



MARKETS FLASH

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Zurich stockmarket in nosedive and surge in Swiss franc: what do you make of the “Swiss day” of 15 January 2015?

The Swiss National Bank (SNB) surprised the markets yesterday by suddenly scrapping its cap of CHF1.20 to the euro and by slashing the Swiss franc LIBOR rate.

The 3m LIBOR rate now stands at -0.75%, which is extremely penalising against the euro and the dollar. The trend has rapidly spread to the rest of the Swiss rates curve, which are now in negative territory out to the eight-year mark since last night.

The market reaction was immediate and very violent. The Swiss franc surged against the euro during a particularly volatile trading session that saw the EUR/CHF exchange rate fluctuate in a range of around 30% (from 1.20 per euro at its peak to 0.85 at the low point). With a slight lag, Swiss stocks began a sharp nosedive with the index shedding 8.70%.

As European investors that do not hedge exchange rate exposure, **we managed to make the most of this sudden plunge for our investments denominated in Swiss francs.** Indeed, the adjustment in the currency was much faster than it was for stocks.

For example: while RICHEMONT lost 5% the Swiss franc gained 15% against the euro, such that the trend helped generate a significant capital gain.

- **Echiquier Agressor reduced its positions in SWATCH and DKSH.**
- **Echiquier Major sold off ROCHE, BARRY CALLEBAULT and LINDT.**
- **Echiquier Global sold off RICHEMONT and reduced its position in SGS.**

The amounts generated in Swiss francs were exchanged into euros at the same time.

Beyond the immediate interest of these operations, note that for companies with high costs in Swiss francs and sales denominated in other currencies, the action taken by the SNB clearly spells bad news. Reducing positions in the luxury segment is therefore a fairly structural move. For other stocks with lower local costs in Swiss francs, the operations undertaken are more tactical and we will probably buy back some of the shares sold off fairly rapidly.

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