

Switzerland: January 2015

The Swiss National Bank¹ announced on January 15, 2015 that it was ceasing its policy of maintaining a minimum exchange rate of 1.20 Swiss Francs to the euro.² The announcement surprised the financial markets.³ And commentators suggested that the move conflicted with central bankers' recent suggestions that they should not surprise the markets,⁴ and that they would focus on giving forward guidance to avoid surprise.⁵

Reports suggested that the decision was taken because of a recognition that it was likely that the European Central Bank would act in ways that would make it difficult for Switzerland to maintain the target exchange rate. Yves Smith at Naked Capitalism wrote:

The stated reason was, in effect that the euro had weakened so much that even though the Swiss franc might wind up being more overvalued against it, it was not as overvalued versus other currencies (read the dollar). Analysts believe a second reason was the widely-expected launch of QE in the eurozone, which will weaken the euro further and would required considerably more intervention by the Swiss National Bank to maintain the cap.⁶

Phillip Inman suggested that the fact that an EU Advocate General wrote an opinion in a case before the EU's Court of Justice that stated that the ECB's policy of bond buying was legal meant that the ECB was more likely to engage in quantitative easing, and that this may have

¹ <http://www.snb.ch/en/>

² Schweizerische Nationalbank, Press Release, Swiss National Bank Discontinues Minimum Exchange Rate and Lowers Interest Rate to -0.75% (Jan. 15, 2015) at http://www.snb.ch/en/mmr/reference/pre_20150115/source/pre_20150115.en.pdf

³ Catherine Bosley and Stefan Riecher, When Central Bankers Eat Their Words (Jan. 16, 2015) at <http://www.bloomberg.com/news/2015-01-15/snb-officials-eating-words-risk-long-lasting-market-indigestion.html>.

⁴ *See, e.g., id.*

⁵ *See, e.g.,* http://www.federalreserve.gov/faqs/money_19277.htm; <http://www.bankofengland.co.uk/monetarypolicy/Pages/forwardguidance.aspx>; The Economist, What "forward guidance" is, and how it (theoretically) works (Feb. 11, 2014) at <http://www.economist.com/blogs/economist-explains/2014/02/economist-explains-7>.

⁶ Yves Smith, Swiss National Bank Shock: Biggest US Retail Currency Broker's Equity Wiped Out; Others Suffer Major Losses (Jan. 15, 2015) at <http://www.nakedcapitalism.com/2015/01/swiss-national-bank-shock-biggest-us-retail-currency-brokers-equity-wiped-out-others-suffer-major-losses.html>.

encouraged the Swiss National Bank to act.⁷ The case is *Peter Gauweiler and Others v Deutscher Bundestag*, Case C-62/14.⁸ An opinion of an Advocate General is not binding on the Court of Justice.

The value of the Swiss Franc increased dramatically in trading in response to the announcement. And this led to problems in some currency trading firms, including Global Brokers NZ Ltd. (which announced it would close because it could not meet regulatory capital requirements), Alpari (UK) (which announced it was insolvent), and FXCM Inc. (which announced capital adequacy problems).

Exports of goods from Switzerland will be affected because the goods will be more expensive.⁹ In some eastern European countries mortgage borrowers have mortgages denominated in Swiss Francs, which will be dramatically more expensive.

⁷ See, e.g., Phillip Inman, Swiss bank's currency U-turn hurts watchmakers, skiers and traders (Jan. 15, 2015) at <http://www.theguardian.com/business/2015/jan/15/currency-markets-switzerland-franc>

⁸ The press release describing the opinion is at <http://curia.europa.eu/jcms/upload/docs/application/pdf/2015-01/cp150002en.pdf>. You can access the opinion from this page: <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-62/14> (Click on List of Documents). Or here: [http://curia.europa.eu/juris/celex.jsf?celex=62014CC0062&lang1=en&type=TXT&ancre=.](http://curia.europa.eu/juris/celex.jsf?celex=62014CC0062&lang1=en&type=TXT&ancre=)

⁹ Inman, *supra* note [7](#).