



Swiss franc

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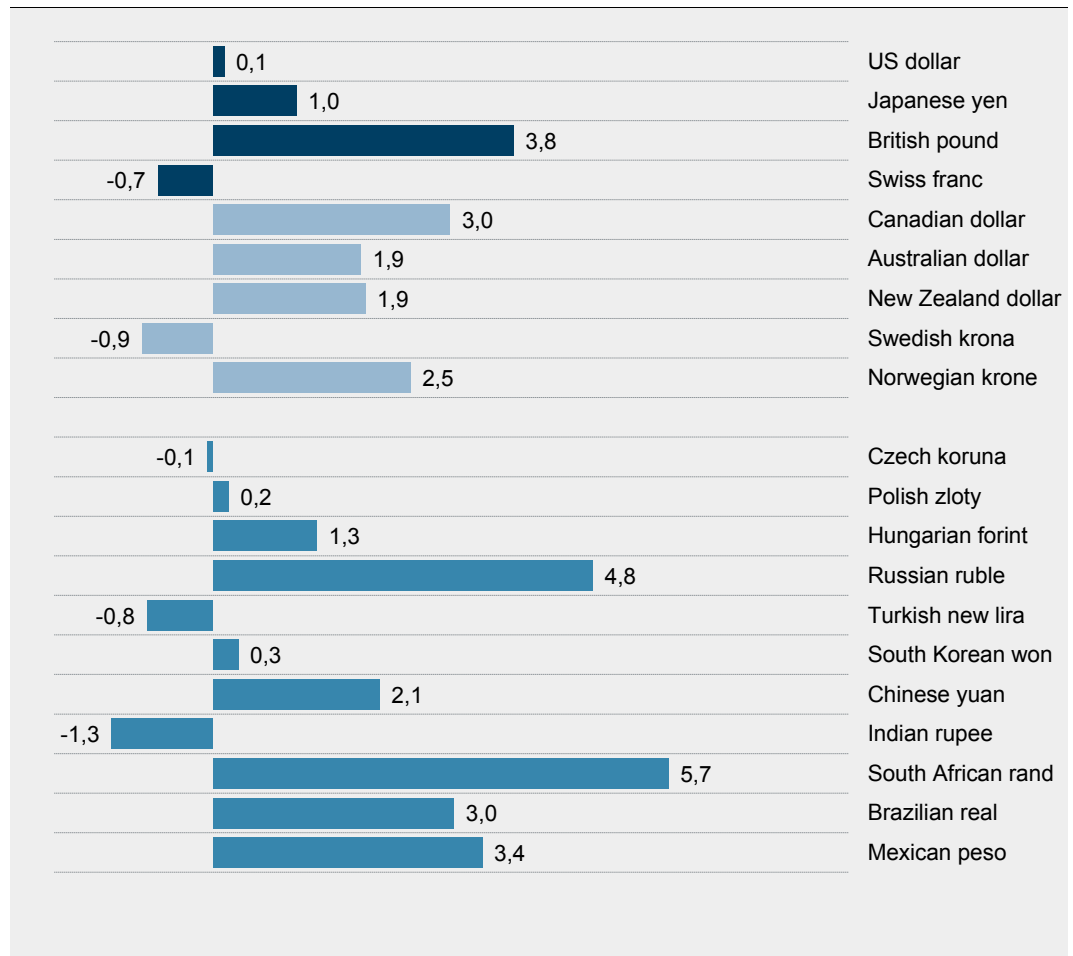
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- The Swiss franc was able to benefit only marginally from the uncertain environment recently. In the course of the year, some political uncertainties will presumably diminish and economic concerns will ease, so that the safe haven for investments will be less in demand. Should the ECB then reverse course on interest rates in the second half of the year, the euro-franc exchange rate should make a leap to 1.20.
- The British pound was able to gain substantially. Commodity currencies achieved gains, also. Above all, a few emerging market currencies appreciated quite substantially.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 12/28/18 to 01/28/19)



■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets

Sources: Bloomberg, Helaba Research

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CHF: gloomier prospects

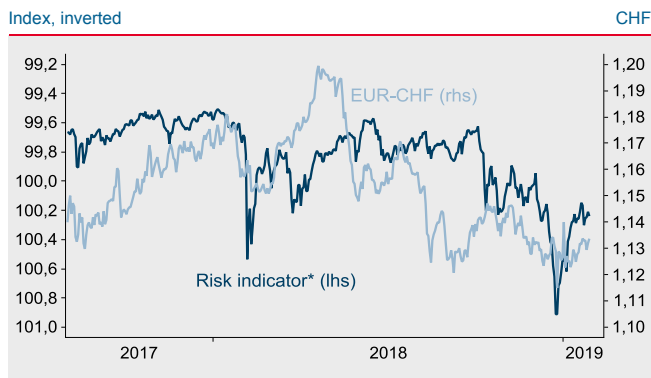
The Swiss franc is trading water. The euro-franc exchange rate is fluctuating around 1.13. And this even though the current environment for the Swiss currency seems favourable: various political uncertainties, economic worries, and nervous capital markets increase the attractiveness of this safe haven for investments. However, the Swiss franc gained only temporarily. In the course of the year, the currently difficult political and economic environment is likely to brighten, making the Swiss currency less attractive.

Have the political uncertainties peaked?

A major source of uncertainty is the trade conflict provoked by US President Trump. A real solution is difficult. However, Trump is currently fighting on several fronts, so even his willingness to compromise could grow. The outcome of the Brexit drama seems more open than ever. There will inevitably be decisions in the coming months, and a disorderly EU withdrawal is still not the most likely outcome. The dispute over the Italian budget shows that political situations do not always have to escalate – even if it has seemed that way in recent years. Italy's government has accommodated the EU somewhat, while the EU has shown itself to be merciful. The conflict has been defused for the time being, but the basic problem of Italian public finances has not. Still, the risk premiums on Italy's bonds have eased.

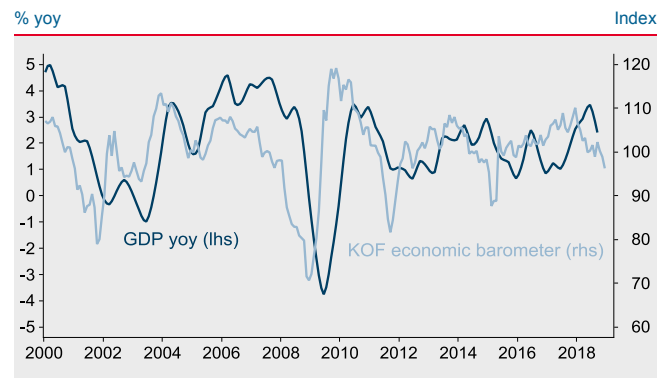
The difficult political climate is now having an impact on the economy. The purchasing managers' indices around the globe are in decline. Economic data was particularly disappointing in the euro zone, even though the weakness is exaggerated by a special effect from the automotive industry (WLTP). The labour market remains robust and will support private consumption. As political uncertainties ease, growth in the euro zone will regain momentum. As a result, concerns on the financial markets are likely to ease and risk appetite will increase – at the expense of the Swiss currency.

Franc profited only slightly as safe haven



* calculated from VIX, High-Yield Spreads, Gold-Copper Ratio
Sources: Macrobond, Helaba Research

Swiss economy losing momentum



Sources: Macrobond, Helaba Research

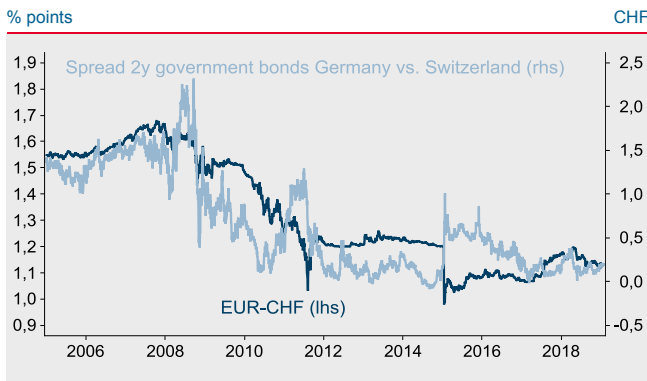
SNB keeps waiting and waiting

In 2018 the Swiss economy still recorded surprisingly strong growth of around 3 %. However, the signs of an economic slowdown in the second half of the year are unmistakable also in that country, as economic output contracted in the third quarter of 2018. In 2019, GDP is likely to grow by a maximum of 2 %. The downside risks are increasing, although positive impulses from the euro zone will make themselves felt in Switzerland. Inflation slipped below the 1 % mark due to the fall in energy prices. There is therefore little reason for the Swiss central bank (SNB) to make any changes to its expansive monetary policy. In any case, a turnaround on interest rates ahead of the ECB is not on the table, and the SNB will not implement it until 2020, at the earliest. The central bank is likely not intervening in the currency market at present. Its reserves have even fallen marginally, which is due to valuation effects.

Higher euro interest rates
in 2019

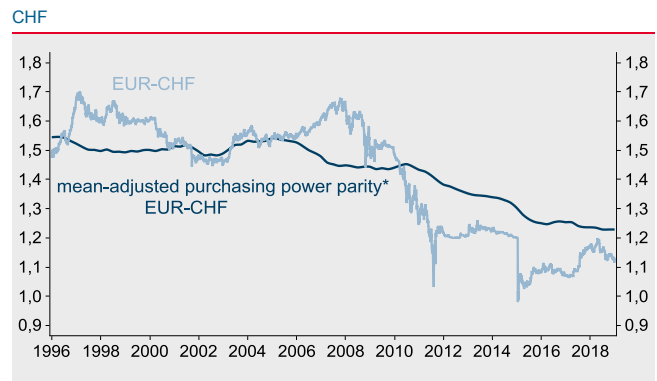
A decisive factor for the development of the euro-franc exchange rate is the development of interest rates. The euro currently has only a small yield advantage over the franc, but despite declining Bund yields in recent months, it has not shrunk any further. The Swiss yield disadvantage should increase in 2019. A prerequisite for this is not least that the hesitant ECB has the courage to bite the bullet and complete the turnaround in interest rates. Although the current difficult environment may cast doubt on this, the conditions for such a move are likely to improve, especially as such a move will only be on the table in the second half of 2019, in any case. With higher euro yields, the interest rate advantage against the franc will probably increase.

Higher Swiss yield disadvantage in case of ECB hike



Sources: Macrobond, Helaba Research

Franc remains overvalued



* PPP adjusted by the mean deviation of 20.7 %
Sources: Macrobond, Helaba Research

Euro-franc exchange rate
with potential to 1.20

In the short term, the euro-franc exchange rate is unlikely to make big moves. With political uncertainties easing, demand for the safe investment haven will decline in the course of 2019. Later, the prospect of higher euro interest rates should give the euro-franc exchange rate a boost. From a long term perspective, the Swiss currency is clearly overvalued against the euro anyway. The euro-franc exchange rate is likely to climb to 1.20 in 2019.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q1/2019	Q2/2019	Q3/2019	Q4/2019
vs. Euro (vs. Euro, %)							
US dollar	0,3	0,1	1,14	1,15	1,20	1,20	1,25
Japanese yen	0,7	1,0	125	125	128	128	132
British pound	3,5	3,8	0,87	0,85	0,85	0,80	0,80
Swiss franc	-0,7	-0,7	1,13	1,15	1,15	1,20	1,20
Canadian dollar	3,2	3,0	1,52	1,48	1,52	1,52	1,58
Australian dollar	2,0	1,9	1,59	1,55	1,60	1,58	1,58
Swedish krona	-1,9	-0,9	10,35	9,90	9,80	9,60	9,50
Norwegian krone	1,8	2,5	9,73	9,30	9,10	8,90	8,80
Chinese yuan	2,0	2,1	7,71	8,05	8,28	8,28	8,50
vs. US-Dollar (vs. USD, %)							
Japanese yen	0,3	0,8	109	109	107	107	106
Swiss franc	-1,0	-0,7	0,99	1,00	0,96	1,00	0,96
Canadian dollar	2,8	2,8	1,33	1,29	1,27	1,27	1,26
Swedish krona	-2,2	-0,7	9,06	8,61	8,17	8,00	7,60
Norwegian krone	1,5	2,3	8,51	8,09	7,58	7,42	7,04
Chinese yuan	2,0	2,0	6,75	7,00	6,90	6,90	6,80
US-Dollar vs. ... (vs. USD, %)							
British pound	3,2	3,7	1,32	1,35	1,41	1,50	1,56
Australian dollar	1,7	1,7	0,72	0,74	0,75	0,76	0,79

*28.01.2019

Sources: Bloomberg, Helaba Research ■