NO. 1, 15 JANUARY 2024

CIC FX News

What will happen on the currency front in 2024?

USD/CHF 0.8525 – EUR/USD 1.0950 – EUR/CHF 0.9350 - GBP/CHF 1.0875– XAU/USD 2,050

Once again we're back at the time of year when analysts get out their crystal balls and try to see into the future of the financial markets. A huge amount of effort is put in, only to discover a year later that most predictions were wrong (and those that were right were surely a fluke). My regular readers are well aware of my opinion that it is not possible to predict exchange rates, i.e. what year-end rates may be. What is possible, but not much easier, is to identify potential tendencies from the information available, or at least spot the primary trend. This is important for long-term investors in particular, because currency positions in a portfolio can have a huge impact on performance. For Swiss investors, the constant strength of the Swiss franc is a very good example of this. The primary trend is obvious. Holding foreign stocks can be very attractive depending on how exchange rates move, and attractive opportunities to get on board keep on coming around.

Here are a few of the latest forecasts:

Prognose Franken	EURCHF (0.9331)		USDCHF (0.8511)	
	2024	2025	2024	2025
Commerzbank	0.98	0.96	0.88	0.87
J. Safra Sarasin	0.93	0.93	0.85	0.83
Raiffeisen Schweiz	0.95	-	0.90	-
Société Générale	1.04	1.02	0.90	0.88
Schwyzer Kantonalbank	0.95	-	0.86	-
UBS	0.97	-	0.87	-
VP Bank	0.96	0.92	0.85	0.80
Zürcher Kantonalbank	0.94	-	0.83	-

Quelle: cash.ch, Bankenangaben

The Swiss franc appreciated strongly against the major currencies in 2023. Against the euro, for example, probably the currency most widely represented in Swiss portfolios, it gained 5.8% (the Stoxx Europe 600 was up 12.45%). The US dollar fell 9.1% against the CHF (the S&P500 was up 23.8%). The pound sterling weakened by just under 4% (the FTSE 100 was up 3.78%), the Australian dollar lost 8.7% (the AS30 was up 8.4%), the Norwegian krone fell as much as 12.3% (the OBX was up 9.2%). Swiss investors in Japanese equities lost 15.4% on the currency (the Nikkei 225 was up 30%) and anyone so bold as to invest in Turkey saw the lira plunge a hefty 42% (the Borsa Istanbul 100 Index was up 30%). So depending on the country it was possible to make a loss even when stock exchange indices put in a positive performance!

In an environment of multiple sources of geopolitical tension the price of gold gained 3% against the Swiss franc.

So what will see on the financial markets this year? The prospects are not exactly rosy. Just last week the IMF cut its forecast for global economic growth from 2.6% to 2.4%. The conflict in Ukraine has been bubbling away for almost two years, war has been under way in the Gaza strip since October and the Chinese still have their eye on Taiwan (where the presidential election on 13 January was won by Lai Ching-te, a critic of China). For good measure, the US presidential elections take place in November. According to the Oslo-based Peace Research Institute there were 55 active conflicts under way on our planet at the end of 2022, and these had been going on for an average of between 8 and 11 years. The UN ranks this as the largest number since the second world war. This is the backdrop against which central banks are operating a monetary policy which in the best case will achieve a soft landing. The markets are currently assuming up to six rate cuts by the Fed this year. In my view this is too optimistic. The Fed and the ECB are keener on a maximum of three cuts, and these are conditional on the economic data. So the markets are being torn between fears of recession, hopes of rate cuts and potential sources of geopolitical tension. Where does that leave us? With higher volatility and sector rotation within equity investments, for sure. The outcome of the US elections could potentially trigger major switches within different sectors. If the Republicans return to power the view is that foreign military support will be dropped and there may be less investment in protecting the climate. That would have major implications for some industries. So there are some events coming up we may be able to profit from, at least to a degree.

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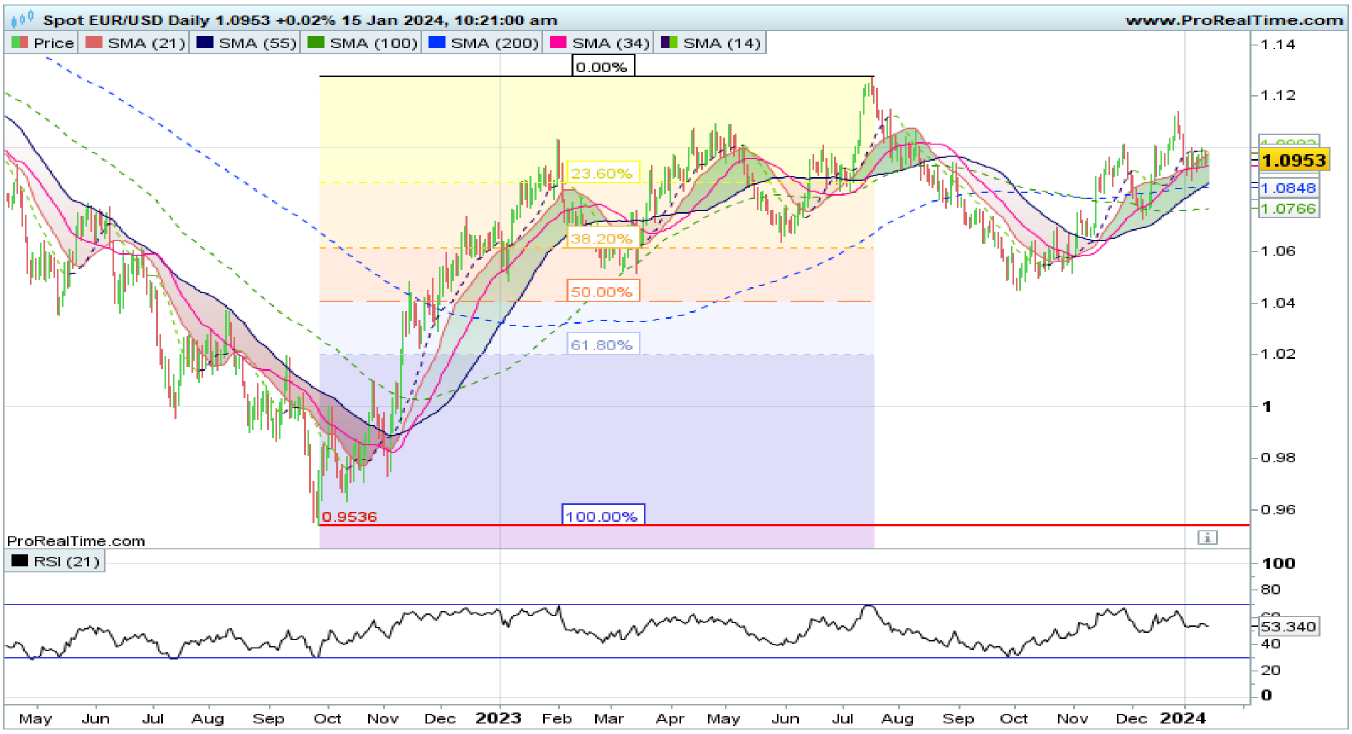
EUR/USD 1.0950

EUR/USD is the match between the two big economic blocs, and it's clear who's doing better. To my mind Europe, and Germany in particular, has been destroying itself for years, and this is reflected in the euro exchange rate (I should mention in passing that the euro celebrated its 25th birthday on 1 January 2024). The very fact that the currency still survives (in its present form) comes as something of a surprise. There are certainly enough reasons to avoid the euro and prefer the dollar, whether you look at things from an economic, political or interest rate differential perspective. Needless to say friends of the euro (or "unfriends" of the dollar) can find reasons for precisely the opposite, like the budget deficit and the political situation. Which argument will ultimately be reflected in the exchange rate no one knows. I have lost my faith that Europe has the strength to fight its way back to the economic and political top. For me it has been years since there was any sensible argument for investing in the euro (but that doesn't mean not investing in European companies, which would be a mistake for sure; there are plenty of good and successful companies in Europe, despite all the political obstacles in Berlin and Brussels).

But for the reasons I have mentioned, for the time being I think the next move in EUR/USD will be down. So I expect 1.05 or lower before the pair has scope to improve. What we need for a higher euro or lower dollar is a recession in the US, which could be caused by rates being too high for too long. That's why it's important for the Fed to keep an eye on real interest rates and be ready to cut in good time if inflation falls further.

The chart supports this scenario too, as long as the rate does not go above 1.1140 and 1.1280 on a daily closing basis. It's clear from the weekly chart that in July 2023 EUR/USD hit 1.1276, marking precisely the 61.8% Fibonacci correction to the downward movement from 1.2350 to 0.9536. The formation in the last three weeks also shows a top supporting my expectation.



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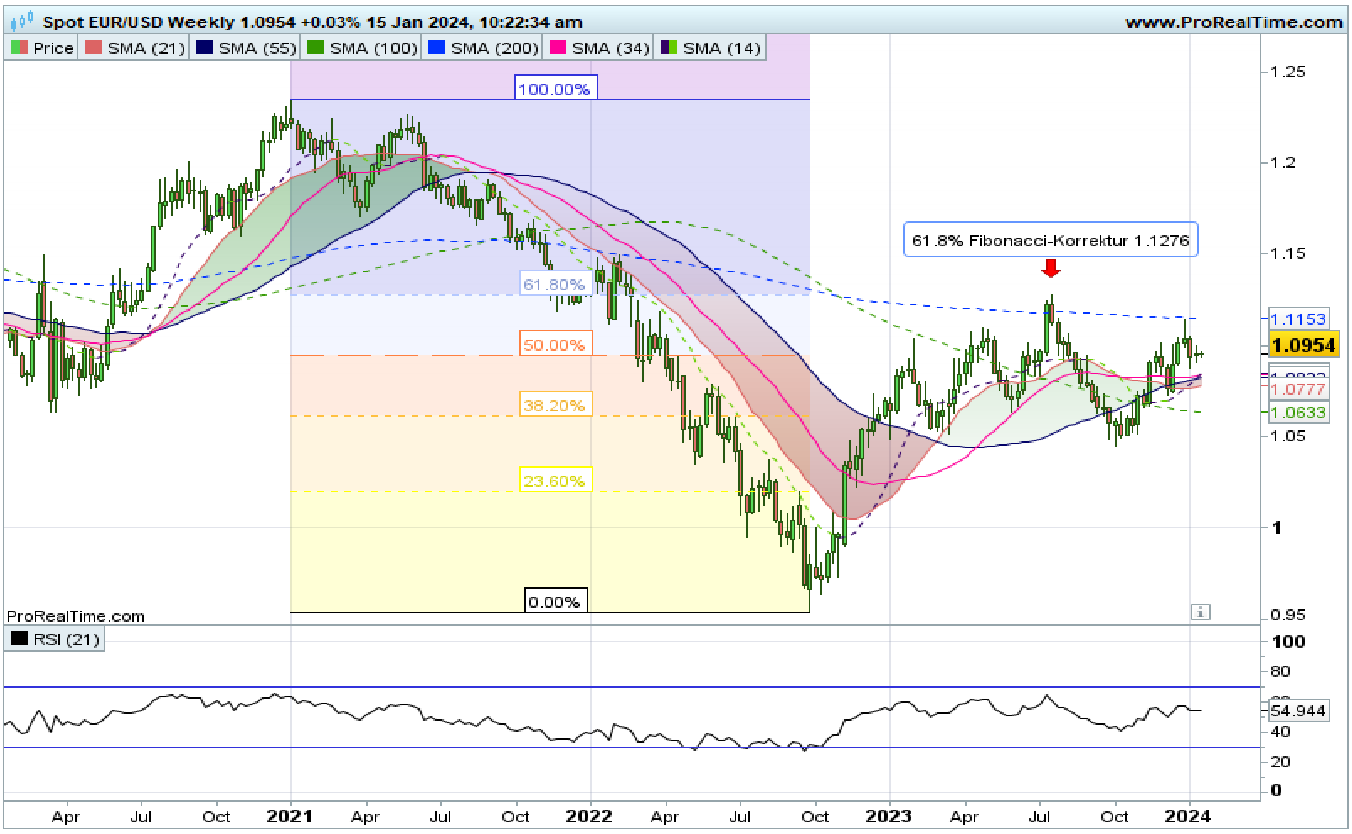

So in conclusion: levels around 1.0500 are attractive buying opportunities if the economic conditions in the US deteriorate over the course of the year. In the medium term, rates of 1.1500–1.2000 are possible.

EUR/CHF 0.9350

One year ago, a euro cost CHF 1.01. The strength of the Swiss franc last year, especially the speed at which it moved in the last couple of weeks of 2023, surprised many people – me included. The reasons are always the same: political and economic stability, low inflation and unemployment and global geopolitical turmoil. The Swiss franc remains the safe haven. In my view it will remain so in future, so the trend can be expected to continue. The average annual appreciation of the Swiss franc since the notorious intervention by the SNB when it introduced the floor at 1.20 in September 2011 (the peak was at 1.2650 in May 2013) has been 2.1%.

Of course this is not a one-way ticket and there will always be further opportunities to sell the euro at higher levels, at least there were in the past. A trend reversal could occur if Switzerland were to give up its trump card by potentially forming an institutional link with Europe. At the moment resistance is at 0.9408 (the low on 26.09.2022), then there is a clear area of resistance between 0.9535 (the 100-day moving average) and 0.9575. It will take a break of the downtrend (0.9575) at least on a daily closing basis to allow the correction to continue and bring the 200-day average (currently 0.9630) within reach. There is now strong support at the last low of 0.9254. After that it will become apparent how far things can fall and when everything gets too much for the SNB and they start intervening or taking other measures to combat the strength of the franc. My assumption is that this will not occur until 0.9000, but who knows?

RB15012024


Spot EUR/CHF Daily 0.9328 -0.06% 11 Jan 2024, 11:00:59 am
www.ProRealTime.com
Price
SMA (21)
SMA (55)
SMA (100)
SMA (200)
SMA (34)
SMA (14)
0.9408
1.06
1.04
1.02
1
0.98
0.9630
0.9536
0.9505
0.9438
0.9382
0.9328
0.92
ProRealTime.com
RSI (21)
100
80
60
38.429
20
0
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2023
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2024


Spot EUR/CHF Weekly 0.9349 +0.15% 15 Jan 2024, 10:24:52 am
www.ProRealTime.com
Price
SMA (21)
SMA (55)
SMA (100)
SMA (200)
SMA (34)
SMA (14)
1.2
1.15
1.1
1.05
1.0280
1
0.9820
0.9690
0.9478
0.9349
0.9408
ProRealTime.com
RSI (21)
100
80
60
37.287
20
0
2017
2018
2019
2020
2021
2022
2023
2024

RB15012024

USD/CHF 0.8525

At the end of December USD/CHF reached a temporary low at 0.8332 in the wake of the strong franc. The days that followed saw strong support form, which could now provoke a correction towards 0.8680–0.8900 (a 61.8% Fibonacci correction to the downward movement from 0.9244 to 0.8332). This fits with my anticipation of a weaker EUR/USD, provided EUR/CHF stabilises. If 0.8900 is broken we could see a recovery to 0.9250 (50% Fibonacci correction to the move down from 1.0148 after 0.8332 and the 100 and 200-day averages).

If the support at 0.8332 is broken, further downside can be expected. In January 2015 USD/CHF was 0.7400. Whether we will ever see this again, and if so when, is in the lap of the gods. But the primary trend in the US dollar has been downwards for decades.

So in conclusion: there is no urgent need to hedge dollar positions right now. There are likely to be better opportunities soon. A break below the last support at 0.8332 would cast this scenario into doubt.

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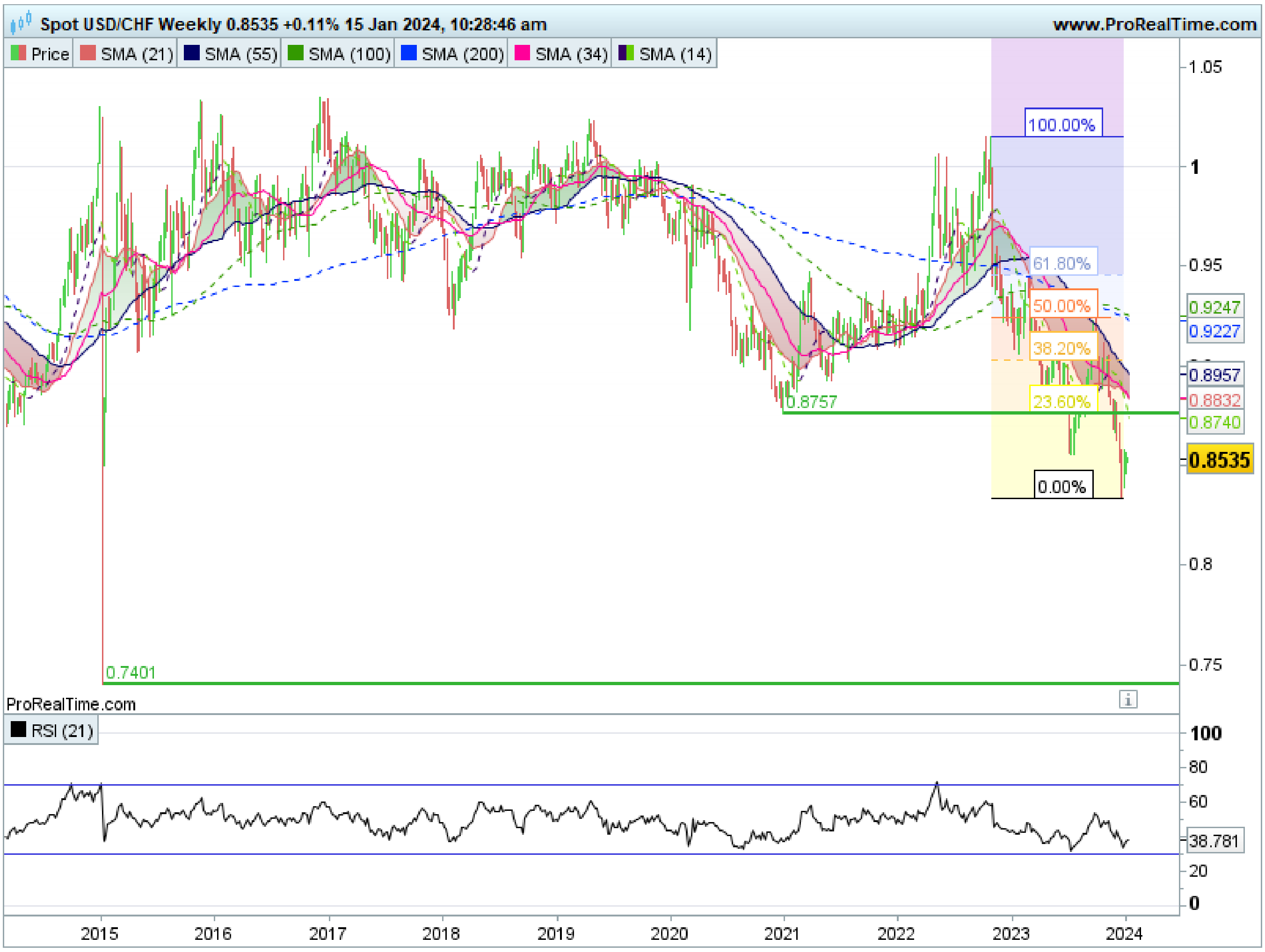

GBP/CHF 1.0875

There has been chatter for a few months now in the UK about exiting from Brexit, with the impact of departure very clearly apparent in the weak economic performance. The drawbacks have been clear for years and the political elite would like to move closer back to Europe again, not least in the context of the conflict in Ukraine. The timing of the discussion isn't bad. But political wheels like this grind very slowly, so there will be no direct impact on the exchange rate just now. Sterling has been in a downtrend for years and I find it hard to come up with any justifications for investing in the currency. But joining the EU again would probably have a positive effect on GBP.

At the moment GBP/CHF is slightly oversold and as with EUR/CHF and USD/CHF there are signs a small correction may be due. This could go as far as the resistance at 1.1028 and 1.1133 (the 100 and 200-day moving averages). There is support at 1.0637 (the low of 28.12.2023) and 1.0174 (the low of September 2022).

So in conclusion: sterling is currently in neutral territory and I would only take action if there is a need to do so. Investing in the currency is too uncertain for me, so I would like to emphasise that I would hedge all positions in GBP (especially new ones).

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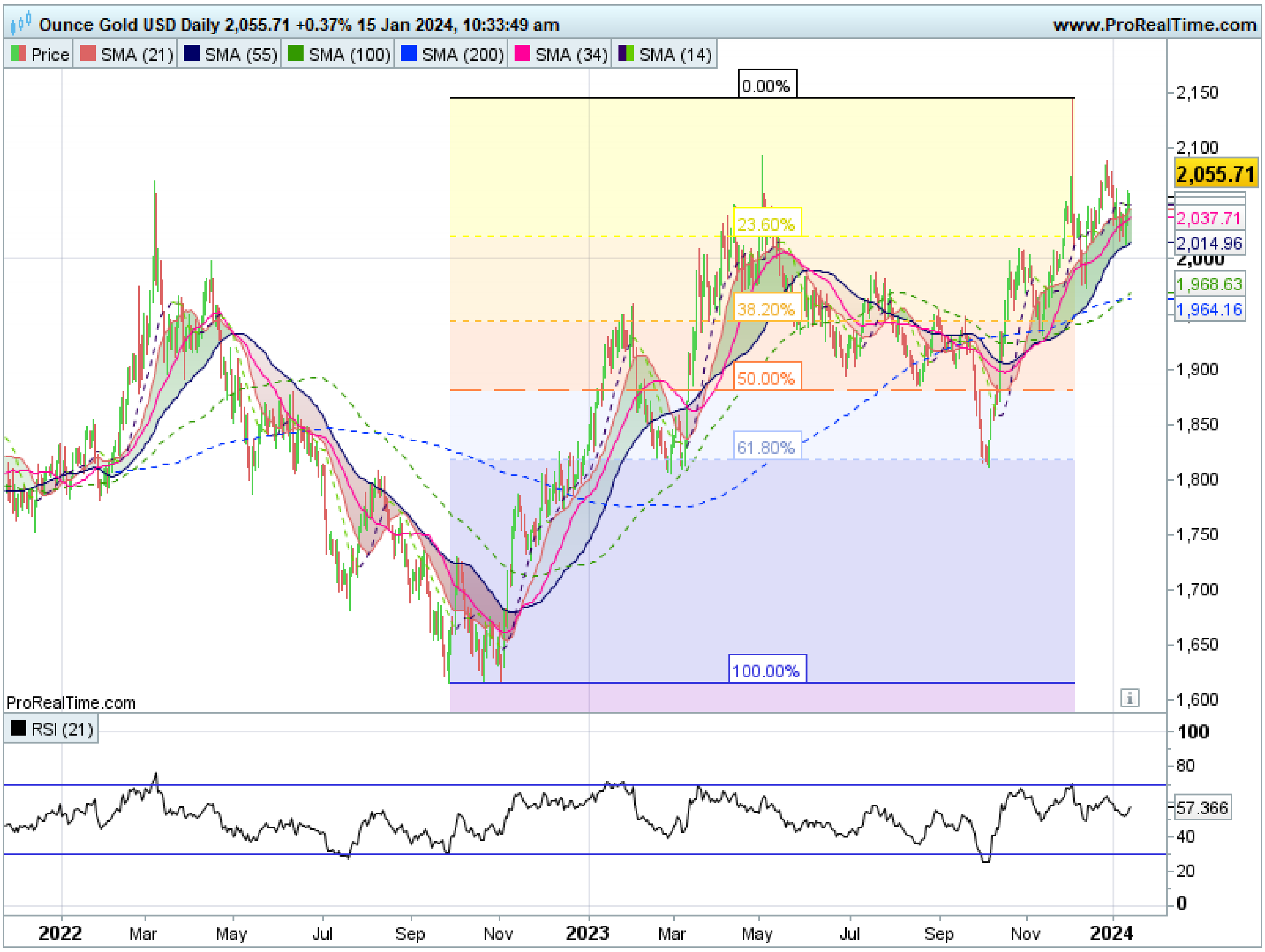
Spot GBP/CHF Daily 1.0869 +0.01% 15 Jan 2024, 10:30:17 am
www.ProRealTime.com
Price SMA (21) SMA (55) SMA (100) SMA (200) SMA (34) SMA (14)
1.1578
1.0174
1.1129
1.1023
1.0869
1.0806
ProRealTime.com
RSI (21)
45.594
Jul Aug Sep Oct Nov Dec 2023 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2024


Spot GBP/CHF Weekly 1.0868 +0.00% 15 Jan 2024, 10:32:06 am
www.ProRealTime.com
Price SMA (21) SMA (55) SMA (100) SMA (200) SMA (34) SMA (14)
1.3074
1.1115
1.1841
1.1384
1.0868
ProRealTime.com
RSI (21)
42.493
Sep 2019 May Sep 2020 May Sep 2021 May Sep 2022 May Sep 2023 May Sep 2024

RB15012024

XAU/USD 2,050 – XAU/CHF 1,750

In the wake of the weak US dollar and the many geopolitical tensions gold was again in demand, which pushed the price up. At time the price has been more than 30% higher than it was in autumn 2022. The temporary high was reached in early December at USD 2,145. Given the expectation of a slightly firmer dollar and the way the price has moved in the last few weeks, I think the strong support at USD 1,965 (the 100 and 200-day averages) may be tested. Fundamentally, I remain firmly convinced that even though it pays no interest gold should form part of a well diversified portfolio (between 3% and 7%, depending on size). In the event of extremely volatility like we saw on the upside in December 2023 existing gold positions could be optimised by selling some call options; asset allocation and option writing is an important part of generating excess return over the longer term. Setbacks are also excellent opportunities to build up planned positions in gold by selling puts.



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The content of this publication reflects the author's personal opinion.

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Currencies, 15 January 2024/rb

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English

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