUR/CHF: A big vote of confidence in the recovery

One of the big moves in FX markets this week has been the upside break-out in EUR/CHF, which has now traded up to the highest levels since October 2019. This is a big vote of confidence in the global recovery, and we see EUR/CHF on track to meet our year-end forecast at 1.15



Source: Shutterstock

Break-out!

In terms of characteristics, the CHF certainly sits in the bucket of low-yield defensive currencies, similar to the JPY.

The Swiss central bank policy rates have been deeply negative (at -0.75%) ever since the Bank abandoned the 1.20 EUR/CHF floor in 2015. Despite this deeply negative rate, EUR/CHF has largely stayed under pressure since March 2018 – when Donald Trump fired the opening shots of the trade war.

Lows were made near 1.05 in April 2020 at the height of pandemic pessimism. The SNB has been trying to resist CHF strength with FX intervention – arguably the only marginal tool left in the

central bank's monetary toolkit. Indeed, the massive FX intervention undertaken by the Bank last year (FX reserves grew CHF130bn last year) prompted the US Treasury to label Switzerland a currency manipulator.

However, everything has changed this year. As confidence is growing in the global recovery (inflation, not growth fears are now dominating), we suspect investors are re-assessing their need to hold precautionary CHF long positions.

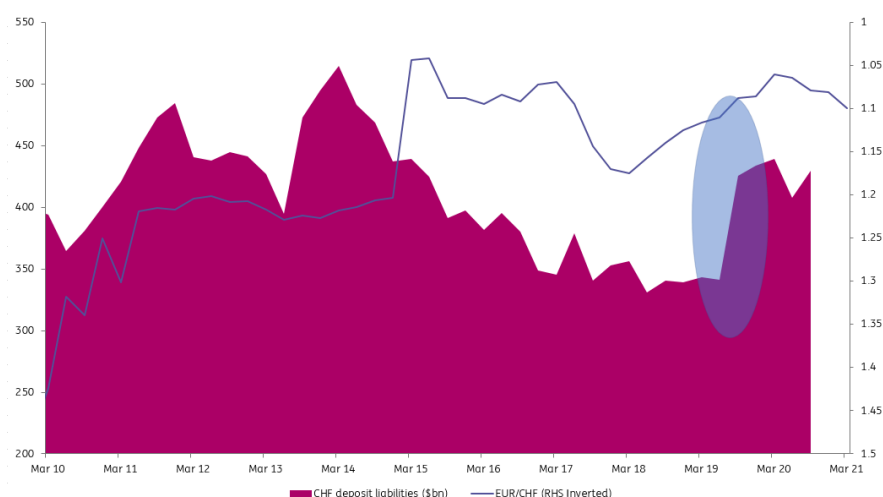
One chart that has driven our thinking on the CHF has been the amount of precautionary capital sitting in the CHF

One chart that has driven our thinking on the CHF has been the amount of precautionary capital sitting in the CHF. Trying to gauge this is a difficult task, but we think BIS data on reporting banks' liabilities by currency is a good starting point. Here all BIS reporting banks every quarter report on their stock of liabilities by currency, where those liabilities are largely deposits.

What we'd like to highlight in the chart below is a) the build-up in CHF deposits that led to a break in the EUR/CHF floor in 2015 and b) the sharp build-up in CHF deposits in 3Q19 at the height of the US-China tit-for-tat trade war (USD/CNY traded close to 7.20 in that window). CHF deposits rose \$84bn in that quarter alone and crucially appear to have been retained up until the most recent data in 3Q20.

As trade war and global recession fears recede, we expect further unwinding of those precautionary CHF long positions. Recall that EUR/CHF was trading close to 1.20 before the trade war began in March 2018.

CHF deposit liabilities: Lots to unwind?



Source: BIS, ING

Speculators caught long CHF

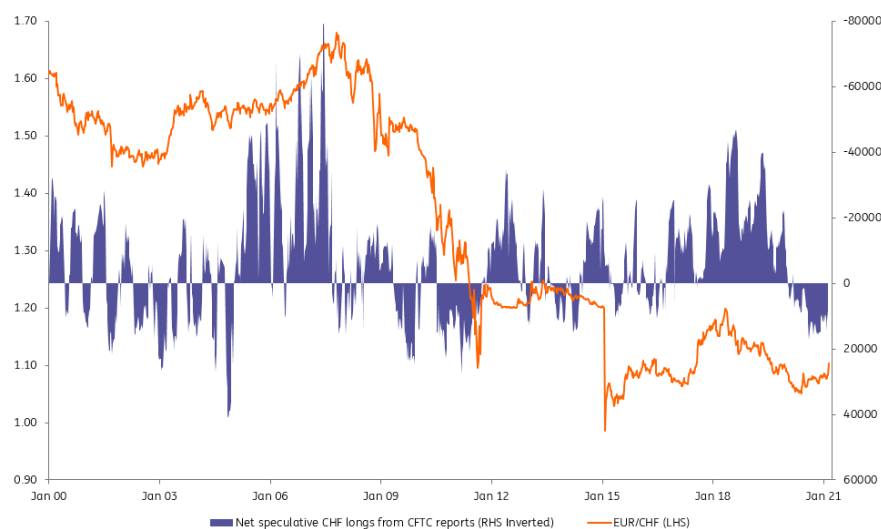
In addition to the positioning data provided by the BIS deposit liability data, the more conventional

positioning data provided by the CFTC makes the point that speculators have been running long CHF positions since late 2019 and [have only recently started to trim them](#).

Below we show a long-term graph on EUR/CHF largely to make the point that speculators typically run large net CHF short positions during benign periods for financial markets – most recently in late 2017 and into early 2018. But also in 2005-2007, when a synchronized global recovery drove Brent through \$100 (sound familiar?).

And certainly, that's some of the thinking behind our 1.30 end-year forecast for EUR/USD.

CHF positioning: Long and wrong



Source: Refinitiv, ING

In short, just as GBP is currently witnessing a re-rating of UK growth prospects and a short-squeeze, confidence in the global recovery could easily see speculators swing from net long positions in CHF to net short. This adjustment looks like it has a lot further to run.

We would also say that short GBP/CHF had been a very popular trade around Brexit and that the removal of the Brexit risk premium is probably playing a role in this CHF adjustment too.

For EUR/CHF, we introduced a 1.15 end year 2021 target as part of [our 2021 FX Outlook Back on Track](#). Given that we're already at 1.10, we may not have to wait until year-end to see 1.15.

[2021 FX Outlook: Back on Track](#)

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.