



What a Week!!!

Last week was a busy one in global currency markets. The Swiss National Bank has successfully defended the 1.20 EURCHF level for over three years, so their unexpected announcement last Thursday that it was abandoning that peg rocked the markets hard. Within 40 minutes of the announcement, CHF appreciated 41% in value vs the EUR- an unprecedented move to say the least! As it turns out, the SNB's balance sheet was getting way too large from spending ever more money selling CHF for EUR and accumulating EUR-denominated government bonds to uncomfortable levels. EURCHF began the US day trading just ticks above the 1.01 level and remains volatile (see more on this in next section below).

Canada- The sub-\$50 oil price and a divergence of monetary policies favoring eventual higher interest rates in the US has the CAD perched above C\$1.20 per USD. BOC rate decision is this Wednesday; 1.2285 short term target (78.6% retracement of the 2008/2011 bear trend; USD remains bullish.

Denmark- Keep an eye on the DKKEUR exchange rate. Danes rejected membership in the euro in a 2000 referendum, but the central bank still recognizes and honors the levels set forth by ERM II as a necessary precursor to joining the union, if they were to choose to do so. The official midrate is 7.46038. The central bank, Danmarks Nationalbank, enforces a band of 2.25%. Danmarks announced yesterday that it was lowering its deposit rate for banks to -0.20%.

Eurozone- The European Central Bank meets Thursday. Market expectations are that the ECB will announce a systematic quantitative easing program, which is in line with what the SNB's probably saw as well before removing the 1.20 floor; by buying the sovereign debt securities of its member countries, the ECB will inject greater liquidity into the sagging eurozone economy. Overnight, German ZEW survey came in stronger than expected, propping EUR slightly higher. EUR bearish outlook remains, however, so any bounces seen into Thursday's ECB meeting should be limited.

Elections in Greece happen this Sunday. The opposition Syriza party, currently leading in the polls, is running on a platform of ending austerity policies and reversing some reform measures. So a Syriza victory could spell added pressure for the euro as some think it could even lead to that nation exiting the currency union.

UK- BOE rate decision tomorrow – no changes expected. GBP remains strong vs the EUR; stable vs the USD.

Asia – BOJ meets today and tomorrow; no change to monetary policy expected. USD remains bullish vs JPY. China's latest 2014 GDP numbers indicate the slowest annual growth in 24 years.

World Economic Data Releases: Week Past

Date	Country	Indicator	Period	Survey	Actual	Prior
1/13/15	U.K.	CPI YoY	Dec	0.7%	0.5%	1.0%
1/13/15	Sweden	CPI YoY	Dec	-0.5%	-0.3%	0.50%
1/14/15	Australia	Unemployment Rate	Dec	6.3%	6.1%	6.3%
1/14/15	Japan	Machine Orders MoM	Nov	4.6%	1.3%	-6.4%
1/15/15	U.S.	Initial Jobless Claims	Jan	292K	316K	294K
1/16/15	Eurozone	CPI YoY	Dec	-0.2%	-0.2%	-0.2%

World Economic Data Releases: Week Ahead

Date	Country	Indicator	Period	Survey	Actual	Prior
1/21/15	Canada	BOC Rate Decision	Jan	1.0%	--	1.0%
1/21/15	U.K.	Jobless Claims Change	Dec	-25.0K	--	-26.9K
1/22/15	Eurozone	ECB Refinancing Rate	Jan	.05%	--	.05%
1/22/15	U.S.	Initial Jobless Claims	Jan	300K	--	316K
1/23/15	Eurozone	Markit Manufacturing PMI	Jan	51.0	--	50.6
1/23/15	Canada	CPI YoY	Dec	1.6%	--	2.0%

Source: Bloomberg

Why Currency Risk Management Still Matters

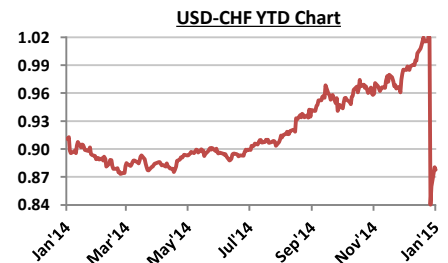
Currency moves of the past week remind us that everything is right in international currency markets, until it isn't. We can estimate things will cost pretty much as they did last time we executed a similar transaction, until they don't. We can pretty much trust central banks' statements, until we see the results of their actions – hence the expression "...he's lying like a central banker on the eve of devaluation".

We're talking of course of the substantial losses incurred by companies and banks as a result of the Swiss central bank's decision to unexpectedly let the Swiss franc appreciate (substantially) in value against the Euro. For more than 3 years, the Swiss central bank has been fighting the appreciation of the Swiss franc against the Euro through a policy of constant selling of Swiss francs against Euro-denominated assets, mainly Eurozone government bonds. This proved unsustainable and all came apart last week, as the SNB diverged from ECB's monetary policy, an aggressive upcoming quantitative easing program and a resulting greater risk of holding less than stellar Euro sovereign government bonds on SNB's balance sheet.

FXCM and SaxoBank, two of the bigger retail FX brokers, will suffer big losses as a result of the SNB's action, mostly as a result of the companies holding less collateral than needed to cover customer losses. Several of the global banks apparently lost substantial amounts as well, including Deutsche Bank, Barclays, Citibank and even Credit Suisse --apparently the SNB chose to not play favorites, declining to whisper the pending action even to Switzerland-based banks. Miami Hedge fund company, Everest Capital, is shutting down one of its eight funds, the Global Fund, after sustaining over \$830M in losses.

This sudden and dramatic change reminds us of the often forgotten advantages of currency hedging. As a reminder, we are not talking about taking on speculative currency positions or looking to anticipate currency moves. We're talking about good old fashioned risk management, an activity every business should consider when dealing with cross-border business partners. As companies incur foreign denominated costs and expenditures (let's say in Swiss francs in this case, for products and services imported from Switzerland), best practice dictates (1) a thorough understanding of the risk exposure from an appreciating Swiss franc and (2) the implementation of a hedging program for mitigating that currency exposure.

Companies that import goods from Switzerland and that have not hedged their Swiss franc purchases will no doubt suffer greatly as a result of SNB's move, at least in the near term. So for those caught off guard, this is a time to reflect and focus on the main goal of hedging, which - whether through currency forwards or options - is to protect a company from adverse market movements such as the ones we saw last week.



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