The Investment Institute
by UniCredit

Market Spotlight

Market Spotlight is our publication that looks at key market drivers

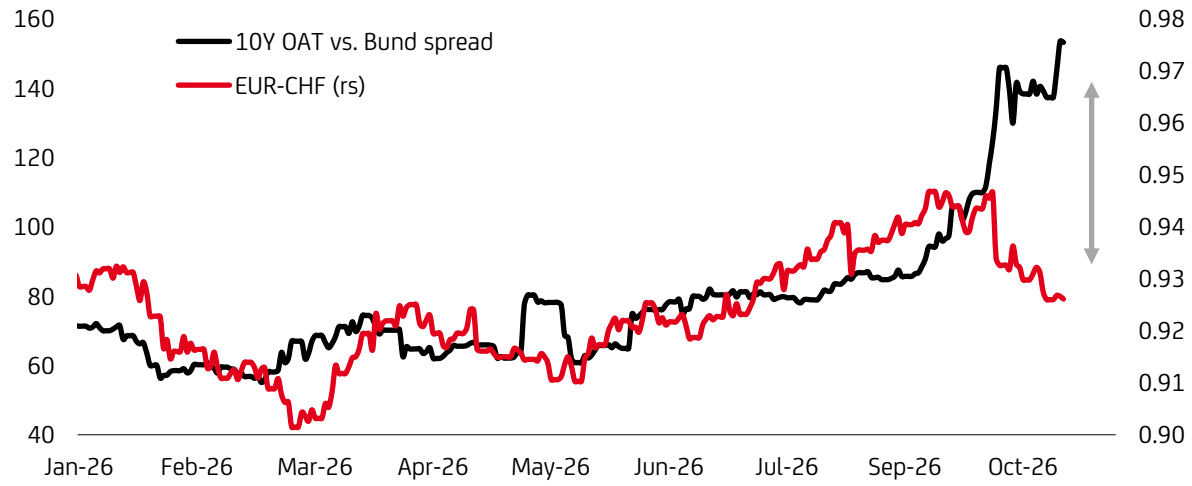
CHF: a funding currency for the future, a hedging currency for the present

21 October 2026

With the BoJ hiking rates and the SNB holding at zero, the CHF is increasingly seen as the main alternative to the JPY for funding carry trades. For now, however, it may once again work as natural hedge against rising political tensions in the eurozone, particularly in France, as the recent EUR-CHF drop below 0.93 suggests.

EUR-CHF LOOKS A NATURAL HEDGE AGAINST RISING POLITICAL JITTERS IN EUROPE, MAINLY IN FRANCE

EUR-CHF AND THE OAT-BUND SPREAD



Source: LSEG, the Investment Institute by UniCredit



THE NOISE …

The Swiss franc (CHF) is the sixth most traded currency, accounting for nearly 6.4% of total daily FX turnover (roughly USD 615bn), according to the Bank for International Settlements. It ranks well behind the USD (89.2%) and the EUR (28.9%), which occupy first and second place, respectively [1].

Despite its relatively modest share of global FX turnover, the CHF has always been considered a typical safe-haven currency, together with the USD and the JPY, given Switzerland's political stability and its role as an important world financial center.

The CHF's tendency to benefit during episodes of flight to quality was also evident in recent weeks, when the Swiss unit appreciated even against a strengthening greenback. According to LSEG data, USD-CHF fell to a monthly low close to 0.82 on 20 October from a YTD high of 0.8394 reached just six days earlier. Indeed, the fact that the Swiss franc tends to strengthen against a rising USD is a typical market reaction to a sudden spike in global risk aversion, as seen this month when a worldwide bond sell-off drove UST yields higher and strengthened the USD.

… AND THE SIGNAL

Before the current market crisis broke out, the Swiss franc appeared firmly on track to become the new reference funding currency for carry trades, replacing the yen following the Bank of Japan's (BoJ) recent rate hikes, which have brought its policy rate to 1.25%, with further increases expected to take it to at least 2% over the coming quarters.

In contrast, the Swiss National Bank (SNB) has maintained its policy rate at zero, helped by a structurally overvalued currency, largely attributable to Switzerland's massive current account surplus, which reached 10.4% of nominal GDP in 2Q26.

Furthermore, Swiss CPI inflation has accelerated – if you can even call it that! – to just 1% yoy in September (from 0.8% yoy in August), a level many other central banks would do anything to achieve. Core CPI inflation was even lower, at just 0.5% yoy, up from 0.4% yoy in August.

The Swiss forward curve is still pricing in over 60bp of tightening by December 2027, but even if this were to materialize, the resulting interest rate level is unlikely to undermine the franc's emerging role as a funding currency for carry trades.

That, however, is a matter for the future. In the present, the Swiss franc is looking even more like the safe haven of choice when Europe wobbles. This means that investors may become less keen on using the CHF to fund carry trades for now, preferring not to position against a currency with safe-haven qualities.

Hence, the Swiss franc may currently be perceived increasingly as a natural hedge against rising political tensions across various eurozone nations within Europe, most notably in France, where the OAT-Bund spread has now climbed beyond 150bp. The retreat of EUR-CHF to around 0.9250, down from an annual peak of 0.9486 reached as recently as 30 September, serves as clear evidence of this.

In this scenario, the SNB might be forced to take fresh action to limit further excessive appreciation of the already-strong franc – and not simply by stepping up its FX rhetoric. It may need to intervene directly in the FX market if political tensions across the eurozone escalate further, causing EUR-CHF to rapidly reapproach or even fall below the YTD low of 0.8981 reached on 9 March, just after the US-Iran conflict began.

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[1] Note that the currency shares of total FX turnover sum to 200% because each trade involves two currencies.

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