# Market Environment For:
## British Pound / Swiss Franc Cross-Rate


**Summary**

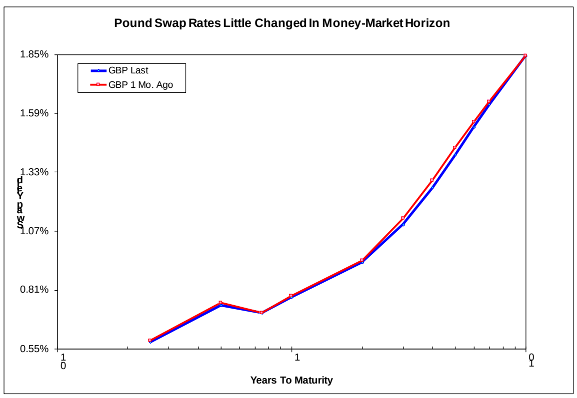
The CHF is in a downtrend on the cross-rate with resistance at 1.4695. The downtrend projects to 1.5190 followed by 1.5400.

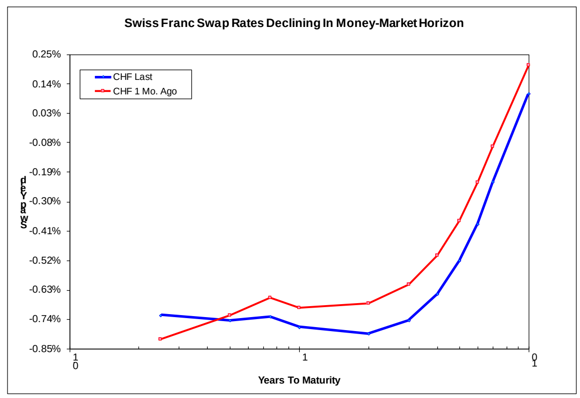
Indicators are bearish for the CHF on the cross-rate:

- Expected short-term interest rate differentials remain in the GBP's favor;
- Relative asset trends are bearish for the CHF; and
- Volatility indications are bearish for the CHF


**Interest Rate Indications**

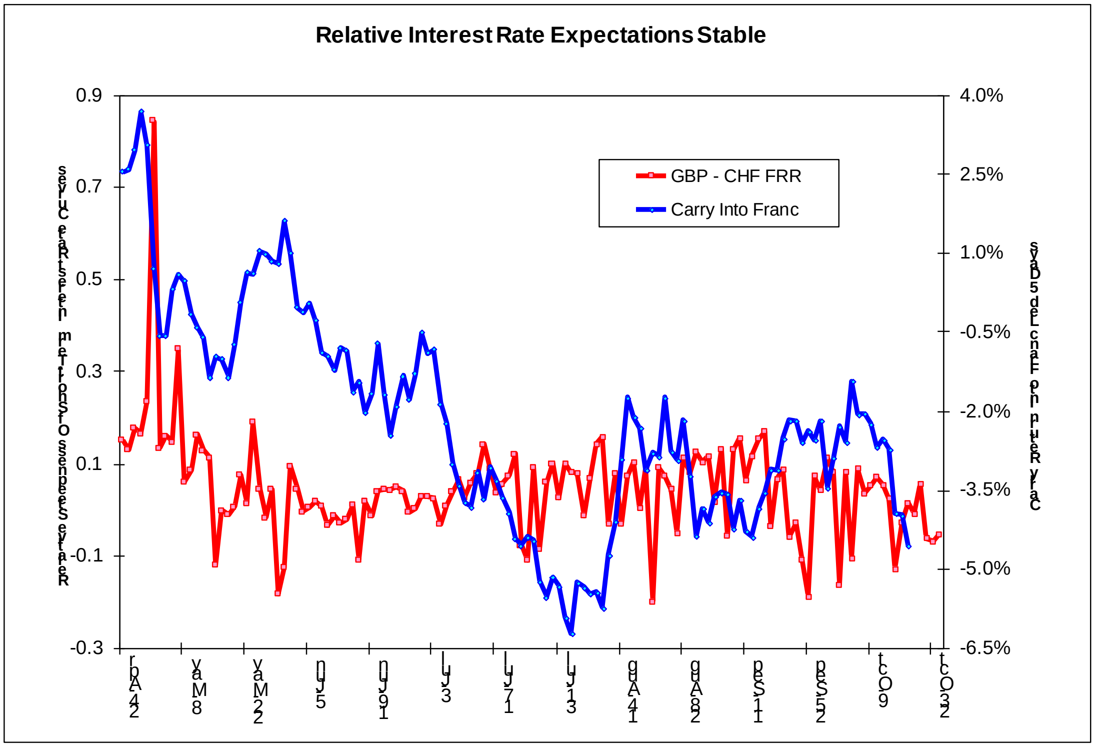
While GBP swap rates have changed little in the money-market horizon over the past month, CHF swap rates have shifted lower and remain negative out to seven years. The absolute rate gap favors the GBP on the cross-rate.



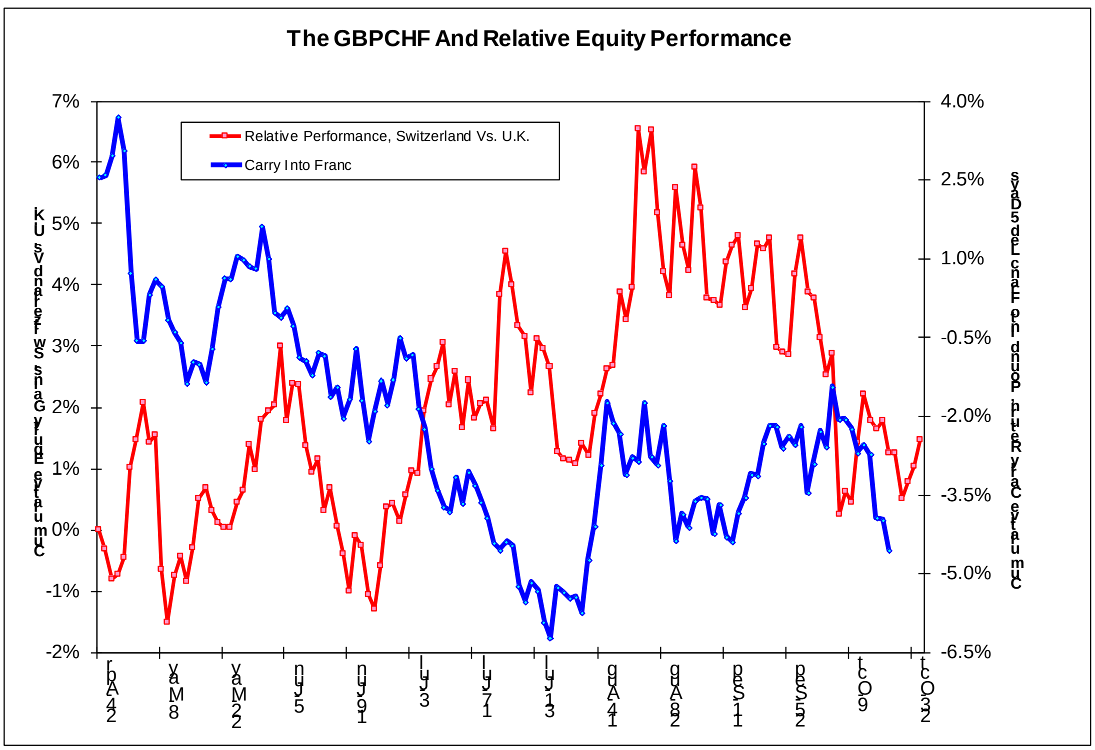

The combination of expected interest rate movements is favors the GBP slightly. This can be measured by the difference in forward rate ratios between six and nine months ($FRR_{6,9}$) for the two currencies. These are the rates at which borrowing can be locked in for three months starting six months from now divided by the nine-month rate itself. The steeper the yield curve, the more the $FRR_{6,9}$ exceeds 1.00. An inverted yield curve has an $FRR_{6,9}$ less than 1.00.

The GBP $FRR_{6,9}$ is slightly flatter than the CHF $FRR_{6,9}$, and this gap has moved within a narrow range over the past five months. This means British short-term interest rates will "roll down" the yield curve less than Swiss short-term rates will over the next three months when the time to roll a non-deliverable CHF forward arrives. The overall effect is minor in context of the absolute rate gap. The chart below depicts this expected interest rate differential leading the GBP's carry into the CHF by five days.



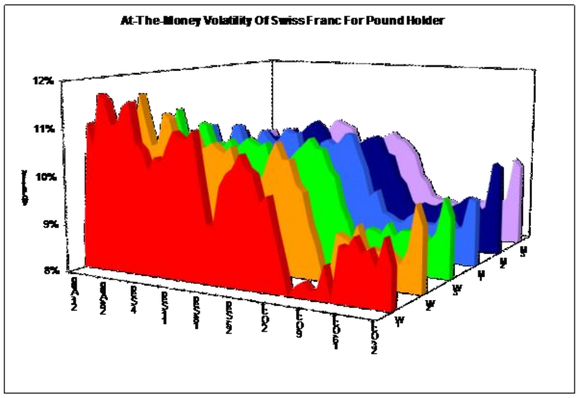

## Equity Indications

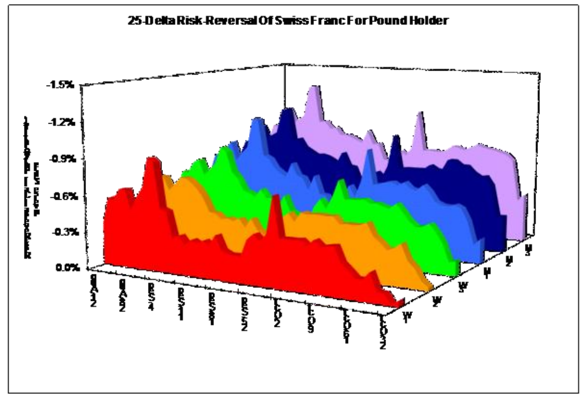
Capital inflows into Swiss equities necessitate the purchase of francs. Relative performance has been in a broad downtrend since the August selloff. The chart below depicts this relative performance leading the pound's carry into the franc by five days.



## Volatility Indications

The volatility of franc forwards tends to rise when traders take out insurance against the CHF weakening on the cross-rate. The implied volatilities of CHF forwards are rising as are the risk reversals, or differences between 25-delta call and put option volatilities on CHF forwards (inverse scale). These are bearish for the CHF on the cross-rate.




The excess volatility of the franc for a pound holder, or the ratio of its implied volatility to its realized volatility, minus 1.00, has turned positive (inverse scale). GBP-domiciled investors are insuring against CHF weakness.