Forex Focus: Expect Swiss Franc To Make A Comeback

By Nicholas Hastings

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LONDON (Dow Jones)--Look for the Swiss franc's safe-haven status to start pushing the currency back up again soon.

For the last few weeks, the franc has come under steady selling pressure against the euro as immediate fears about the sovereign debt crisis in the euro zone have subsided.

Hopes that European banks will now sail through stress tests at the end of this week have helped the single currency to ignore downgrades of Portuguese and Irish credit ratings and show little reaction to news that Hungary has fallen foul of the International Monetary Fund.

Now that it has broken over CHF1.35, the euro looks poised to climb up to CHF1.40 for the first time in well over a month.

However, this rally could quickly go awry.

It is not that the bank stress tests will be a problem.

As European politicians have reassured financial markets at every opportunity over the last couple of weeks, the tests will more than likely show that the major banks of the region are well-equipped to face the economic slowdown that is likely to take place over the next two or three years.

Whether the tests themselves are actually seen as adequate is another question. The results will still help to normalize trading and ease credit conditions across the euro zone.

So far, news of the breakdown in Hungary's negotiations over a standby loan has also had little impact on euro sentiment.

If anything, analysts have pointed to the risk of a fallout on the franc if the Hungarian forint starts to fall, given that so many franc-denominated mortgages are held by Hungarians.

Nevertheless, Hungary does still pose a risk to the euro too, especially as any similar disagreements and delays between the IMF and Greece would quickly hit euro-zone bond markets.

In other words, the euro isn't safe until fiscal discipline has been achieved.

But as far as the euro's performance against the franc is concerned, there are two other factors that are likely to push the single currency back down again in short order.

The first is global risk sentiment.

As U.S. economic data continue to spell out the growing risk of a double-dip recession and Fed Chairman Ben Bernanke prepares to reassure Congress that the central bank is on standby to ease monetary policy again, the outlook for the global recovery as a whole will deteriorate.

As a result, appetite for risk, which has been rising in recent weeks and helping the euro to find support, is likely to fall back again, taking the euro with it.

Those investors wanting to keep their funds in Europe but not in the euro will more than likely turn to the franc once again as a safe haven in times of economic uncertainty.

The franc is also likely to reassert itself against the euro just on the basis of yield.

Although the confidence of the European Central Bank may have helped the euro to rally in recent weeks, the Swiss economy remains in better shape than that of the euro zone.

Also, in the pecking order of which central banks are likely to hike rates first, the SNB is still more than likely to be ahead.

If so this is another reason why investors are likely to start selling the euro back down to a level just above CHF1.3150 that marked the start of the recent bounce.

Overnight the dollar traded slightly lower as the minutes of the June Federal Open Market Committee meeting showed a 10-2 split in the vote to keep rates at a record low, with the Kansas City and Dallas Federal Reserve Governors calling for the discount rate to be hiked by 25 basis points to 1%.

For Wednesday, the focus is on Fed Chairman Bernanke's testimony and any comments that could point to further monetary easing.

Around 0650 GMT, the euro fetched CHF1.3557, little changed from CHF1.3560 seen in late U.S. trade Tuesday.

The euro was worth $1.2901, up slightly from $1.2887, the pound fetched $1.5310, up from $1.5275 and the dollar bought Y87.19, down from Y87.38.

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 Reuters   USD/DJ
   Thomson   P/1066 or P/1074
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