

## Swiss franc: Another populist referendum

A vote in Switzerland on Sunday could have significant implications for the franc



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### ↓ USD: High yield FX enjoying recent stability in US rates

The recent pause in US rates and the drop in oil prices have allowed some breathing room for high yield FX, where the likes of the South African rand, Turkish lira, Indian rupee and Indonesian rupiah have been correcting to their best levels since the Turkey-inspired sell-off in August. While emerging market equity performance may not suggest it, ETF flow data suggests investors are looking for value in emerging market equities and have over the last week put nearly US\$1 billion into the iShares IEMG ETF, which tracks the MSCI EM equity index. That rotation into EM is typically a mild dollar negative across the board, but clearly, the euro is saddled with quite a few problems (there is no sign of an end to the negative rate environment) and that's why short EUR, long high yield FX trades have been performing well. We see this trend extending into next week, but have a house view that this is a temporary correction lower in US rates and that they should be retesting the highs by year-end. This temporary dollar correction can extend a little further against EM, but the heavily Europe-weighted DXY probably finds support ahead of the 96 area.

### → EUR: First look at the November PMIs

As above, the euro has so far been unable to take advantage of the better EM environment and today's data may well cement this trend. Germany's 3Q GDP has already been confirmed at -0.2%

quarter-on-quarter (largely hit by net exports) serving as a reminder that the open economy of Europe has the most to lose from trade wars. Look out for November PMIs across the region today, which have effectively nosedived through 2018. As [Peter Vanden Houte wrote yesterday](#), the December ECB meeting could see risks emerge over the growth outlook. We now see EUR/USD in a 1.12-1.15 trading range until year-end.

## ↓ GBP: Outsized rally on the political declaration. Seems overdone

We think yesterday's GBP rally on the positive political (non-binding) declaration looks overdone. We doubt this secures a passage of the EU withdrawal bill at its first attempt in UK parliament, hitting GBP. Increasingly it seems this may have to go to a second vote, perhaps as late as next February. More GBP volatility – and probably a weaker GBP – look likely into early next year. No wonder the FX options market is treating GBP like an EM currency.

## ➔ CHF: Should Swiss law trump international agreements?

Swiss voters hold another referendum on Sunday (these are regular occurrences in Switzerland) – this time on whether Swiss law should take precedence over international treaties. As [Charlotte de Montpelier writes](#), the vote has been proposed by the Eurosceptic Swiss People's Party (SVP) to effectively 'take back control'. (Sounds familiar to those of us in the UK). The implications for Swiss markets are that a yes vote would complicate negotiations between Switzerland and the EU. Among other things, it would question the equivalence treatment of the Swiss stock market in Europe. While one could argue that Switzerland's large net international investment position means that European financial markets have more to lose than Switzerland, we would however see the Swiss franc coming under pressure in the surprise outcome of a 'Yes' vote. Let's see how the vote goes.

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