

Forex Focus: Euro/Swiss Franc Bears Likely To Get Their Way

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LONDON (Dow Jones)--Euro/Swiss franc bears must be licking their lips.

For weeks they have been eyeing a euro down at CHF1.30. Now, it looks like they may get there. In fact, they could get the single currency all the way down to CHF1.2750, according to market experts.

See how the euro has been performing against the Swiss franc:

<http://www.dowjoneswebservices.com/chart/view/4467>

The way for the euro's decline has been opened by a combination of the latest wave in global anti-risk sentiment, proof that a strong Swiss franc isn't damaging the Swiss economy and clear signals from the Swiss National Bank that it isn't too keen on intervening again, at least for now.

The wave of anti-risk sentiment has been building for some time as concern over strength of the global recovery has become more acute. Momentum really took off last week, though, when a strong increase in U.S. jobless claims and a sharp fall in the Philly Fed index resurrected fears of a double-dip recession.

Put this together with chronic market fears of a sovereign debt default by Greece and investor interest in safe havens, such as the Swiss franc, is inevitable.

Of course, this happened in the past. But then, selling the euro against the franc was more of a problem as the Swiss National Bank had taken up nearly a permanent position in foreign exchange markets, trying to stop the franc from rising too fast.

Much has changed since the central bank was last thought to have intervened in mid-May.

For a start, the deflationary forces that the SNB so feared never materialized. On the contrary, the recent purchasing managers survey and the latest ZEW business sentiment index, which jumped by an unusually large 6.9 to 9.1, both point to a strong economic recovery.

Expectations of an interest rate rise have increased and even the SNB has hinted that it can't keep policy accommodative forever.

Swiss trade data late last week also gave Swiss franc bulls just the evidence they were looking for--a strong 1.9% rise in exports last month proving that Swiss industry has been able to cope with recent franc strength.

But, it is the evidence that the SNB is retiring from the market, at least for now, that should ensure that euro bears get their way.

Over the last few weeks, the central bank has reported hefty balance sheet losses created by the open market intervention that it has been conducting on and off since early last year.

SNB officials have now hinted that they have little appetite for accumulating more foreign exchange reserves and there was even speculation Friday that the central bank had been busy offloading its stocks of euro's in favor of the U.S. dollar.

If that continues, then rather than discouraging a further decline in the euro against the franc, the SNB may be actively encouraging flows that would only contribute to further gains in the franc against the single currency.

Around 0700 GMT, the euro was trading at a fresh seven-week low of CHF1.3107, down from CHF1.3142 late Friday in New York, according to EBS.

The euro was also up at \$1.2724 from \$1.2706, while the dollar was down at Y85.40 from Y85.75.

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