Letter

Letter: Why Swiss citizens face a potential double whammy

From Antonio Foglia, Vice Chair, Banca del Ceresio, Lugano, Switzerland

SEPTEMBER 4 2024

In his Markets Insight piece "Swiss central bank struggles to break its interventionist habit" (August 13) Toby Nangle raises concerns about the unwinding of the Swiss National Bank's massive foreign exchange (FX) reserves. He explains that the central bank has been investing abroad to offset Swiss investors' home bias. This is only partially true, which has consequences that make the situation even more difficult to resolve.

In fact, Swiss investors have been investing abroad massively and this is normal because chronic Swiss current account surpluses are simply the other side of excess local savings over local investing opportunities. But Swiss investors have been largely hedging back into the Swiss franc while the SNB has taken the other side of those hedges in order to limit its appreciation.

Consider Swiss pension funds, whose total assets under management have more than doubled since 2008. Over two-thirds of that increase has been in assets invested abroad. Yet the currency exposure they run has remained broadly unchanged in absolute terms and has declined substantially as the percentage of the AUM, as hedging was increased.

The SNB intervened so heavily because it thought the buying pressure on the Swiss franc originated from a flight to safety by foreign investors. Yet the bulk of the buying came from two very different sources. First, short covering from borrowers in Swiss francs before the great financial crisis, when the Swiss franc was a weak and weakening currency as it paid comparatively lower interest rates. We all remember the Swiss franc mortgages being offered to Hungarian taxi drivers and more recently the carry traders. The second explanation is currency bias by Swiss investors.

The different origin of the buying pressure matters, because buyers in a flight to safety would have eventually sold allowing the SNB to unwind the accumulated reserves.

Instead, the SNB has been socialising the currency risk local investors didn't want to run and has facilitated short covering. Worse, by investing its FX reserves in foreign bonds and equities, the SNB has in effect "doubled" the exposure Swiss citizens already have to foreign risk assets through their savings and pension system.

This worked well until 2022 because there was a major bull market in both, but could become a double whammy should the environment change. It also makes the creation of a sovereign wealth fund, as touched on in Nangle's piece, a red herring.

Antonio Foglia
Vice Chair, Banca del Ceresio, Lugano, Switzerland

Copyright The Financial Times Limited 2024. All rights reserved.