

Swiss franc on the verge of a strong decline versus the U.S dollar?

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The Swiss franc enjoyed a bullish ride over the last few months benefited from a broad-based weak U.S dollar. On 1st September 2020, the Swiss franc reached its highest level at 0.8997 versus the greenback, since January of 2015, after the U.S. Federal Reserve's shift in strategy to tolerate faster inflation and foster the U.S economy.

A few days later, on the 4th September 2020, the Swiss franc staged a U-turn, languishing to as low as \$0.9163, following the intervention of the Swiss National Bank (SNB) on the market, to counter the upward trend in the franc.

Indeed, the SNB's foreign exchange reserves soared by CHF 1.35 billion to reach 848 billion francs in August 2020, close to the June record. The only other nations to hold large foreign reserves are the Japan and China economies. The SNB has been relying on negative interest rates plus currency market interventions to control the level of the haven franc and fight off deflationary forces in the economy.

On Friday 4th September, Swiss National Bank Chairman Thomas Jordan highlighted concern over a "highly valued" Swiss franc stating that currency market interventions will relieve over-valuation pressure on the Swiss franc and protect the Swiss economy.

Nonetheless, the Swiss franc recovered to 0.9090 versus the U.S dollar on Friday, tracking the euro higher, in the wake of the European Central Bank's unexpected upbeat message the previous day on the Eurozone's economy. Furthermore, the ECB said markets should not overreact to the recent appreciation of the single currency.

However, ECB's President Lagarde admitted that the Council did discuss the move up in the exchange rate and said that the central bank will now monitor the exchange rate and its effects on inflation. The ECB also revised a tad lower its forecasts for economic growth in the region for the next couple of years, and now sees inflation advancing at a somewhat faster pace.

TECHNICAL OUTLOOK

On the Hourly chart, based on an Elliott wave perspective, the USDCHF bounced off from an ending diagonal formation on 1st September 2020, following a 6-month decline from a high of 0.9906 to as low as 0.8997. The rally to as high as 0.9163 on 4th September, appears to be wave 1 of an impulse and the corrective pullback in wave 2 may have been completed near 0.9049 yesterday. In the coming weeks, a move above previous high at 0.9163 would expose the USD/CHF to the resumption of the bullish trend in wave 3 towards 0.9376 (based on a 161.8% Fibonacci projection of wave one through wave 2). On the other hand, a fall below 0.8997 would invalidate the bullish count on the USD versus the Swiss franc.



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