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Swiss Franc: the shock wave continues

The destabilization caused by the decision of the SNB has not finished causing uncertainty.

The shock wave caused by the surprise decision to let appreciate the Swiss franc, a currency coveted internationally, has hit the Swiss economy and continued Friday to shake the financial markets. The Swiss Stock Exchange continued its plunge in the opening up losing -5.78%, after unscrewing -8.7% Thursday, a record drop since 1988.

In addition, for the first time, the 10-year borrowing rate of Switzerland on the secondary bond market turned negative, with a rate of -0.031% against 0.076% yesterday at closing. In practice this means that wants to lend money to Switzerland must pay to do so. These negative rates should therefore in principle discourage investors from investing in Swiss francs and encourage them to turn to other currencies like the euro.

On Thursday, the Swiss franc gained about 20% against other currencies and now trades around a euro. All of the business community in Switzerland have expressed their concerns after the abandonment of a monetary policy which put them in more than three years away from an increase of the Swiss Franc beyond the ceiling of 1.20 per euro.

In a statement, the Swiss employers, grouped in the economiesuisse association, says that the decision "has caught the markets and businesses." "In the eyes of the economy, this measure is incomprehensible at the moment," he added. Economiesuisse already provides that exporting companies and the tourism sector will be forced to "trim".

The textile industry has also expressed concern because it exports 75% of its production to the EU. Employing over 12,500 people, it expects business closures and therefore to job losses. The measure also continues to cause turmoil in the currency markets.

The watches price jumped 15% to 20%

In the US, the largest online broker FXCM announced no longer able to meet the prudential rules because its ruined customers owe $ 225 million, while in Britain, the brokerage Alpari UK expressed insolvent.

Emblematic sector, Swiss watches have their prices jump by 15% to 20% for foreign customers, even as the

International Exhibition of Haute Horlogerie, which hosts thousands of foreign retailers, will open its doors next Monday in Geneva. Most orders placed with very major watch brands are during the show.

Friday, the boss of a small watch brand, H. Moser & Cie, located in northern Switzerland, in Neuhausen am Rheinfall, close to the German border, published an open letter to the president of the SNB.

"The first retailers" that sell watches of this brand, sold at 95% abroad, have "canceled their orders in response to your ad," writes this contractor Edouard Meylan, warning that he is tempted to relocate its business in Germany, very close.

Friday morning, the big Swiss bank UBS was the first to cut its growth forecast for Switzerland in 2015, because of this new financial gives: it now expects an increase of 0.5% of GDP in 2015, instead 1.8% previously, and 1.1% in 2016, instead of 1.7%.

Cut his hand rather than the arm

According to economiesuisse, the "shopping tourism", the Swiss who cross the border to shop and penalize local merchants, is also likely to start over again on the rise.

Switzerland had experienced a similar situation in summer 2011, amid the global financial crisis. The Swiss franc at the time was coveted, playing its full role as a refuge, and was, hence, also flew to reach parity with the euro.

This international appetite for the franc in September 2011 had led the Swiss National Bank to take the floor rate, preventing it passes under 1.20. For three and a half years, the SNB has dutifully bought euros when too many speculators were interested in Swiss franc and put pressure on the rise. In almost four years, its reserves in euros have been multiplied by 10. According to experts, the situation was becoming increasingly untenable for the national bank, who preferred to cut off the hand, rather than cut off his arm.

"The SNB has surrendered"

Switzerland seemed to have won the battle against speculators currency. With the abandonment of the floor rate, the SNB has surrendered, says economist Thomas Straubhaar. By introducing the minimum exchange rate of CHF 1.20 per euro, the Swiss National Bank (SNB) has resisted market forces, writes Professor of Economics at the University of Hamburg in a contribution to the German newspaper "Die Welt" . Recent events show that the SNB has lost this battle, said the Swiss in a paper titled "The triumphant return of speculators." The National Bank decided to free himself from the shackles of the euro. This is very risky. All levees gave way and the Swiss franc has appreciated, he notes.

Many players have seen the choice of the SNB to escape the marriage with the European Central Bank as a sign that the euro has no future. Consequently, they will follow the decision of the SNB to sell euros and invest in francs. The phenomenon will further increase the value of the franc in a self-fulfilling expectation. Speculators can now test the market to see how long the SNB will remain a spectator strengthening of the franc, said Thomas Straubhaar. By abolishing the minimum rate, the SNB opted for the doctrine "better a terrible end than endless horror" says economist Thomas Straubhaar.