

Swiss franc: Highly valued or significantly overvalued?

The Swiss National Bank announces its policy decision this morning. No change is expected. Instead, the focus will be on its description of the Swiss franc



Source: iStockphoto

USD: Fed's measured cuts not enough to dent the dollar

The Federal Reserve cut the policy rate by 25 basis points yesterday, but disappointed some dovish expectations (and President Trump) by: (i) presenting a Dot Plot with no more rate cuts and (ii) not really addressing the squeeze in dollar liquidity this week. [As James Knightley writes](#), a divided Fed underwhelmed, although we think it will have to cut again in December. The 2-10 year Treasury curve flattened 5bp, telling us that the Fed is following, and not ahead of, the global slowdown, which generally creates a backdrop for dollar stability/strength against pro-cyclical currencies. [As we've discussed before](#), we think dollar yield spreads are still too wide against major trading partners for a Fed cut to hit the dollar. It will probably take another 50bp of Fed rate cuts before yield spreads start to make much of a difference in dollar pricing. For today, the market will keep one eye on overnight USD repo rates since the Fed still feels the need to conduct another liquidity operation today and also focus on central bank decisions overseas. DXY looks to stay bid in a 98.00-98.50 range.

➔ EUR: Focus on EUR/NOK

EUR/USD looks set to continue in a 1.1000-1.1080 range again today, but EUR/NOK should be the focus – [especially if Norges Bank hikes](#) today. The market is split on whether Norges Bank will move, so a hike would probably be enough to send EUR/NOK briefly below 9.84 support.

➔ GBP: BoE's notional tightening bias won't help pound

Today's UK Monetary Policy Committee meeting should portray [a Bank of England with a bias to hike](#) should conditions allow it. They don't. Hard Brexit risks mean that neither sterling nor UK rates will get much of a lift today. Cable looks toppish around 1.2500/20.

⬇ CHF: Central bank to complain again about franc's strength

The Swiss National Bank announces its policy decision today at 0930CET. The market doesn't expect a change in the SNB's policy rate of -0.75% - even though the European Central Bank cut rates last week. The sense is that EUR/CHF hasn't collapsed, so the SNB will choose to keep its powder dry. Instead, there will be some focus on whether the SNB upgrades its concern to describe the Swiss franc as 'significantly overvalued' from 'highly valued'. Yes, the nominal trade weighted CHF hit an all-time high in August, but the real trade weighted CHF is still some 28% off its 2011 highs – the benefits of low Swiss inflation! Even if the SNB were to show more concern over the franc, we doubt EUR/CHF needs to climb much higher. The ECB is printing money again and the risk environment still looks fragile. No doubt, though, this will be a dovish press conference, with both growth and inflation forecasts cut. Yet we doubt there will be much appetite to take EUR/CHF through resistance at 1.1060/70 and instead expect it to drop back to 1.07/08 later this year.

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