



Theme #3: Swiss Cheese Pounded

- Swiss investors have significant underweights in foreign assets and "safe havens" globally are turning. Sell CHF vs USD and EUR.
- The GBP bear story is not over, in our view: basic balance dynamics remain explosive, Carney will stay dovish and market positioning is cleaner. Sell GBP vs USD and EUR.

Don't Underestimate Swiss Investor

The market has been very focused on "safe-haven" inflows into Switzerland in recent years. While these have been big, the bigger story is the lack of outflows. Up to 2008, bond and equity flows by Swiss investors had been running at a 50bn CHF annual pace, mostly recycling savings from Switzerland's large current account surplus. The main destination has been US and European assets, accounting for more than two thirds of Swiss net foreign assets. This abruptly ended after Lehman: the Eurozone crisis, narrow rate differentials, CHF strength and very volatile equity markets all played their part. On all these fronts, we think things are changing however. Eurozone risk premia have been unwound to pre-2010 levels. Risk-adjusted equity returns are booming. The Swiss franc has stabilized at extremely overvalued levels, and both European and US yields have likely bottomed. We therefore see conditions ripe for a return of the Swiss investor to international capital markets, and believe this will be a major driver behind Swiss franc weakness.

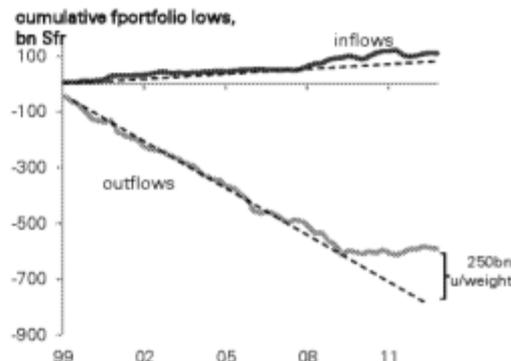
All Other Safe Havens Have Turned

Aside from domestic-led portfolio outflows, we don't think the signals from the unwind of other "safe haven" trades can be underestimated. Of all the "tail risk" trades, we see gold as holding the most similar properties to the Swiss franc: zero yielding, but perceived to hold value at times of stress. With the economy entering an environment of asset price inflation but goods price deflation, gold has proved a poor hedge, and we think the same holds for the Swiss franc. Indeed, medium-term trends between the two are similar, and combined with the huge decline in Eurozone risk premia, we see the risks as skewed towards an unwind of the more than 150bn of safe-haven inflow that went into Switzerland over 2010-12.

CHF Should Participate in Dollar Turn

Finally, USD/CHF historically turns to lag turns in the dollar cycle. Back in the 1990s, it turned together with USD/JPY and USD/DEM. With our confidence on the dollar outlook building and no change from the SNB on the back of a very benign inflation outlook, we see conditions as ripe for a breakout in both USD/CHF and EUR/CHF targeting 1.00 and 1.27 respectively over the rest of the year.

It's Not the Inflows, But the Swiss Outflows That Matter



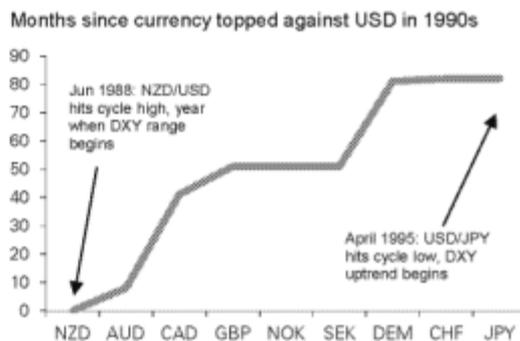
Source: Deutsche Bank, Bloomberg Finance LP

Swiss Franc Is Last "Safe Haven" To Turn



Source: Deutsche Bank, Bloomberg Finance LP

CHF Is Last To Weaken Around Dollar Turns



Source: Deutsche Bank, Bloomberg Finance LP