Corporate Banking

CREDIT SUISSE

FX Survey 2023. Assessment of exchange rate developments

Contents

Dear reader

It's been a turbulent year. In the first few months we saw plenty of evidence of a post-pandemic recovery in the global economy – notwithstanding warning signs such as the rise in inflation rates in the US and persistent supply chain problems. However, the outbreak of armed conflict in Ukraine then led to economic disruptions and a sharp jump in energy prices. Inflation temporarily rose to over 10% in the countries of the euro zone, although the Swiss economy showed distinct resilience amid the crisis. Inflation in Switzerland remained in the low single digits. Accordingly, the Swiss franc gradually strengthened against the euro over the course of the year.

Volatility and uncertain prospects have increased the need for currency hedging on the part of the corporate sector, as illustrated by this year's FX survey. The number of companies we surveyed that hedge at least a portion of their currency risks increased compared with 2021.

Following the substantial hikes in key interest rates, interest rate risk has once again gained in importance in addition to exchange rate risk. However, this problem still seems to be a lower-tier priority among the companies surveyed with only 6% responding that they do indeed hedge interest rate risks.

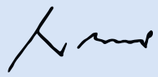
Companies can protect themselves from such market risks through hedging solutions tailored to their business operations. Our advisors support them with their many years of experience and our broad product range – from traditional forward transactions through to structured hedging solutions. This allows companies to concentrate fully on their core competencies and day-to-day business.

We have been delighted by the tremendous interest shown in our new FX Academy over the past 12 months. The courses were attended by more than 100 employees from small to large Swiss companies throughout Switzerland. This led to interesting and fruitful discussions about current challenges and best practices in the financial sector.

On the following pages you will find out what market developments the 1,000-plus participating Swiss companies expect over the next 12 months. You can also read the opinions of our experts on key topics and challenges for internationally active companies. In our in-depth client interview you will also gain insight into how two internationally successful Swiss companies have survived the turbulent years since the outbreak of the pandemic, as well as how they are equipping themselves for the future.

We hope you enjoy reading this issue.

Andreas Gerber
Head of Corporate Banking



Leif Woodtly
Head of FX, Rates and Commodities Sales Corporate and Institutional Clients

High inflation and interest rate hikes heighten FX risks

Over 1,000 survey participants

The year 2022 will definitely go down in the economic history books. Inflation was already a cause for concern when the year began, and the start of the war in Ukraine drove prices even higher. In response, central banks around the world raised their key interest rates more quickly and sharply than they had in 40 years. Our annual FX survey shows how these developments have affected the hedging practices of Swiss companies and what their expectations are for the coming year. Once again, more than 1,000 companies took part in this year's survey. Nearly 90% of these companies do business internationally, whether in the import and/or the export sector.

EUR remains most important foreign currency

According to the survey results, the euro (EUR) is still the most important foreign currency for businesses, as it has been in previous years, with 49% of companies buying primarily in EUR. For 30% of companies, the Swiss franc (CHF) is the most important currency for purchasing. When it comes to sales, however, the CHF is the most important currency for 47% of companies, while the EUR is number two (34%). The second most important foreign currency is the US dollar (USD): 13% of companies do their selling mainly in USD, and the USD is the dominant purchasing currency for 17% of companies.

Survey participants' exchange rate assessments

Companies expect the EUR/CHF exchange rate to reach 0.97 by the end of the year. The survey participants see the USD/CHF exchange rate at 0.98 at the end of 2023. The companies surveyed forecast an exchange rate of 1.10 for the GBP/CHF currency pair.

SNB expected to raise interest rates further

The survey results also reflect the gloomy economic outlook. Around half of the survey participants expect real GDP growth in 2023 to be lower than the previous year. According to the respondents' assessment, the inflation rate is still likely to exceed the inflation target set by the Swiss National Bank (SNB) as of the end of 2023. As a result, almost half of the companies surveyed (47%) expect additional interest rate moves by the SNB by the end of the year. However, 24% do not expect the current key interest rate to change, while 29% expect it to fall. On average, survey participants see the key interest rate at the end of 2023 at 1.25%.

Global uncertainty causing exchange rates to fluctuate

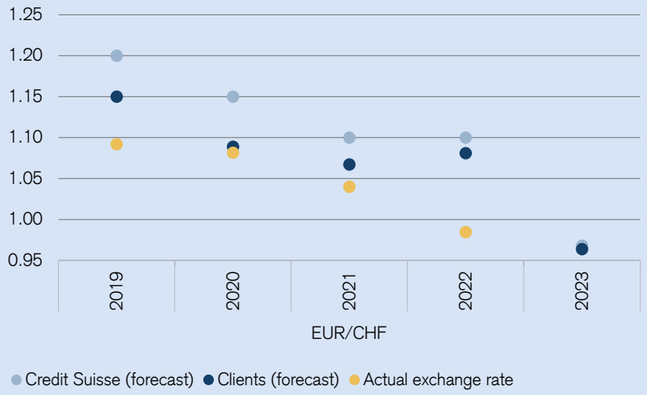
Uncertainty regarding the macroeconomic and geopolitical environments, the path of global interest rate cycles, and commodities prices will remain in place in 2023. In such volatile times, unexpected exchange rate fluctuations can occur, such as those experienced by the EUR, USD, and GBP over the past year. Businesses should therefore consider hedging their foreign exchange risks. Indeed, the percentage of companies that practice hedging has increased by around four percentage points compared to last year. Hedging interest rate risks and commodity risks is also becoming increasingly relevant in the current environment.

Respondents expect EUR/CHF to remain below parity

Last year, the forecasts for the EUR/CHF exchange rate were far too high, with companies' more pessimistic view compared to Credit Suisse's forecast once again coming somewhat closer to the actual exchange rate. Meanwhile, the expectations regarding the EUR/CHF exchange rate for 2023 expressed by Credit Suisse and the companies surveyed are closer than ever before. Both the clients surveyed and Credit Suisse's analysts reckon the EUR/CHF will remain below parity until the end of the year and are forecasting an EUR/CHF exchange rate of 0.97

Last year's forecasts were too high

Exchange rate forecasts and actual exchange rates for the corresponding year end (December averages)



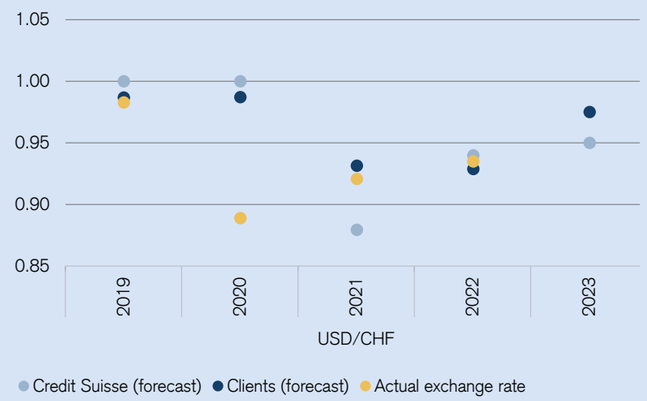
Source: Credit Suisse FX survey 2019–2023, Credit Suisse

Respondents predict USD/CHF rate of 0.98

In 2022, the US dollar appreciated slightly versus the Swiss franc and fell exactly halfway between the forecasts of the companies and that of the Credit Suisse analysts. This year's forecasts from Credit Suisse and the survey participants are slightly further apart. The companies are forecasting that the USD-CHF exchange rate will be 0.98 at the end of 2023, which is slightly higher than Credit Suisse's estimate of 0.95.

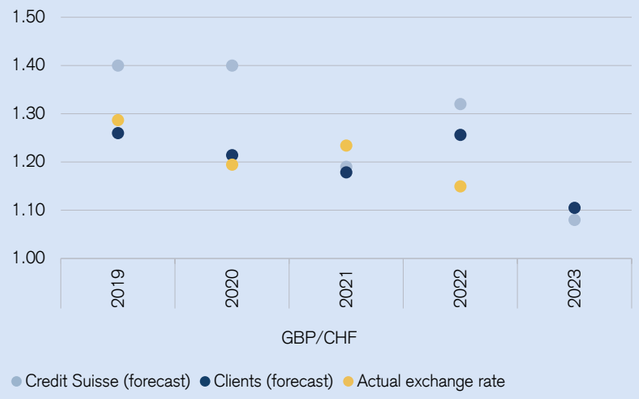
Forecasts made by the companies and Credit Suisse are higher this year

Exchange rate forecasts and actual exchange rates for the corresponding year end (December averages)



Source: Credit Suisse FX survey 2019–2023, Credit Suisse

Client and Credit Suisse forecasts are closely aligned
Exchange rate forecasts and actual exchange rates for the corresponding year end (December averages)

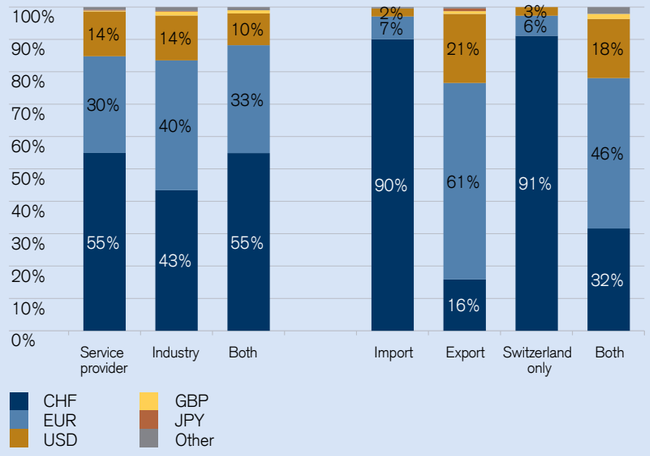


Source: Credit Suisse FX survey 2019–2023, Credit Suisse

Businesses expecting a GBP/CHF exchange rate of 1.10
Neither the companies surveyed nor Credit Suisse correctly predicted the massive depreciation of the British pound (GBP) last year. Since then, both the companies surveyed and Credit Suisse have become more pessimistic concerning the outlook for the GBP this year. Survey participants see the GBP/CHF exchange rate at the end of the year at 1.10, while Credit Suisse sees it at 1.08.

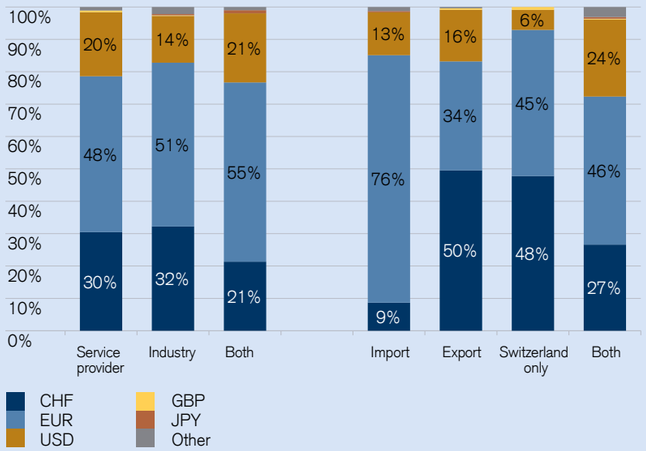
CHF is the most important currency for selling
In contrast, the CHF is used more frequently in selling. Forty-seven percent of companies name the CHF as their most important currency, followed by the EUR and USD. The CHF is more crucial to the service sector than to manufacturing. Of the service companies surveyed, 55% sell mainly in CHF, while the EUR plays an equally important role in the manufacturing sector. Considerable differences are also evident in foreign trade activity. For companies that focus primarily on importing or only on the Swiss market, foreign currencies play only a minor role in their sales.

Businesses focusing on import and domestic markets mainly use CHF
Most important currencies as a percentage of sales, by sector and foreign trade activity



Source: Credit Suisse FX survey 2023

Around 50% of businesses name EUR as their most important purchasing currency
Most important currencies as a percentage of purchasing, by sector and foreign trade activity

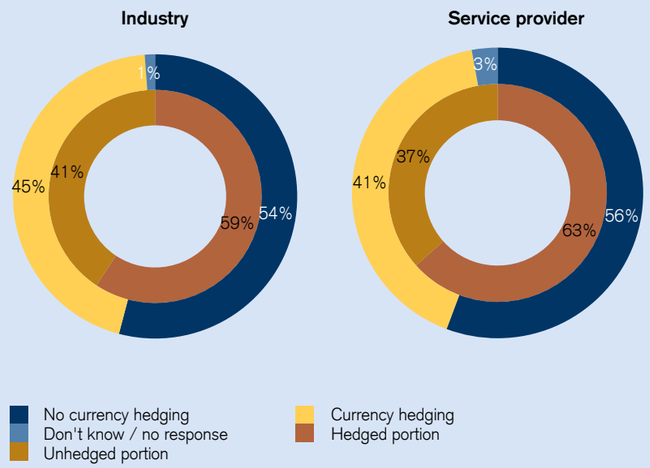


Source: Credit Suisse FX survey 2023

EUR dominates CHF for purchasing
Overall, roughly half of the companies surveyed said the EUR was their most important currency for purchasing. The relevance of the EUR is equally evident across all sectors. It is especially significant to importers, three-quarters of which say the EUR is their most important currency for purchasing. It is used less by exporters, where the CHF plays the most important role in purchasing. That said, the EUR is therefore considered even more important than the CHF. The USD is listed in third place. In an industry comparison, the USD proves to be less popular in manufacturing. The USD is also less important to companies with a focus on the import and domestic markets.

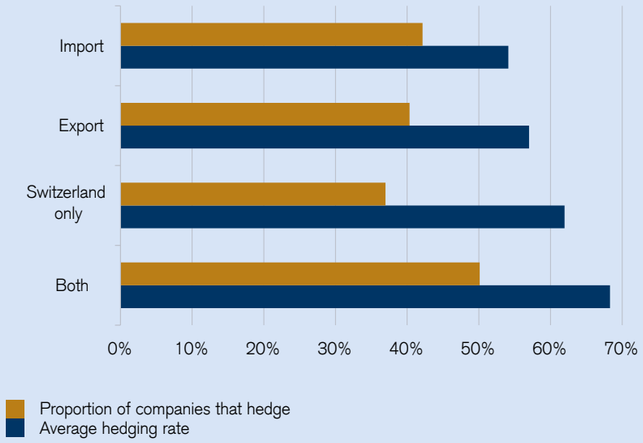
Forty-four percent of companies hedge their currency risks
Of the companies surveyed, 44% indicated that they hedge at least part of their foreign exchange risks. That is four percentage points more than last year. The average hedging ratio was 61%. Examining the results by sector reveals that the percentage of manufacturing companies surveyed that practice hedging (45%) is slightly higher than the percentage of service providers (41%). By contrast, service providers have a higher average hedging ratio (63%). This can be attributed to the fact that "natural hedging" is probably more difficult to implement in this sector, so financial hedging transactions are even more crucial.

High degree of hedging among service companies surveyed
"Do you hedge your foreign exchange risks? If so, what is your hedging ratio?"; responses from companies by sector



Source: Credit Suisse FX survey 2023

Hedging is important for import companies
"Do you hedge your foreign exchange risks? If so, what is your hedging ratio?"; responses from companies by foreign trade activity

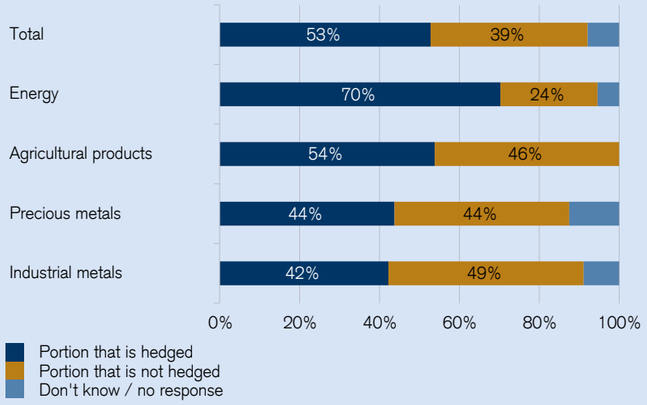


Source: Credit Suisse FX survey 2023

Degree of hedging differs depending on foreign trade activity
Among the import companies surveyed, 43% hedge their currency risks. This high percentage can be explained by the fact that foreign currencies, especially the EUR, are particularly important to importers. Around 40% of exporters perform hedging, compared with 37% of businesses focused on the domestic market. Foreign currencies are particularly important to the latter when purchasing because of their focus on the Swiss market. What's more, compa-nies that focus on the domestic market are characterized by a high average hedging ratio (62%). However, companies that conduct both import and export business have the highest hedging ratio – of 68%.

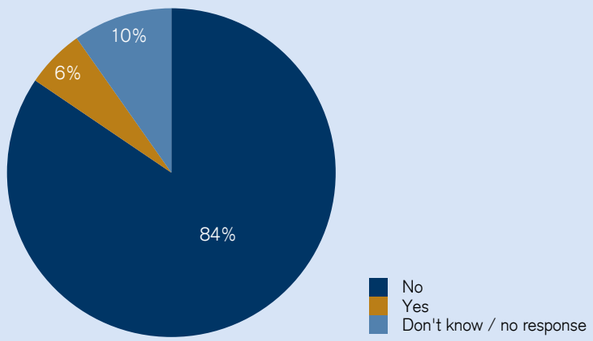
Majority of companies hedge against commodity risks
One-tenth of the companies surveyed trade in commodities. More than half of those companies hedge against commodity risks. This means that the hedging ratio for commodities is significantly higher than for currencies and interest rates. The companies that practice hedging the most are those that trade in energy (70%). However, a considerable share of respondents also hedge against risks involved with trading agricultural products (46%), precious metals (44%), and industrial metals (42%).

Hedging of commodity risks most often performed in the energy sector
"Do you hedge any commodity risks?"; percentage of companies by commodities traded



Source: Credit Suisse FX survey 2023

Only 6% of respondents use interest rate derivatives
"Do you hedge any interest rate risks using interest rate derivatives?"



Source: Credit Suisse FX survey 2023

Interest rate risk hedging using interest rate derivatives not yet widespread
The hedging of interest rate risks has become increasingly important given the interest rate reversal and the risk that interest rates will rise even higher on the back of persistently high rates of inflation. Based on our survey, however, more than 90% of respondents do not use interest rate derivatives to protect themselves from higher costs of financing as interest rates climb. It is interesting to note that the companies that hedge their foreign exchange risks are also more likely to hedge their interest rate risk. This suggests that certain companies protect themselves as far as possible against all financial market-driven risks, while other companies do not appear to make such risks a priority.

Visit our website at
credit-suisse.com/fx

Forecasts for 2023

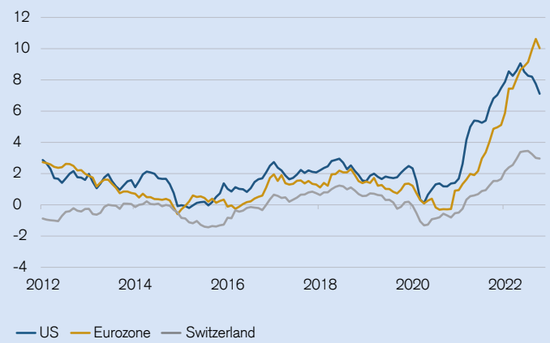
Europe
Credit Suisse believes that the euro zone is already in a recession. Economic output is expected to decline by 0.1% this year, following economic growth of 3.4% in 2022. Of the larger economies, Germany and Italy are likely to suffer the biggest drop, in part because both countries have significant export industries that are relatively dependent on gas. Meanwhile, consumption is also suffering from the energy crisis and high inflation. Although inflation is expected to fall slowly over the course of 2023, it will remain so high that the European Central Bank (ECB) will have to further raise interest rates despite the recession.

US
At 0.5%, US economic growth this year is likely to be significantly below the long-term trend. The Federal Reserve has had to stall the economy with major interest-rate hikes in order to get high inflation back under control. In the wake of this move, there is even a risk of a recession. However, Credit Suisse believes that this can be avoided. First, the higher credit costs are not putting as much of a strain on household budgets as they did in the past. Second, inflation should slow down to just over 3% over the course of the year, which should allow the Fed to avoid further interest rate hikes around mid-year.

European gas prices continue their steep climb
Gas prices EUR/MWh (Dutch TTF natural gas)

Sources: Refinitiv, Credit Suisse. Last data point: December 15, 2022

US inflation has passed its peak
Inflation rate in % year-on-year



Sources: Bloomberg, Credit Suisse. Last data point: November 2022

Forecasts for 2023

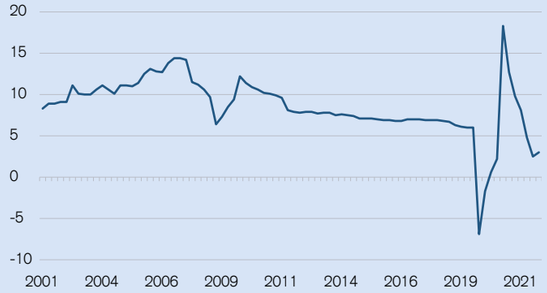
China
Economic growth in China has recently decelerated further. In 2022, the Chinese economy grew at an unusually slow rate of 3.5% due to interference from coronavirus restrictions and problems on the real estate market. The outlook for 2023 is only marginally better. Although the government is planning to ease the strict lockdown measures, re-openings are likely to be slow throughout the winter, given the high risk of infection. Meanwhile, the conditions on the real estate market remain challenging. Credit Suisse expects economic growth to accelerate to 4.5%.

Switzerland
Economic growth in Switzerland will lose momentum in 2023, as weaker demand from abroad and high energy costs weigh on the export industry. However, the risk of a recession remains relatively low thanks to robust consumption. The positive news for consumption is that, despite economic concerns, household employment levels remain good, as the unemployment rate remains low at 2.2% and immigration has accelerated. Credit Suisse is forecasting growth in Swiss GDP to still reach 1.0% next year, following a rise of 2.0% in 2022.

USD/CHF exchange rate
According to the Credit Suisse forecast, the USD/CHF exchange rate is expected to be 0.94 in three months and 0.95 in 12 months. The USD appreciation against most other world currencies – including the Swiss franc – in the course of 2022 was attributable on the one hand to the interest rate policy of the Federal Reserve, which took major interest rate steps in fairly short order. On the other hand, the USD has benefited as a safe haven from recession and concerns about the war. Compared with the CHF, which is also considered a safe haven, we now expect the USD to move sideways.

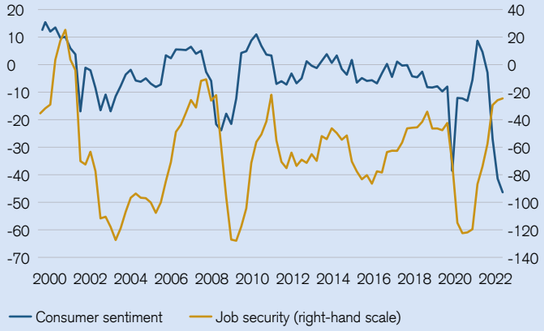
EUR/CHF exchange rate
According to Credit Suisse's forecast, the EUR/CHF exchange rate will remain below parity, i.e. where EUR 1 corresponds to CHF 1, throughout the year. In three months, the EUR/CHF rate is forecast to reach 0.95 and only marginally increase to 0.97 by the end of 2023. First, the euro zone is likely to already be in a recession due to the energy crisis. Second, due to high inflation, the European Central Bank (ECB) must slow down the economy by raising interest rates. Third, the CHF is in high demand as a safe haven. Fourth, significantly lower inflation in Switzerland is boosting purchasing power.

Growth trending downward
Economic growth compared with the previous year in % (adjusted for inflation)



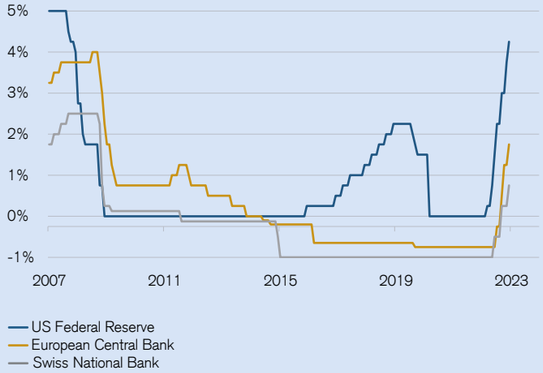
Sources: Refinitiv, Credit Suisse. Last data point: Q3 2022

General economic concerns vs. individual security
Sub-indicators in the consumer sentiment survey



Sources: State Secretariat for Economic Affairs (SECO), Credit Suisse.
Last data point: Q4 2022

The Federal Reserve has significantly increased interest rates ahead of the ECB and the SNB
Key interest rates, in %



Sources: Refinitiv, Credit Suisse. Last data point: December 16, 2022

EUR depreciating vs. CHF
EUR/CHF

Sources: Bloomberg, Credit Suisse. Last data point: December 19, 2022

A new world order is changing the global monetary regime

In summary, 2022 will be seen as a historic turning point – the start of a new era in world history. The old world order is crumbling and a new one is emerging. We should be in no doubt that these developments will also shape the global monetary regime. What does this mean? Although new eras come and go, they have far-reaching implications and turn many things upside down.

When the beginnings of industrialization and the French Revolution ushered in a new world order in the 18th century, Friedrich Schiller in his play William Tell described – very much in the spirit of the Enlightenment – how "What's old collapses, times change, and new life blossoms in the ruins."[1]

Some 200 years later, Bob Dylan picked up where Schiller left off with his catchy tune "The times they are a changin'." When he wrote the song, the US had just lost its innocence in Vietnam. A new world order was born then, too – although its mask slipped on the foreign exchange markets in 1971, when the US terminated the Bretton Woods agreement and thus the convertibility of the US dollar to gold.

Twenty years later, in 1991, another new world order emerged with the collapse of the former Soviet Union. Then in 2001 – ten years later – the golden era of globalization began when China joined the World Trade Organization. There were many who believed in the mantra of "change through trade." However, the war in Ukraine and the new conflict between East and West have crushed many of these hopes. The old security order, the golden era of globalization, and the German-Russian energy symbiosis are a thing of the past. A new world order is emerging, as illustrated by a number of megatrends: i) the new arms race and Cold War 2.0, ii) the global energy transition, and iii) deglobalization. Together, they will change the world more than many people can imagine. Yet the transition from the old to the new world order will not be child's play.

First of all, a lot of trust has been lost, which constitutes a major setback – for the world, for the economy, and for politics. It is causing the world to fragment. Second, the "old economy" is having to pay the price. After all, each of the megatrends mentioned requires huge investments in infrastructure to begin with. Whether it's building renewable energy plants, electrifying mobility, deglobalization, or upgrading the military, this all requires infrastructure and resources – and the latter are in short supply. A global race is therefore under way to secure steel, copper, nickel, rare-earth elements, gravel, energy, and other building materials, with China, Asia, Russia, and the West becoming geostrategic rivals. For example, the construction of a large wind turbine requires as much steel as the construction of 15 tanks. Is there enough low-cost steel in the world to enable China and Europe to meet their future needs for the construction of tanks and wind power at the same time? Only a fool would believe it. It's clear that a renaissance of protectionism, industrial policy, and trade blocs has begun. The golden age of "Chimerica" – the unique symbiosis between the once-poor, densely populated China and the rich West – is starting to fade. The same applies to the deflationary blessing that China's low-cost exports created for the West.

1 Friedrich Schiller, Wilhelm Tell, Attinghausen.

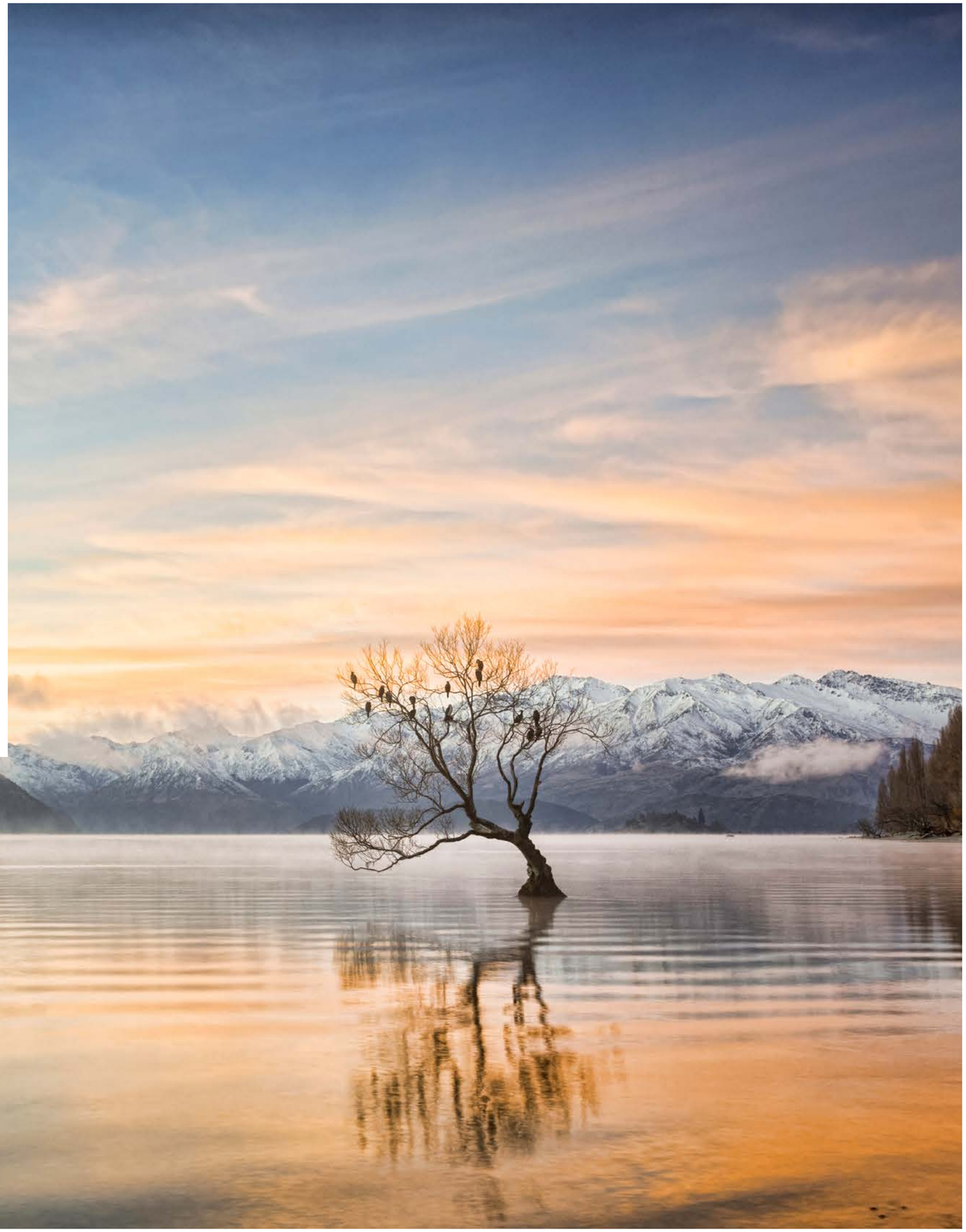
Dr. Burkhard P. Varnholt, Chief Investment Officer of Credit Suisse (Switzerland), Vice-Chairman of the Global Investment Committee

Burkhard Varnholt obtained his Ph.D. from the University of St. Gallen (HSG). He has over two decades of international experience in the management of private and institutional assets, including more than 12 years with Credit Suisse.

In short, lots of pendulums are swinging back. In addition to challenges, this also creates opportunities – for local production, for example, and perhaps for the climate as well as some sectors too. But this also comes at a price. Trade barriers, tariffs, and protectionism will not make the world any better or cheaper. What does this mean for the global currency system?

China's hopes of turning the renminbi into a global reserve currency are a thing of the past. It will probably take years for the currency to become convertible. After all, such moves are hard to conceive amid a lack of trust.

The weak euro is the flip side to the strong US dollar. The war and the energy crisis have allowed the US to massively strengthen its economic and geopolitical position. As well as being the largest economy, the US has also become the world's largest energy exporter overnight. The more uncertain the world in which we live is, the stronger the US dollar. The euro, on the other hand, continues to suffer from its birth defects. The dichotomy of monetary union without a fiscal union has stigmatized it since the 2011 crisis in the euro zone. Only when the currency bloc recognizes this and commits to being a "solidarity union" will the euro see a lasting appreciation. But before that happens, a lot of water will continue to flow under the bridge. By contrast, the Swiss franc is likely to remain the strongest currency in the world. Switzerland is competitive, has a low level of national debt, and is outward-looking. This strengthens its currency – whether we like it or not. In the future, emerging markets may seek to finance themselves in local currencies to a greater extent than before. The fact is, dollars are expensive. Also, these countries' financial systems are now more liquid than they were a few years ago. The unchecked rise in government debt means interest rates will stabilize again at a low level on the other side of the current "inflation hill." The Japanese example shows the way. By the way, this development is also likely to strengthen other assets, i.e. bonds, real estate, and equities. There are always opportunities in the midst of change.



We need to win back the trust of our clients

The global economy is being hit by numerous crises, while Credit Suisse itself is being repeatedly and publicly criticized. Andreas Gerber, Head of Corporate Clients at Credit Suisse (Switzerland) Ltd., talks in an interview about the most important success factor for Swiss SMEs in these times and how the bank wants to win back the trust of its clients.

Mr. Gerber, the current economic environment is agitated, to say the least. How is the Swiss economy doing under these circumstances?
Compared to other economies, it remains solid. This is partly due to location: Switzerland offers companies an excellent basis and is less affected by the current crises than other countries. In addition, the SNB has acted with the necessary foresight in terms of interest rates in recent years – our country is currently benefiting from this. For example, the rise in inflation is smaller than in Europe, the UK, or the US.

Another factor is that Swiss companies are very agile and have comparatively low levels of debt. This makes them more resistant to negative events. But the environment is very volatile. Entrepreneurs face many open questions. This affects companies and, in turn, leads them to generally take fewer risks or postpone certain decisions.

How important is the innovative strength of local SMEs for their competitiveness in this situation?
This is the key factor for success. Moderate actions don't work when you're in Switzerland. With innovations, companies can distinguish themselves from their national and international competitors and avoid price pressure to a certain extent. Companies should therefore not reduce their efforts, even in crisis situations. On the contrary, precisely during difficult situations is when they should invest more in innovation.

How do you rate the current economic outlook for Switzerland?
There are currently many overlapping challenges that do not support strong economic growth. The war in Ukraine, inflation, high energy prices, and the shortage of skilled workers. And the first signs of an economic slowdown are already evident. I therefore expect the growth of the Swiss economy to slow down somewhat in 2023. However, Switzerland will continue to outperform other countries by international comparison.

So we don't need to fear a recession?
No, I don't see a risk of recession at the moment. However, in the current environment, with the many different flashpoints and challenges, a lot can change very quickly. The real estate market is an exception. Overall, we expect this segment to cool down in 2023. This is due to the changed interest rate environment and lower demand.

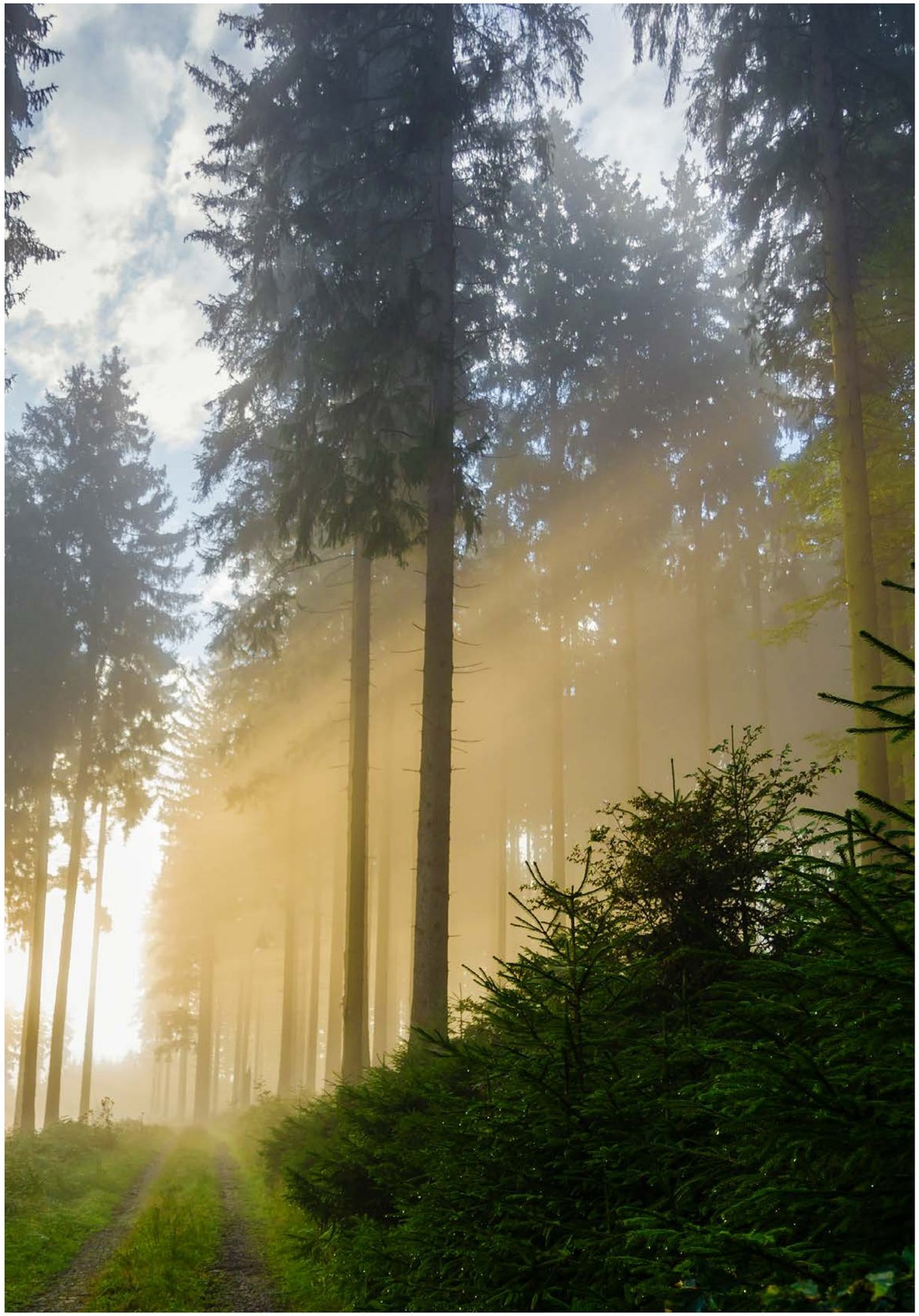
How do Credit Suisse corporate client advisors support their clients?
We offer our clients a fully integrated offering – that is what distinguishes Corporate Banking at Credit Suisse and it is unique in the market. Our employees actively support companies of all sizes, from the start-up phase through to the handover of the company – and can offer all the services and products that our clients require. Furthermore, clients can access our entire offering directly through their dedicated contact person. That's a big advantage.

What makes Credit Suisse's approach special?
Our goal is to be able to offer customized solutions for our clients. The most important things are experience, expertise, curiosity, and how our advisors focus on clients. On average, our advisors have been with Credit Suisse for 20 years and they don't only act when they receive an order but they engage actively and regularly with corporate client decision-makers. This enables them to understand the company and its needs exactly. This client proximity is key, enabling our advisors to act more specifically and find the best possible solutions.

Recently, Credit Suisse has often been the focus of public attention. Unfortunately, mainly through rumors and negative headlines. How is the bank doing?
The developments of the past two years and the current situation naturally create uncertainty and weigh on our clients and our employees. The focus is now on regaining and continuously strengthening trust in our bank. The new strategy presented on October 27, 2022, as well as the implementation measures already in place, constitute the first, important steps.

Furthermore Credit Suisse has a strong client base in Switzerland and was successful in its work in 2022. We're in a position to build on that. Diligent work and full concentration on our clients are the keys to success, and that is exactly what we're focused on.

Andreas Gerber is Head Corporate Banking and a Member of the Executive Board of Credit Suisse (Switzerland) Ltd. and the Swiss Universal Bank Management Committee. He is also President of the Swiss Venture Club, a member of the Executive Committee of the Europa Forum Luzern, Chairman of the Board of Directors of Credit Suisse Entrepreneur Capital AG, and a member of the Board of Directors of the Switzerland Innovation Foundation.



Surviving volatile markets, thanks to flexible hedging solutions

The world is not getting any calmer. Geopolitical tensions, rising interest rates, and volatile exchange rates are putting pressure on Swiss SMEs. Find out how Optiswiss AG and Garaventa AG stay successful despite the challenging situation and what hedging solutions they use to minimize their foreign currency risks.

As soon as it seemed like the consequences of the pandemic had been overcome, new clouds were already appearing on the horizon. Rising inflation rates, Russia's attack on Ukraine, and volatile exchange rates are posing new and major challenges for Swiss SMEs.

How can companies survive in this complex environment, and how should they assess their future prospects? Bärbel Wood, CFO of Optiswiss AG, Sebi Lüönd, CFO of Garaventa AG, and Marcel Zgraggen, Head of Financial Accounting at Garaventa AG, share their insights on these questions.

Positive outlook in day-to-day business

Garaventa AG is still feeling the impact of the COVID-19 pandemic. The company earns its money from the construction of cable cars, many of which are located in tourist areas. Since the company's projects typically last several years, the consequences of the pandemic emerged with delayed effect. It was initially able to continue working on orders that were already on the books. "Then, however, some of these orders were paused in the 2021/2022 financial year," says Sebi Lüönd, CFO of Garaventa AG. Fortunately, not a single one was canceled.

At the same time, order volume increased in the area of maintenance and service. "Instead of building new systems, our customers are increasingly choosing to restore their existing systems to optimal condition," says the CFO. As such, he is optimistic about the current situation for Garaventa AG overall: "Despite the difficult situation, we have not had to post losses for a single financial year. And we are currently seeing very positive sentiment in the market."

Optiswiss AG specializes in the production of high-quality eyeglass lenses for specialist retailers. Last year, this internationally active company with its headquarters and production location in Basel enjoyed positive business development despite the economic challenges in Europe. "2022 went very well for us. We were able to achieve growth in local currencies, even against the backdrop of declining markets," says CFO Bärbel Wood. "Despite this positive performance, however, the EUR/CHF exchange rate and higher costs unfortunately had a negative effect on our bottom line for the year." This came after a strong previous year in which the company was able to benefit from a pronounced catch-up effect immediately following the pandemic-related lockdowns.

Numerous problem areas are keeping companies on their toes

Current developments, however, are causing worries for both companies. "In the last 30 years, we have never had to face so many challenges all at once," says Lüönd. "War, inflation, higher material and transport costs, and a shortage of skilled workers. That's extreme." Nonetheless, his company has handled these challenges well so far. "In recent years, we have actually been able to invest even more in the development of new products," says the CFO.

These efforts are bearing fruit. In September 2022, Garaventa AG launched "TRI-Line," a new cable car system. It can transport up to 8,000 people per hour and direction, and can be set up very quickly thanks to its modular construction system. The first system of this type is currently under construction in Hoch-Ybrig. "With our innovations, we are well equipped for the future," says the CFO. This future lies not only in the company's traditional business in tourist-oriented mountain areas, but also increasingly in major cities that rely on cable cars for public transportation.

The complex situation has called for Optiswiss AG to continuously respond as well. "The low EUR/CHF exchange rate in particular has been a serious setback for us," says CFO Bärbel Wood. This is because 70% of the eyeglass lens manufacturer's sales are generated in the eurozone. This development of exchange rates has resulted in a corresponding decline in revenue, as well as lower values for EUR holdings in company accounts.

Supply chains also remain a key issue for the company. "We produce every customer order on an individual basis," Wood explains, "and our ability to quickly deliver the lenses ordered is key to our business." As a precaution in order to ensure that deliveries can be fulfilled within the typical period for the industry, Optiswiss AG has increased its inventories of the necessary semi-finished products. This serves to reduce the company's exposure to supply chain fluctuations but has also tied up much more of its capital in these stockpiles.

Optiswiss AG is the largest independent manufacturer of eyeglass lenses in Europe. The company manufactures all of its products in Basel and supplies them to more than 20 countries. Bärbel Wood has been the CFO of the company since 1999.

What currency risks apply in the current environment?

For Bärbel Wood of Optiswiss AG, the weakness of the EUR is clearly the greatest risk – because compensating for it is no easy task. "We cannot raise our sale prices in the eurozone faster than the inflation rate, or else we would no longer be competitive in these markets," says the CFO. The price of the dollar plays a crucial role as well, however, since the company purchases a great deal of the semi-finished products needed for production in USD.

In the case of EUR, Optiswiss AG primarily makes use of natural hedging to hedge currency risks. That said, the course of business often results in a EUR surplus on the lens manufactur-

er's accounts. This is why the negative interest rates in recent years represented a challenge. In order to avoid this, the company decided to optimize its EUR holdings with

EUR/USD dual-currency investments. In the best case, this allowed the company to buy USD forwards simultaneously and at an advantageous price. "We can estimate almost exactly when we will need USD and how much we will need," the CFO says. "Dual-currency investments enable us to prevent any negative interest and to generate a positive return instead."

Garaventa AG is in an enviable position with regard to currency risks. "Thanks to our strong market position, we can sell in EUR in the eurozone and in CHF in the rest of the world," says Marcel Zgraggen, Head of Financial Accounting at Garaventa AG. "Our spending and income in EUR are roughly balanced. This means that we can employ natural hedging and do not need to hedge currency risks separately."

Garaventa AG still needs to deal with other currencies in some cases, however, such as public RFPs that require contracts to be paid for in local currency. In the past, such cases have included projects such as major contracts in Hong Kong and Turkey. "We rely on forward contracts in such cases," says Zgraggen, "because our customers' payments are normally due in large tranches on specific dates." In the event that such projects encounter delays like those caused by the pandemic, a swap can be used to adjust the hedging for the new date.

Investments in foreign cable car operators can also cause Garaventa AG to buy or sell foreign currencies from time to time, e.g. in order to acquire shares and when receiving dividends from foreign subsidiaries.

Constant dialogue with Credit Suisse advisors

The personalized support provided by Credit Suisse advisors is a major plus for both companies, including aspects like active communication about market developments and direct access to the bank's trading floor. "We greatly appreciate this collaboration," says Lüönd. This is not limited to a foreign exchange context, and also extends to other areas such as the placement of time deposits.

"It's a relationship on an equal footing," Wood adds. The long-term nature of the partnerships with personal contacts is also a key advantage for the CFO of Optiswiss AG. "This ensures that they have the best possible understanding of how our business is developing and what our goals are." Another advantage of this straightforward and personal contact: "When we make a decision, it is always implemented very quickly."

Looking forward

Optiswiss AG is continuing to deal with the political and economic uncertainties. The development of energy prices is another key issue for the company. This is why the company is deeply committed to energy efficiency and has already implemented a number of measures to optimize its power and energy consumption such as the installation of a heat recovery system for the production plant. Despite the challenges, however, Optiswiss AG is still preparing itself for further growth. "For this reason, we have invested a great deal in additional capacity, in automation and efficiency in production, and in the further expansion of sales," says Wood, "because the development of the company must still be driven forward even in times like these."

For Garaventa AG, winter business is key and will remain so in the future. "If winter business goes well, then our customers will invest in new systems again," says CFO Sebi Lüönd. Energy costs are also a major issue, if only indirectly. "We can cover a great deal of our own energy consumption with solar power we produce ourselves, but power is a major cost for our customers. This makes it all the more important for our products to be energy-efficient." Rather than in the mountains, however, the CFO sees the greatest potential for the future in major cities – namely with urban transit. "In South America, for example, we have been able to demonstrate that the solution works well in places like La Paz. The system there is used by 300,000 people each day." The company now hopes that the trend can become established in urban areas in Europe and the rest of the world as well.

Garaventa AG is headquartered in Rotkreuz and is a subsidiary of the Doppelmayr/Garaventa Group. The company is a leading global player in the ropeway sector and has production facilities at its locations in Goldau, Uetendorf, and Sion. Sebi Lüönd has been working for the company for more than 30 years and was named CFO in 2014. Marcel Zgraggen has headed the company's financial accounts department since summer 2022.

Doing business successfully – despite countless challenges

Daniel Vernet – FX advisor at Optiswiss AG

I have been working at Credit Suisse as an FX advisor in the corporate client unit in the Northwest Switzerland region since August 1998. I always attach great importance to client proximity. I communicate with my clients on a daily basis and visit them regularly to build a personal, long-term relationship. This on-site support is a big plus.

Clients appreciate proximity, and this personal contact helps us speak the same language. Furthermore, this enables us to proactively present hedging and optimization proposals. Especially in the years during which negative interest rates were incurred on assets in euros, Swiss francs, or Japanese yen, we were able to demonstrate options such as dual currency investments or swap instruments. With invitations to forecast events and conference calls, as well as holding training workshops, we can offer our clients additional added value.

Optiswiss AG has been part of my client base since 1998, during which time the relationship has always been based on partnership and trust. CFO Bärbel Wood always has an open ear when we propose products and clearly communicates her needs to us. This is very helpful. In addition, the company is open to new developments and also visited our FX Academy last year, for example.

Rafael Aggeler – FX advisor to Garaventa AG

I started at Credit Suisse in 2009 and was initially involved in the FX and money market area in the back office before switching to FX trading in 2017. This enabled me to familiarize myself with front-to-back processes and use my internal network to provide our clients with the best possible support.

Trust is key, given that foreign exchange is traded over the counter. Our local roots help us gain a better understanding of our clients' needs. While many companies are aware of the FX risks in day-to-day business, it's often the case that currency risks within the balance sheet – translation risks, in other words – only become apparent on closer inspection. Our analysis is crucial in such situations. So, as soon as we identify opportunities in the market or change our exchange rate forecasts, we proactively contact clients. For example, we will contact them by telephone as soon as a predefined exchange rate has been reached, notify them when hedging solutions expire, or arrange a personal meeting.

For me personally, the collaboration with Garaventa AG brings back great childhood memories of winter holidays spent with my family. But the connection goes beyond the emotional. As a major bank, we have a presence in Latin America and Asia – both of which are strong growth markets for the company. Thanks to our local presence, we can also quote in illiquid markets.

Optimally hedge volatile risks on the foreign exchange market

Rising interest rates, inflation, and geopolitical uncertainties shaped the past year and resulted in changed risks – including on the foreign exchange market. Joel Raimann, Head of the FX Sales Desk in Eastern Switzerland, talks about how companies can hedge themselves in this challenging environment.

Mr. Raimann, the pandemic was no longer the dominant topic for many companies in 2022. What have Swiss SMEs been doing over the past 12 months?
There was no decrease in problems for companies. First, inflation in the US and the euro zone was already above the target range of central banks in early 2022. This is primarily due to monetary policy measures taken to support the economy during the pandemic. Then came Russia's attack on Ukraine, which led to a sharp rise in energy prices. This price increase is further driving up inflation rates, including in Switzerland.

In addition, the shortage of skilled workers and supply chain problems are also major challenges for Swiss companies. However, this volatile period has also shown how resilient the local SMEs are. They were able to deal with all these risks very well and, for the most part, have been able to survive this difficult time relatively unscathed so far.

What impact did these developments have on exchange rates?
Initially, the Swiss franc gained strength over the course of the year, particularly against the euro. To illustrate this, the euro started 2022 at a rate of CHF 1.04 – and has fallen below CHF 0.95 since. One element is that the Swiss franc benefited from its "safe haven" characteristics in uncertain times. Another element is that the strong Swiss economy and the interest rate hikes of the Swiss National Bank (SNB) also contributed to this development.

The US dollar also became very strong. This is partly because energy sources, such as oil and gas, are often paid for in US dollars on the global market. The price increases therefore led to a higher demand for dollars. In addition, the aggressive interest rate moves by the US Federal Reserve (Fed) led to higher returns, which also increased demand for the US dollar.

What does this mean for internationally active companies?
In principle, a strong Swiss franc is an advantage for imports from abroad. Companies that import goods from the euro area are in a particularly good position to benefit. After all, the strengthening of the Swiss franc roughly compensates for the consequences of the higher inflation rate in the euro zone countries. This means that although prices have risen sharply in the euro zone the costs for Swiss companies remain about the same. This price stability obviously helps a lot. In contrast, exporting companies are suffering greatly from the strength of the Swiss franc against the euro. In addition, the interest rate difference has increased over the course of the year, especially with the US dollar. As a result, companies have to expect a larger forward discount on forward sales of US dollars.

How can Swiss companies hedge against such developments?
The most important thing is certainly to be aware of currency risks. But even the best planning is never right down to the last detail. And last year in particular, it was very difficult to predict developments on the foreign exchange markets. In such times, a certain degree of flexibility in hedging currency risks is very important. This allows companies to respond to unforeseen events while still protecting themselves against negative exchange rate developments.

What hedging strategies are advisable during such times?
Rolling hedging with forward transactions is a proven strategy. For example, the risks are fully hedged at the start of the year for three months, but only partially for the rest of the year. The hedging ratio will then be increased regularly. In this way, the foreseeable risks are always fully hedged over three months. At the same time, the company retains certain freedoms and can seize any opportunities that arise to optimize the hedging.

What advice do you give companies for currency hedging in 2023?
Generally speaking, it is important to involve currency management in the internal strategy and to ask how the company can protect its margin against unfavorable exchange rate developments. As soon as a budget rate is defined for the required foreign currencies, companies should therefore hedge at least part of the coming year. It is also always useful to plan with various scenarios. This allows us to better assess the risks and consequences, as well as to incorporate the information into the decision regarding the instruments and the extent of currency exposure hedging.

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Sleep more soundly thanks to currency hedging

Hedging against currency risks is vital for multinational companies, as the past few months have once again shown clearly. Currency hedging takes many forms, however. The right hedging solution always depends on your specific starting point.

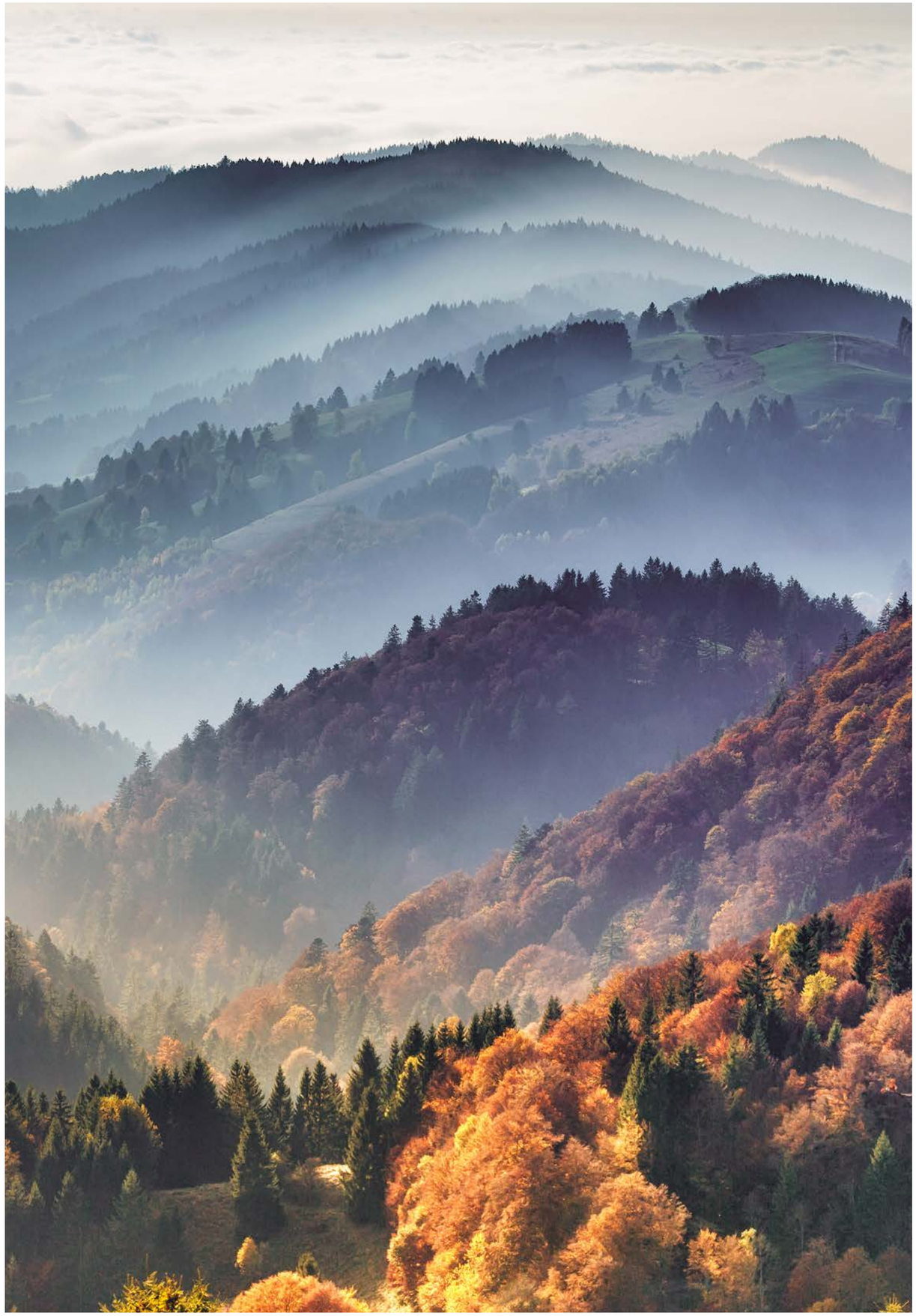
2022 has been a bumpy year for international markets. The aftermath of the pandemic and supply chain disruption continues to be felt, while geopolitical tensions have reached a new level of escalation and central banks have responded to mounting inflationary pressures by hiking interest rates.

This has resulted in movement in the foreign exchange market, with the euro losing substantial ground against the Swiss franc. It has also left its mark on multinational companies, with some having to accept significantly lower margins.

The ongoing uncertainty makes it all the more important to think about managing foreign currency risk at an early stage and if possible «locking in» your budget exchange rate. However, there is no one-size-fits-all solution when it comes to hedging exchange rate risks. Each company is in a unique position and has different requirements that need to be taken into account in the chosen hedge solution. What matters is that the aim of a hedge solution should not be to speculate on the development of the foreign exchange rate. Rather, the objective is to find the best possible way of reducing existing risks for the company.

Recent months have highlighted the need for active management of currency risks. However, the choice of hedge solution depends on various factors. Along with the type of business activity, the main focus is on risk ability and appetite.

Christoph Leuenberger has been with Credit Suisse for over eight years and advises corporate clients in the Greater Zurich region on how to manage their currency risks.



Example shows hedge solution with Average Forward and Participating Forward for an exporting company with costs in CHF and EUR surpluses:

	Average Forward	Participating Forward
Brief description	This strategy is suitable for clients wishing to hedge their EUR position against a lower EUR/CHF exchange rate.	This strategy is suitable for clients wishing to hedge their EUR position against a lower EUR/CHF exchange rate and at the same time partially benefit from an increase in the exchange rate.
Example (spot rate 0.9700)	■ Sale of EUR against CHF with 12-month maturities ■ Nominal amount per month: EUR 100,000 ■ Hedge rate: 0.9625	■ Sale of EUR against CHF with 12-month maturities ■ Nominal amount per month: EUR 100,000 ■ Hedge rate: 0.9425
How it works	For all expiries: ■ You sell EUR 100,000 at the hedge rate on the relevant settlement date.	At each expiry, one of the following scenarios may occur: ■ Scenario 1 – EUR/CHF trades below the hedge rate: you sell EUR 100,000 against CHF at the hedge rate on the relevant settlement date. ■ Scenario 2 – EUR/CHF trades at or above the hedge rate: you are required to sell EUR 50,000 against CHF at the hedge rate on the relevant settlement date.
Benefits	■ At the hedge rate you are protected against a lower EUR/CHF exchange rate. ■ If EUR/CHF is trading below the hedge rate at expiry, you sell EUR at a better price than the current spot rate. ■ No premium has to be paid.	■ At the hedge rate you are protected against a lower EUR/CHF exchange rate. ■ If EUR/CHF is trading at or above the hedge rate at expiry, you are only required to sell 50% of the nominal amount at the hedge rate. You could sell the difference versus the nominal amount at the current spot rate, which is better than the fixed rate (not within this structure). ■ No premium has to be paid.
Risks	■ If EUR/CHF is trading at or above the hedge rate at expiry, you are required to sell EUR for CHF at a more unfavorable price compared with the spot rate in force on that date. This could result in a loss. ■ This structure may show a negative market value during the term. Closing the position before the last expiry may result in costs.	■ If EUR/CHF is trading at or above the hedge rate at expiry, you are required to sell 50% of the nominal amount at a more unfavorable price compared with the spot rate in force on that date. This could result in a loss. ■ The total proceeds from this structure may vary. ■ This structure may show a negative market value during the term. Closing the position before the last expiry may result in costs.

Have we sparked your interest?
Our specialists in the various regions look forward to receiving your call and will be glad to assist you in devising a hedging strategy that is tailored to your needs.

We need to be prepared for higher interest rates in the term

After a long period of being low or even negative, interest rates in Switzerland and other industrialized countries are rising again for the time being. This results in higher interest rate risks for companies. Olivier Frey, Head of OTC Fixed Income Derivative Sales at Credit Suisse (Switzerland) Ltd., explains how companies can hedge against these risks.

Interest rates rose again last year for the first time in a long while. What is driving this development?
The reason for rising interest rates is higher inflation. This is driven by three main factors. The first factor is that companies were unable to produce as much as they had planned during the coronavirus crisis due to supply bottlenecks. However, private individuals and companies still needed things and as a result there was pent-up consumer demand.

Simultaneously, the employment rate has remained very high – this is the second factor. At the end of October 2022, for example, the unemployment rate in Switzerland was below 2%, while in the US it was just over 3%. Companies are therefore barely able to find staff to expand production and meet consumers' need to make up for the lost pandemic years. This leads to rising prices. Finally, the third factor is the conflict in Ukraine. It has led to a sharp rise in energy prices, especially in Europe, which has had a direct impact on inflation figures. At some point, central banks had to respond to these developments by raising key interest rates.

When will the interest rate level peak?
In the US, interest rates are likely to reach their high of more than 5% by mid-2023 and then gradually fall again. In Switzerland, on the other hand, we expect a relatively healthy development, with key interest rates rising by between 1% and 1.5%, and the longer-term interest rate level settling around 2%. However, these forecasts are still riddled with uncertainties. After all, the last time we saw inflation figures like those we have at the moment was in the 1970s and 1980s. Central banks therefore lack experience in dealing with this situation. Furthermore, we cannot assume now – in late November 2022 – that interest rate developments are over. Too many factors that can lead to a further rise in inflation play a role in this for that to be the case.

Should companies hedge against these interest rate risks?
I'm often asked this question. In Switzerland, since the introduction of negative interest rates by the SNB, we have become accustomed to dealing with extremely low interest rates. Over the past ten years or so, companies have been able to take on debt on a variable basis and have hardly had to deal with interest rate risks. This is no longer the case. Yet, an awareness of what it means to live in a long-term higher interest rate environment has to be redeveloped first. Companies that are exposed to interest on their balance sheets should therefore actively manage interest rates, and at least carefully consider hedging against interest rate movements.

What should companies pay attention to when it comes to interest rate hedging?
One important question is how long the company wants to protect itself. As a first step, I advise companies to check whether it makes sense to hedge the entire term of the obligation. This would completely neutralize the debt element.

However, if the company assumes that interest rates will exceed their peak during this period and then sharply decrease it can also hedge part of the term and be exposed to the risks on the interest rate market for the rest.

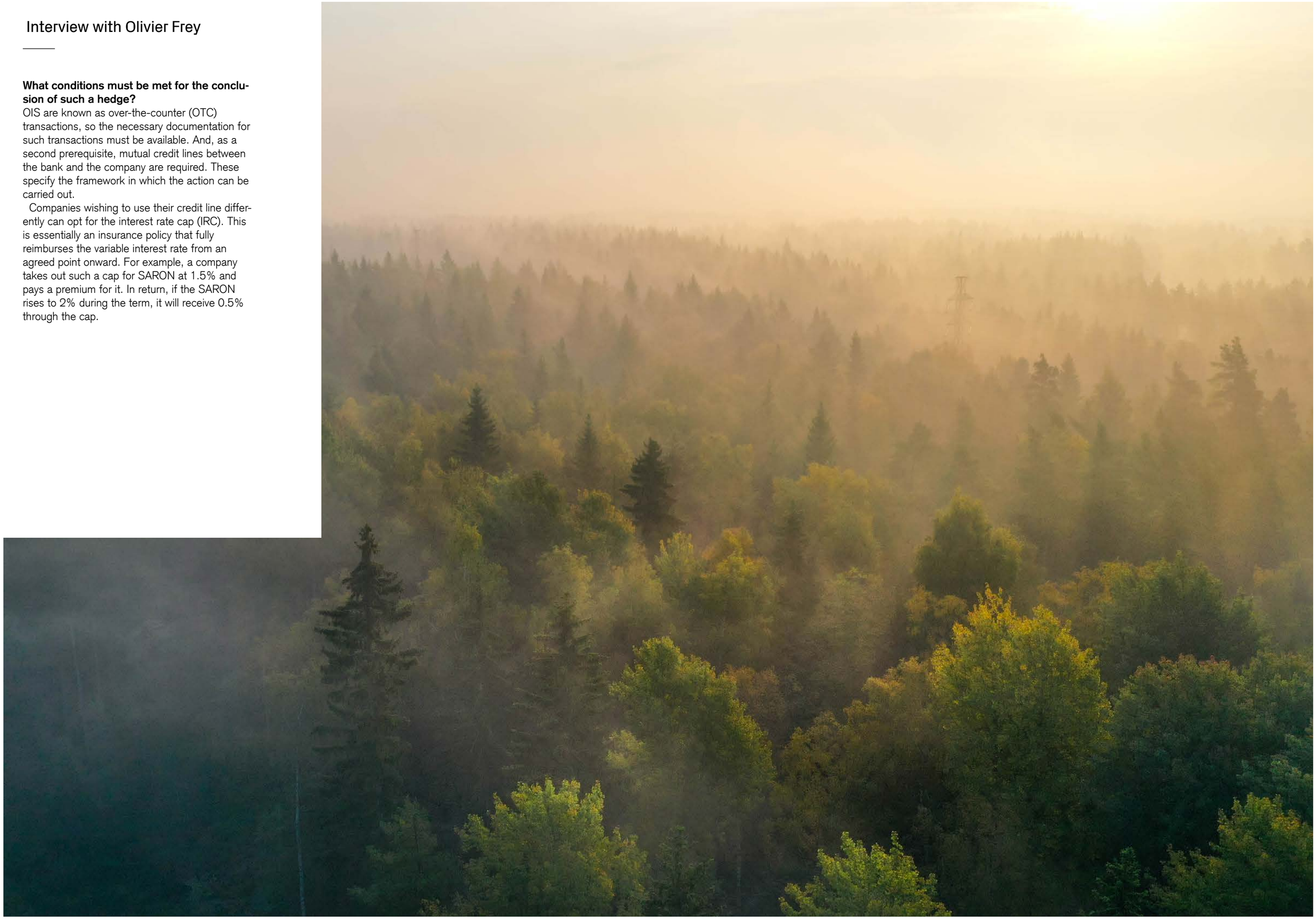
What are the potential consequences of underestimating interestrate developments?
The interest burden directly influences the operational business. An increase in variable interest rates can lead to enormously high costs – especially for companies that have a high debt-to-equity ratio. Underestimating interest rate developments can therefore present a very significant risk. This plays an important role, particularly when an existing debt expires and the company replaces it with a new loan. If interest rates are suddenly much higher at that time and the company does not have the capital to repay the loan, it must accept the higher costs.

What strategies and products can companies use to specifically protect themselves against such risks?
The easiest and most liquid solution would be overnight index swaps (OIS). The company pays a fixed interest rate during the term of the hedge and receives a variable rate, such as the SARON for CHF products, in return. This eliminates the variable element of the debt, and the company knows exactly how high the interest rate owed is for the hedging period. This creates planning certainty.

Options such as interest rate caps can also be used. Such asymmetric products allow hedging against a negative effect, usually interest rate increases. However, the company can benefit from positive interest rate developments.

What conditions must be met for the conclusion of such a hedge?
OIS are known as over-the-counter (OTC) transactions, so the necessary documentation for such transactions must be available. And, as a second prerequisite, mutual credit lines between the bank and the company are required. These specify the framework in which the action can be carried out.

Companies wishing to use their credit line differently can opt for the interest rate cap (IRC). This is essentially an insurance policy that fully reimburses the variable interest rate from an agreed point onward. For example, a company takes out such a cap for SARON at 1.5% and pays a premium for it. In return, if the SARON rises to 2% during the term, it will receive 0.5% through the cap.



The Credit Suisse FX Academy – a success story

Credit Suisse's FX Academy has won over corporate clients through a combination of expertise, applicable examples from the real world, and the opportunity to exchange ideas with peers from other companies. In 2022, more than 140 participants took part in one of the regional courses. Leif Woodtly, Head of FX Sales for Corporate Clients at Credit Suisse (Switzerland) Ltd., looks back on the first year of the new offering and takes stock.

Leif Woodtly, the FX Academy is now entering its second year. Briefly explain what's being offered.
With the FX Academy, we wanted to address our corporate clients' need to gain a better understanding of the FX markets, the management of foreign exchange risks, and the corresponding hedging products on the market. That's why we are organizing the one-day basic and advanced courses for small groups of clients. In these courses, our FX experts share their expertise directly and participants can exchange ideas with representatives from other companies.

For example, the courses discuss which factors influence prices on the foreign exchange market and what the risks and opportunities of foreign exchange trading are. Depending on the module, we discuss the handling of spot and forward transactions as well as the broad range of hedging opportunities through the use of options. Participants can then use specific case studies to expand on what they have learned and discuss open-ended questions with our experts or with other clients.

What is your opinion of the program so far?
Entirely positive. We were especially surprised by the demand for the courses. We had originally planned five to six workshops over the course of the year. However, they were very quickly booked up. In the end, we conducted 16 sessions with a total of 148 participants.

The interaction and commitment at the events were very encouraging. The Participants were extremely interested and actively helped shape the discussion by asking many questions that concern them in their daily business. This led to interesting discussions about how companies deal with their FX risks and which best practices have stood the test of time with them.

What were the highlights of the course days for you so far?
The biggest highlights were the conversations with the participants. We were able to generate a lot of insights during the conversations and also offer clients specific help and services on the topics they were concerned with at the moment.

Another highlight of the first year of the Academy is that we were able to further develop the content of the courses with input from the participants. For example, a set of "golden rules" for the FX business emerged from the first events. We then integrated this into the course documents.

How was the offering perceived by clients?
Very well, I think, and that's certainly what the large number of registrations shows. We even had to open a waiting list because we simply couldn't conduct more course sessions. And we also received a lot of positive feedback, both directly at the events and subsequently via email.

So, a successful first year for the FX Academy. What happens next?
Generally speaking, the feedback showed us that we are on the right track and have met a client need with the Academy. However, we regularly reflect on how we can further develop our offering. For example, by allowing for more time to discuss case studies and open-ended questions, as it has become clear that this exchange in particular is usually the most beneficial for the participants.

This is how you register for the FX Academy
Are you interested in attending a FX Academy course day? Contact your Credit Suisse advisor at any time or contact one of our FX information points.

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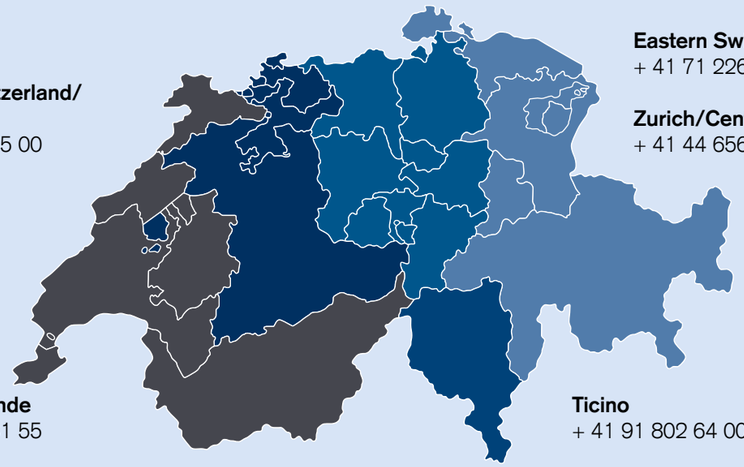
Talk to one of our local FX experts in your area. You can find us at one of our regional offices in Basel, Geneva, Lugano, St. Gallen, or Zurich. Please contact your client advisor for further information.



Northern Switzerland/ Mittelland
+ 41 61 279 65 00

Eastern Switzerland
+ 41 71 226 61 80

Zurich/Central Switzerland
+ 41 44 656 68 00

Suisse Romande
+ 41 22 394 81 55

Ticino
+ 41 91 802 64 00

credit-suisse.com/fx

CREDIT SUISSE (Switzerland) Ltd.
P.O. Box
CH-8070 Zurich
credit-suisse.com

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