Citi Wealth

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FX Focus: CHF – A Funding Currency Or A Safe Haven?

FIGURE 1: FX Forecasts

Forecast (Apr 2025)	Spot	0-3m	6-12m	Long-term
USDCHF	0.8230	0.800	0.7800	0.8700

Source: Citi Wealth Investments as of Apr 2025.

CHF has the lowest rates within G10 FX (SNB's overnight cash target is 0.25%) and is typically favored as a currency to fund purchases of risk assets. This implies that ordinarily, CHF should weaken vs its G10 FX peers as investors borrow CHF to take advantage of its ultra-low interest rates to buy higher yielding assets in other currencies. However, CHF also wears another hat – one of the safe haven currencies during times of global crisis.

CHF draws its safe-haven status from Switzerland's solid trade surplus of ~7.6% of GDP and unmatched FX reserves equivalent to ~86% of GDP. With USD shaken by US tariff and trade uncertainty, CHF has become a key safe haven beneficiary of the exodus from USD assets, resulting in a 3.9% gain in CHF on a trade-weighted basis and a ~9% gain vs USD since early March. Since 2000, the current levels in USDCHF have only been seen once before and is raising alarm bells among borrowers about how expensive it has become to fund asset purchases through CHF funding.

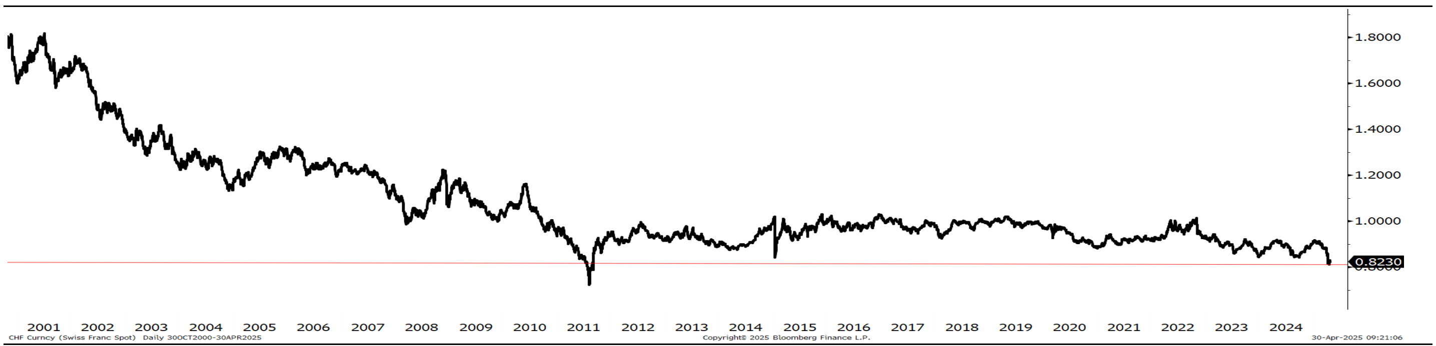
The Swiss economy too has started to feel the pain of such a strong Franc. Switzerland's headline inflation stands at just 0.3% YoY, lowest by far among advanced ecodnomies as it experiences disinflation headwinds from cheap imports in CHF terms. A stronger currency only adds to those headwinds. Then there are the US reciprocal and sectoral tariffs – President Trump had imposed a high 31% reciprocal tariff on Swiss exports to the US on "Liberation Day" but has since lowered them to a baseline 10% tariff subject to a US – Swiss trade deal within a 90-day grace period (ends on July 9th) failing which the tariff could be raised to its original level of 31%.

Of particular concern is the prospect of a US sectoral tariff of 25% on pharmaceuticals. Swiss exports to the US account for ~16.5% of total exports and just slightly less than half of those exports (~6.7% of GDP) to the US are pharmaceuticals. A 25% tariff on pharmaceuticals would hit Swiss exports hard leading to a sharp deterioration in its terms of trade.

The SNB however, is in a difficult position. It is reluctant to cut rates further to 0% in June (and beyond) as such ultra-low rates would hurt the Swiss financial system. Outright currency intervention remains the only other option in the SNB's toolkit but any such move risks Switzerland being labelled as a currency manipulator by the US Treasury. The SNB would be reluctant to engage in FX intervention ahead of delicate trade negotiations with the US. FX markets know of SNB's difficult position and have therefore continued to buy CHF.

However, if a Swiss – US trade deal within the next few months is unable to prevent tariffs on pharmaceuticals, then the SNB is likely to act via either further rate cuts and/or outright FX intervention to cheapen CHF. This potentially means the scope for further CHF gains may be approaching its limits.

FIGURE 2: Since 2000, CHF has strengthened against USD to the current level only seen once before



Source: Bloomberg, April 30, 2025.

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