the December Monetary Policy Report, which should more than cushion the additional decline in oil. Growth and employment data continues to be soft, but there is little evidence of more deterioration. Finally, CPI tracks exchange rate developments closely and reaccelerated above target in November (Figure 4). While Norges has been relatively sanguine about high inflation due to weak wage developments, CPI is now above forecast and a further increase could weigh on consumption.

Don't give up on Swiss

At times last year it felt as if the SNB had just swapped one currency peg for another. There are grounds for optimism, however, that the weakening trend in the franc will resume.

First, the SNB may be reluctant to cut rates further, but premature tightening is also unlikely. Growth and inflation have disappointed this year and forward indicators like the KOF have weakened again. The export sector in particular continues to suffer, with autumn trade data showing further deterioration across goods and services. The improvement in the trade balance is misleading, therefore, having been driven by import compression. Second, the basic balance may finally be turning, recording the largest four quarter deficit since 2009 in Q3. This was driven by large direct investment outflows; although portfolio flows were light, they have recorded three quarters of net outflows. Third, positioning looks light, with the IMM report showing speculators net long francs. Our CORAX report suggests that corporates have been heavily buying CHF into the end of last year, (Figure 7) perhaps related to an adjustment in hedging ratios ahead of ECB easing. As this flow dissipates, it should weigh less on the EUR/CHF cross. Combine longs there with CHF/JPY shorts on valuation grounds as well as its low beta to risk sentiment.

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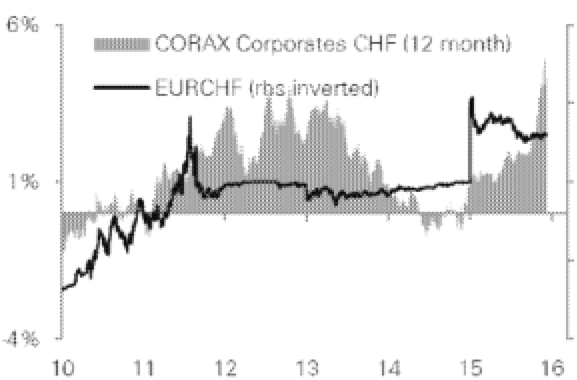
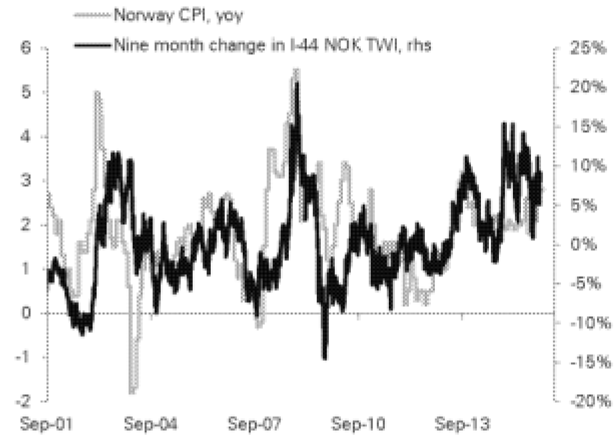
Corporates have been heavily buying CHF



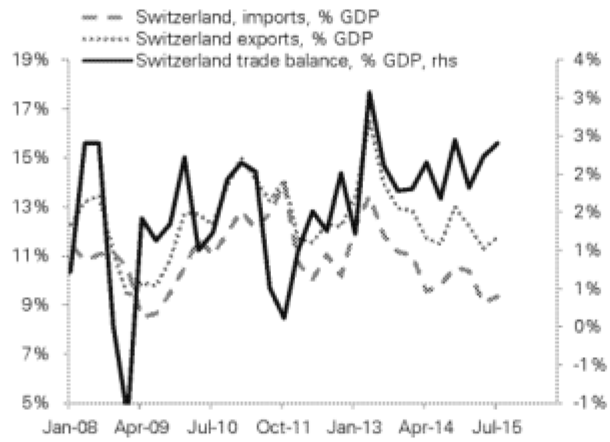
Source: Deutsche Bank

Similarly, Norges Bank haven't that much incentive to over-deliver on easing given currency weakness



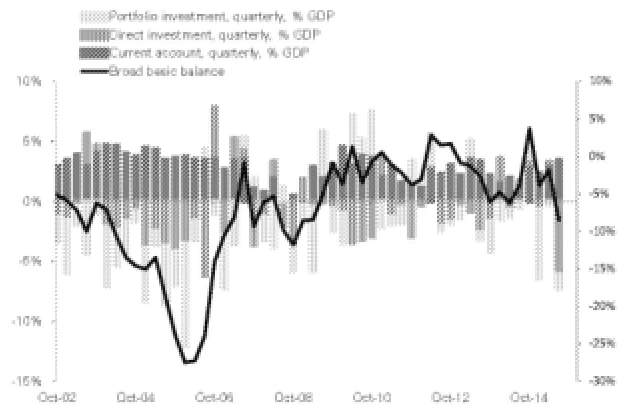
Source: Deutsche Bank, Bloomberg Finance LP

Switzerland's trade balance improvement is being driven by import compression



Source: Deutsche Bank, Macrobond

Swiss outflows rotating into direct investment



Source: Deutsche Bank, Macrobond