Swiss franc to underperform

- The Swiss franc has weakened in 2017 versus the euro
- It will probably decline in 2018 and 2019 as well...
- …because Swiss inflation is far below target,
- …the SNB is nowhere close in changing monetary policy...
- …and the franc is still overvalued
- Year-end 2018: EUR/CHF 1.17, USD/CHF 1.02

Higher EUR/CHF at last in 2017
All the efforts taken by the Swiss National Bank to weaken the Swiss franc, such as negative interest rates and currency market intervention, have finally paid off in 2017. The Swiss franc lost 8% versus the euro. This was mainly the result of general euro strength on the back of expectations of less policy accommodation by the ECB, strong eurozone economic growth and lower eurozone political risk. The Swiss franc often benefits in situations of higher political risks in the eurozone because it is considered a local safe haven currency. However, the Swiss franc has strengthened by 4% versus the US dollar so far this year mainly because of general dollar weakness. In this report we focus on the Swiss franc outlook for 2018 and 2019.

Swiss franc to edge lower in 2018
For 2018, we expect a modest recovery of the US dollar based on more positive dollar drivers and some euro weakness (profit taking by investors). It is likely that the Swiss franc will also weaken versus the dollar and euro for the following reasons. First, the Swiss National Bank (SNB) is far from changing its monetary policy. It still considers the franc as overvalued. The SNB said that negative interest rates and readiness to intervene in currency markets remain necessary to reduce the franc’s attractiveness for investments. In addition, inflation is well below target and it is unlikely that it will reach the 2% target in the coming two years. The purchasing power parity for EUR/CHF is 1.28. Moreover, Swiss economic growth has been disappointing in 2017 and it is unlikely that it will strongly take off in 2018.

Second, the Fed will continue to normalise interest rates. We expect two rate hikes of 25bp while financial markets currently have priced in only one rate hike of 25bp.
Third, we expect investor sentiment towards the eurozone to remain constructive in 2018 and this will probably weigh on the franc. However, political uncertainty in Italy (elections) could result in temporary higher demand for the franc. It is likely that the Swiss National Bank will dampen the strengthening of the Swiss franc. So we expect a modest rise in USD/CHF and EUR/CHF in 2018.

Swiss franc still overvalued

![Chart showing Swiss franc overvaluation](source: Bloomberg, ABN AMRO Group Economics)

…and inflation far below the 2% target

![Chart showing low inflation](source: Bloomberg, ABN AMRO Group Economics)

**More weakness versus euro in 2019**

In 2019 we expect more depreciation of the franc versus the euro. This is because ECB rate hike expectations will be back in focus and this should support the euro. The Swiss National Bank is nowhere close to tightening monetary policy because of low inflation in Switzerland. So the SNB will lag the ECB in hiking interest rates. This will result in upward pressure on EUR/CHF.

**Our CHF forecasts**

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Source: ABN AMRO Group Economics
Find out more about Group Economics at: https://insights.abnamro.nl/en/

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