

IS THE SWISS FRANC STILL A SAFE HAVEN CURRENCY?

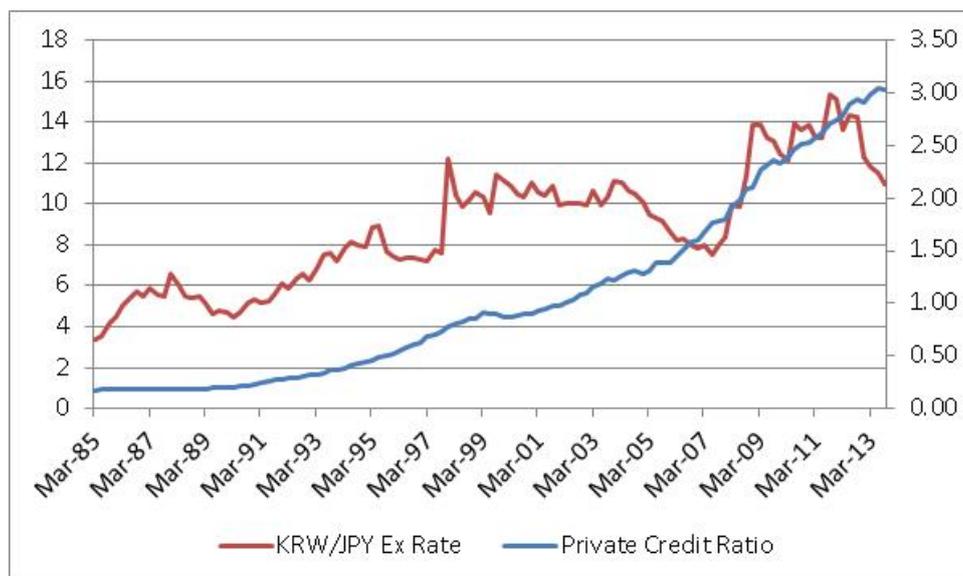


Russell Clark's
Market Views

“The Swiss franc attracted money during the Eurocrisis from investors seeking European currency exposure, but not in the Euro. As the Eurocrisis has ebbed, the Swiss franc has remained conspicuously strong.”

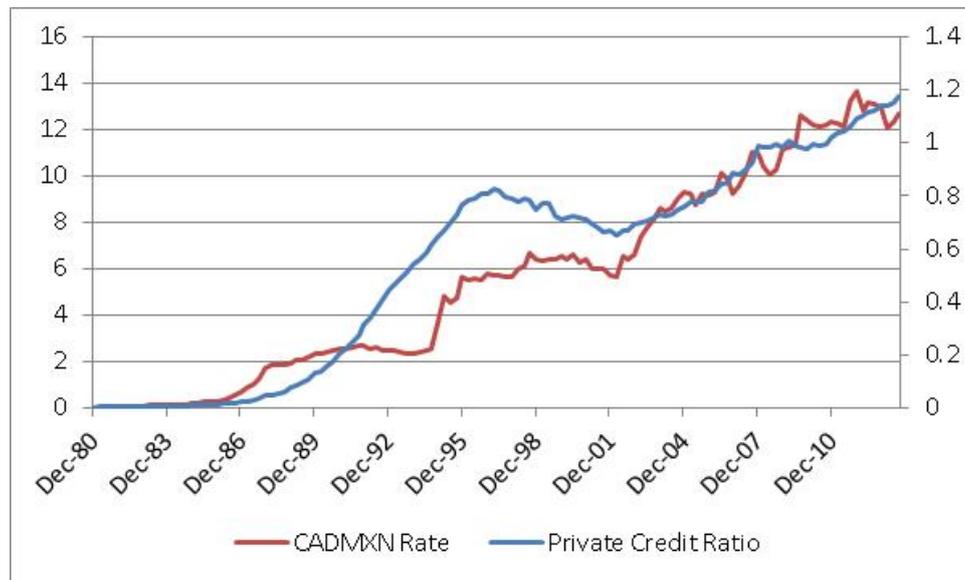
Most fund managers don't like to think about currencies too much. The thought is generally consigned to the “too hard” basket. But my observation is that in periods of market crisis, it is currency movement that often causes the largest loss of capital, and hence I tend to focus heavily on currency moves and their causes.

One currency pair that has caused many fund managers heartache over the years has been Japanese yen versus the Korean won. Both have similar economies and current accounts, but Korea has higher growth and higher interest rates, leading many managers to favour the won over the yen. This has generally not worked well with the won having major sell offs in both 1997 and 2008, and generally trending weaker against the yen. The reason for this in my view is that Korean corporates have been much keener on borrowing than Japanese corporates. The Korean borrowing has created more won than yen, and has hence pushed down the won versus the yen. Below I present the level of private sector credit in Korea divided by the level of private sector credit in Japan with data taken from the BIS website.



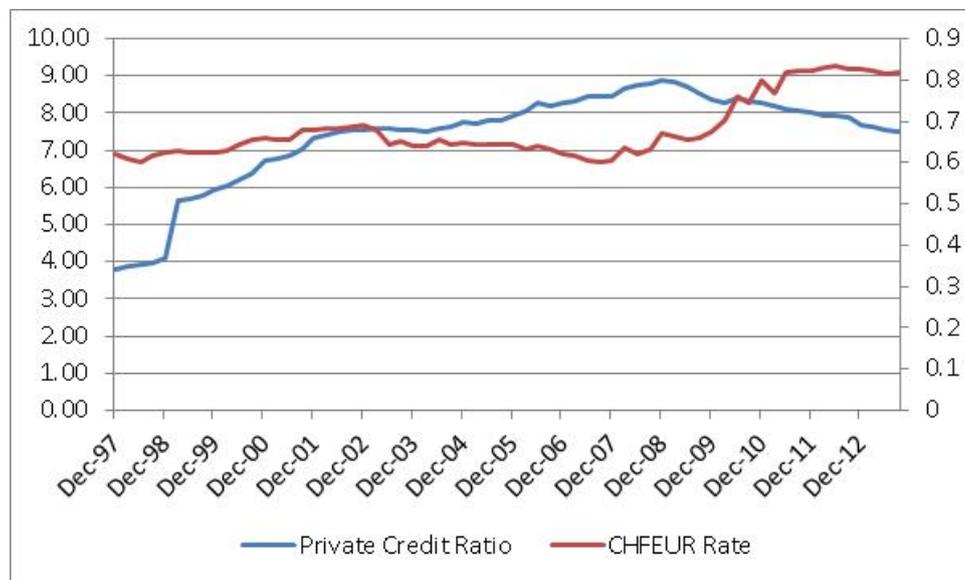
The private credit ratio suggests that the yen is too cheap versus the won at the moment.

Using the Private Credit Ratio also explains other currency pairs such as Canadian dollar versus the Mexican peso. Both sell the majority of their exports to the US and have large oil export sectors.



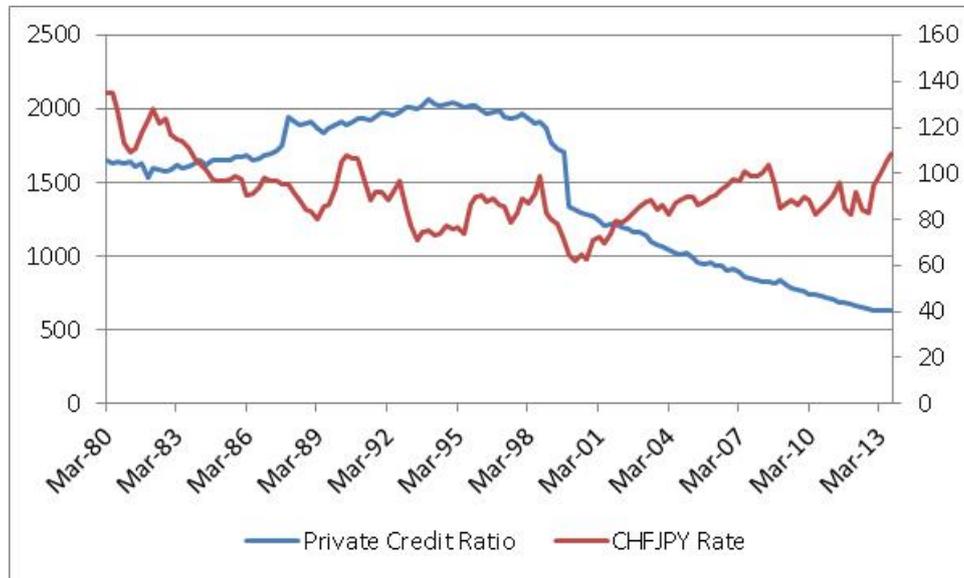
This implies that current market views of bearishness on the Canadian dollar and bullishness on the Mexican peso are slightly contradictory. If you are bearish Canadian dollars you should be bearish Mexican peso.

With that introduction, this leads me on to the Swiss franc.

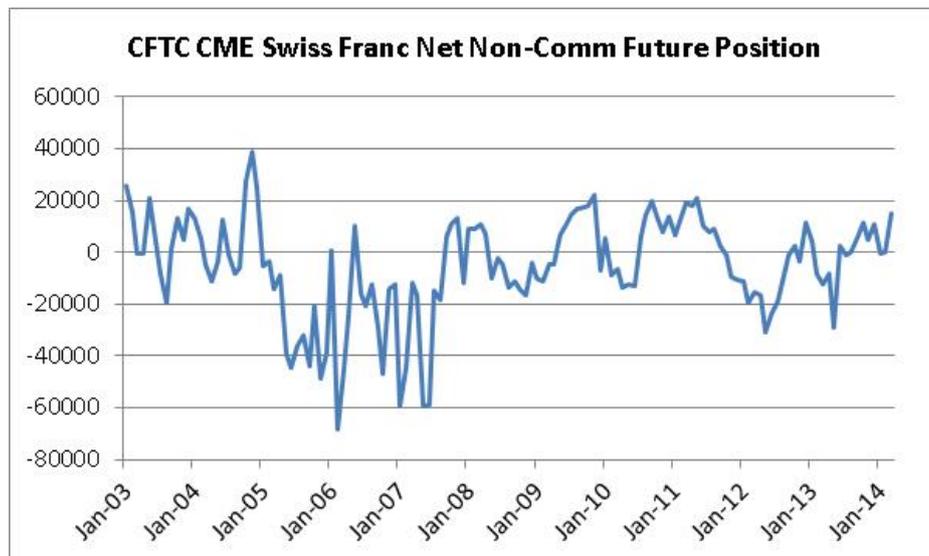


The credit ratio of Switzerland versus the Eurozone is in many ways predictable. Eurozone credit grew faster than Switzerland up until the crisis, and is now shrinking. The Swiss franc has strengthened significantly, but recent trends in the credit ratio suggests it is overvalued versus the Euro.

On a more extreme note, against the Japanese yen, the Swiss franc looks extremely overvalued on a private credit basis.

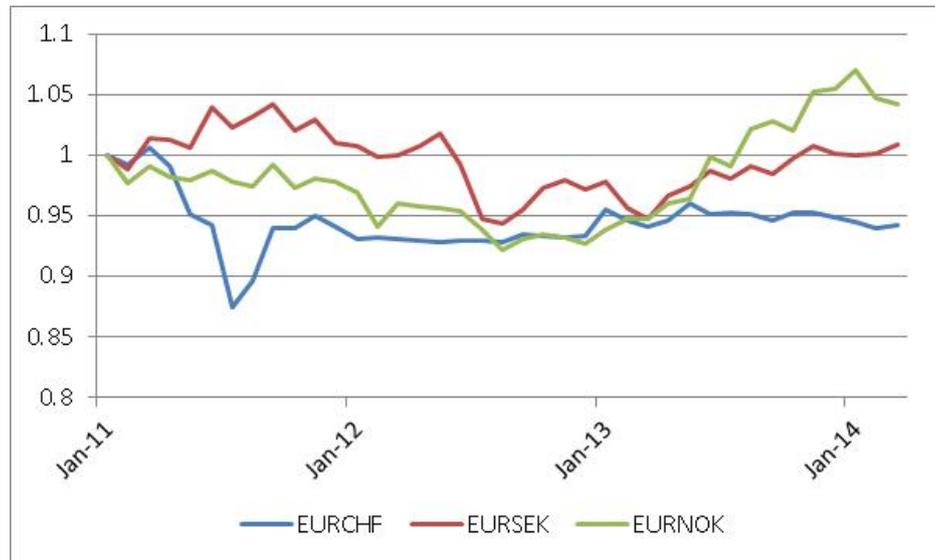


These charts in themselves suggest caution with the Swiss franc.

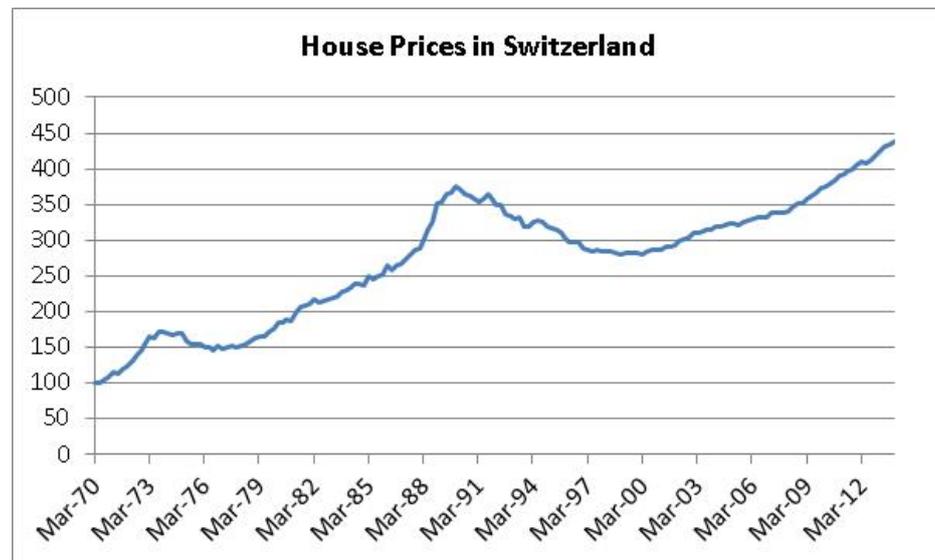


The above chart shows that in 2006/7 the Swiss franc was a very popular funding currency for carry trades. As the market is now long, the Swiss franc can no longer rely on short covering for support.

The Swiss franc also attracted money during the Eurocrisis from investors seeking European currency exposure, but not in the Euro. The Norwegian and Swedish currencies also attracted these flows. As the Eurocrisis has ebbed, the Swiss franc has remained conspicuously strong.



Finally, Swiss property prices have risen dramatically.



To my mind both the Swiss franc and Swiss property look expensive. The peak in the Swiss property market in the late 80s coincided with a 35% fall in the Swiss franc versus the USD. I struggle to see the Swiss franc as a safe haven at current levels.

INFORMATION

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