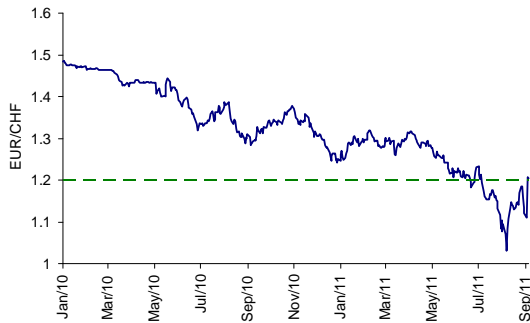


Market Watch

7 September 2011

Swiss National Bank (SNB) move attains immediate success



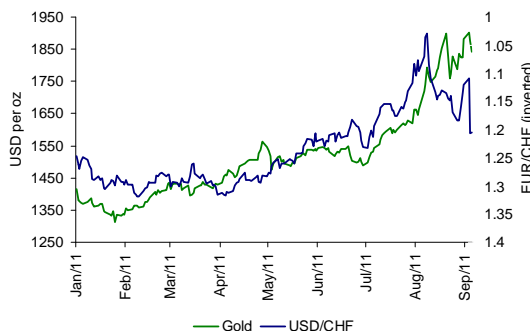
Source: Bloomberg, Standard Chartered

BOJ inaction puts JPY in focus



Source: Bloomberg, Standard Chartered

CHF weakness not an impediment to gold gains



Source: Bloomberg, Standard Chartered

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Swiss National Bank gets serious

SUMMARY

- SNB indicated on September 6 it will no longer tolerate a EUR-CHF exchange rate below 1.20 and will buy FX in unlimited quantities to achieve this aim
- In the short term, we expect EUR/CHF to range-trade with significantly reduced volatility
- This week's G7 meeting critical to determine the level of currency tensions
- The SNB's action is effectively a shift to exchange rate targeting from inflation targeting
- By pegging to a structurally weak currency, the SNB is effectively allowing for significantly higher inflation
- It is unclear whether the markets will take the SNB's commitment at face value or will test its resolve in a world of heightened uncertainty
- The risks of a revived currency war are increasing
- Despite speculation to the contrary, the Bank of Japan made no new policy announcements at its monetary policy meeting today. This risks creating renewed upward pressure on the JPY short-term
- SNB's actions should have limited impact on risk appetite as CHF weakness is artificial and not symptomatic of increased optimism
- Other safe haven currencies such as the Norwegian and Swedish kronas may benefit from increased inflows
- The pegging of the world's safe haven currencies to the EUR, which has recently experienced further quantitative easing measures, merely highlights the risk of global currency debasement. Therefore, gold demand is likely to remain robust
- The significant weakening on the CHF on the back of the SNB's move is a significant positive for Swiss exporters

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