

Swiss Economics

Analysts see no near-term end to the Swiss franc's strength

Financial Market Survey Switzerland | 24/11/2021, 08:53, UTC

The sentiment indicator for the Swiss economy has fallen again, partly on account of deteriorating export prospects.

To some extent this is a result of analysts' exchange rate expectations: both their forecasts for EUR/CHF over the next few months and their fair value estimates have fallen and are pointing to a strong CHF.

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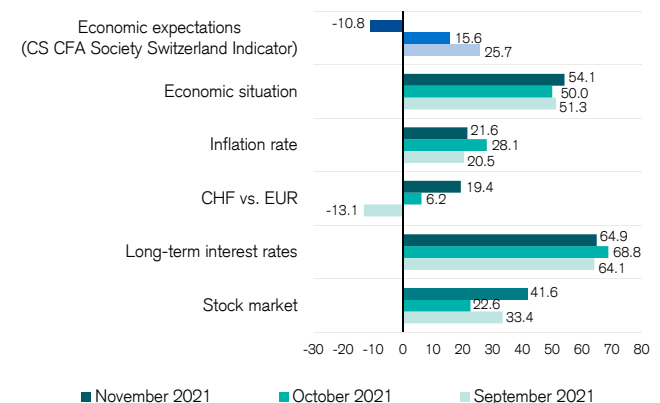
Analysts' sentiment indicator down again

The CS CFA Society indicator has again slipped into negative territory with a reading of -10.8 , dropping substantially month-on-month – by 26.4 points (see figure 1). In contrast, the assessment of the current economic situation is holding up at a high level. Analysts' assessment of the European and US economy is consistent with their view of Switzerland (see table). As far as China is concerned, 70% of Swiss analysts

view the current economic situation as “normal” and largely do not expect any change over the next six months. Only a small proportion of the analysts surveyed – 11% – expect the recent slowdown to be maintained or think that the problems on the Chinese real estate market could trigger a bigger crisis.

Figure 1: Indicators for Switzerland

Balance of responses (a positive value signals a rise, while a negative reading indicates a fall)



Source: CFA Society Switzerland, Credit Suisse

Survey points to the CHF appreciating further

In the other macro indicators for Switzerland there were no major changes compared to the trend of the preceding months. With regard to the unemployment rate, 66% of survey participants expect the rate to stabilize at its current level over the winter. Export momentum is viewed as being positive on balance, but the analysts believe it will soften over the next six months. The recent trend in the exchange rate is likely to have contributed to this assessment. Following the renewed

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strengthening of the CHF versus the EUR, 36% of survey respondents expect the Swiss franc to continue to appreciate. That said, this marks only a moderate increase of 8 percentage points versus the prior month. Just 17% of respondents believe that the value of the CHF will fall. A large proportion (47%) anticipate a sideways movement, which would not ease the situation for the export industry significantly.

Analysts do not envisage a further escalation of the inflation picture

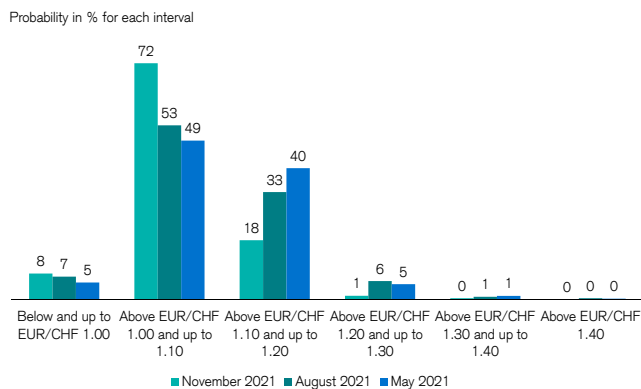
Despite the surprisingly strong inflation data coming out of the US, the number of analysts expecting a further rise in inflation over the coming six months has fallen for all three economic regions. Conversely, interest rate expectations were practically unchanged. At the short end, three-quarters of survey participants do not foresee any change over the six months ahead, i.e. they do not believe there will be a key rate hike in either the US, Europe or Switzerland. However, a majority expect a rise at the long end. At 75% of respondents, this is most pronounced for the US, where the tapering of bond purchases by the US Federal Reserve should have a noticeable effect.

SMI the most promising equity index according to analysts

Compared to the previous month, sentiment among analysts is more positive in relation to equity markets in the Eurozone, Switzerland and the US. The number of those bullish about the prospects for the stock market has risen in all three regions, while the number of bearish analysts has fallen. At 58%, a majority of analysts expect the SMI to continue climbing. In contrast, less than half of those surveyed are optimistic about the S&P 500; around one-third believe that stock prices will trend sideways, while one-fifth fear that prices will drop over the next six months. Turning to the price of gold, 55% of respondents project an increase – more than at any time since last summer. Around 44% of those surveyed think the oil price is likely to fall, with only around one-fifth thinking it will keep rising.

Figure 2: Fair value exchange rate

Where do you currently see the fair value of EUR/CHF?



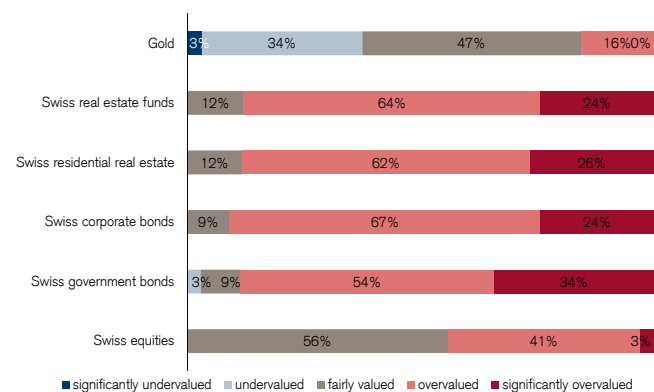
Source: CFA Society Switzerland, Credit Suisse

Decline in fair value exchange rate for EUR/CHF

In one of our quarterly special polls, we asked the analysts about the fair value of the EUR/CHF exchange rate. One of the key determinants of the fair value is the inflation differential between two currencies. With inflation rates significantly above 3% in the euro area, it is no surprise that the analysts have recently revised down their estimates for the fair value (see figure 2). A substantial 80% of the survey participants see the fair value below 1.10. The results imply that the CHF is not particularly overvalued at its current level of around 1.05. However, caution is advised when interpreting the results: although the actual exchange rate trend plays a subordinate role in determining the fair value, it tends to be highly correlated with the survey participants' assessment. The current strength of the Swiss franc is therefore likely to have played a role in the analysts' responses.

Figure 3: Valuation level of Swiss asset classes

How do you rate the valuation level of the following asset classes?



Source: CFA Society Switzerland, Credit Suisse

Gold undervalued according to a third of the analysts

In our second quarterly special poll, the financial analysts now consider Swiss equities more fairly valued after the market correction in September (see figure 3), whereas they still saw a clear tendency towards overvaluation when the same question was last posed in August. According to the analysts, the only other asset class that remains fairly priced is gold. The survey results show that valuations have decreased considerably in recent months, although the price of gold is now back above the August level. In light of the inflation outlook, 37% of the respondents even think that gold is undervalued. The other asset classes (i.e. Swiss sovereign and corporate bonds, residential property and real estate funds) are deemed to be "overvalued" by the majority of survey participants. In terms of sovereign bonds and residential property, the signal in August was "highly overvalued".

Special question: "great resignation" on the Swiss labor market?

In another special poll, we asked the financial analysts about staff turnover in Switzerland generally and in the financial sector in particular. Following the extraordinarily low turnover in 2020 as a result of the pandemic, there has been a surge in voluntary resignations during recent months, especially in

the US. This is contributing to a perceived shortage of workers and making it difficult for companies to fill vacancies, which in turn can fuel wage increases and even inflation.

However, according to the analysts, this problem seems to be far less acute in Switzerland (see figure 4). Nearly 60% of the survey participants report that there has been no increase in employee churn – either in Switzerland in general or in the financial sector. Nonetheless, a significant share of 28% of the survey participants have seen an uptick in resignations. The reasons cited most often for the resignations are changes to employees' work/life preferences, although the option of working from home also seems to be a factor. Meanwhile, almost half of the responses refer to typical reasons for switching jobs that have nothing to do with the pandemic, such as higher salaries, better working conditions or greater job security.

Figure 4: Special questions on job turnover

In the US, there have been signs of a “great resignation” in recent months, with many staff voluntarily changing their jobs. Is Switzerland experiencing a similar situation?



Source: CFA Society Switzerland, Credit Suisse

The CFA Society Switzerland and Credit Suisse have been conducting the Financial Market Survey Switzerland (a monthly survey of financial analysts) since January 2017. Detailed results of the survey conducted between 11 and 18 November 2021, involving the participation of 37 analysts from the Swiss financial sector, are published here.

(22/11/2021)

Financial Market Survey Switzerland by Credit Suisse and CFA Society Switzerland: November 2021 results

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	56.8	0.6	40.5	3.0	2.7	-3.5	54.1	4.1
Eurozone	40.5	-6.4	54.1	10.3	5.4	-4.0	35.1	-2.4
USA	67.6	8.2	32.4	-2.0	0.0	-6.2	67.6	14.4
China	8.6	2.1	71.4	6.9	20.0	-9.0	-11.4	11.1
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	21.6	-15.9	45.9	5.3	32.4	10.5	-10.8	-26.4
Eurozone	18.9	-18.6	48.6	1.7	32.4	16.8	-13.5	-35.4
USA	18.9	-6.1	45.9	-1.0	35.1	7.0	-16.2	-13.1
China	22.9	-15.8	65.7	33.4	11.4	-17.6	11.5	1.8
Inflation rate	increase		no change		decrease		balance	
Switzerland	40.5	-6.4	40.5	6.1	18.9	0.1	21.6	-6.5
Eurozone	37.8	-4.1	35.1	6.1	27.0	-2.0	10.8	-2.1
USA	35.1	-8.7	29.7	4.7	35.1	3.9	0.0	-12.6
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	26.5	-2.1	73.5	5.6	0.0	-3.6	26.5	1.5
Export momentum (expectations)	5.9	-14.1	70.6	10.6	23.5	3.5	-17.6	-17.6
Unemployment rate	11.4	2.0	65.7	6.3	22.9	-8.3	-11.5	10.3
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	24.3	2.4	75.7	-2.4	0.0	0.0	24.3	2.4
Eurozone	24.3	2.4	75.7	-2.4	0.0	0.0	24.3	2.4
USA	37.8	0.3	62.2	-0.3	0.0	0.0	37.8	0.3
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	0.0	-6.5	94.3	0.8	5.7	5.7	-5.7	-12.2
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	67.6	-1.2	29.7	-1.5	2.7	2.7	64.9	-3.9
Germany	70.3	1.5	27.0	-4.2	2.7	2.7	67.6	-1.2
USA	75.7	6.9	16.2	-15.0	8.1	8.1	67.6	-1.2

Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	14.7	1.8	76.5	-4.1	8.8	2.3	5.9	-0.5
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	58.3	13.1	25.0	-7.3	16.7	-5.9	41.6	19.0
EuroStoxx 50 (Eurozone)	55.6	7.2	33.3	4.3	11.1	-11.5	44.5	18.7
S&P (USA)	47.2	5.3	33.3	-2.2	19.4	-3.2	27.8	8.5
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	36.1	8.0	47.2	-2.8	16.7	-5.2	19.4	13.2
USD	30.6	2.5	41.7	-2.1	27.8	-0.3	2.8	2.8
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	19.4	0.0	36.1	7.1	44.4	-7.2	-25.0	7.2
Gold (per ounce)	55.9	21.4	38.2	-20.4	5.9	-1.0	50.0	22.4

Note: 37 analysts took part in the Financial Market Survey Switzerland for November from 11 to 18 November 2021. Analysts were asked about their expectations for the next six months. The numbers displayed are percentages. The balances represent the difference between the positive and negative shares of responses.

Source: CFA Society Switzerland, Credit Suisse

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