

Flash Note 14/01/2018

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It's bitcoin. No, it's Ethereum. No, it's Swiss National Bank!

Everything seems to me, surreal and absolutely normal. (Open, memories, 2009)

After years of foreign-exchange interventions (basically created Francs from nowhere and used them to purchase foreign assets, mostly denominated in euros in a bid to weaken the currency), the Swiss National Bank (SNB) has emerged as a major money manager with nearly \$800bn of foreign bonds and stocks.

The SNB is to report a record annual profit of 54bn Swiss franc in 2017 (US\$55bn). A staggering sum equal to 8% of its GDP. By comparison, if the Fed were to run a profit of similar scale, it would be about \$1.5 trillion. SNB's profit is larger than Apple's one, and more than JPM Chase and Berkshire combined.

How this has been done?

The SNB's profits has been the result of a trio of positive forces.

1. **Low yields:** The bank has accumulated a big portfolio of foreign bonds (euro denominated) that account for 80% of its reserves. Well, low bond yields have helped to preserve the value of these reserves.
2. **Higher euro:** The bank continued building its foreign euro bond portfolio in this period of global Fx intervention. Purchases have been funded with created francs in a bid to weaken the franc (or strengthen the euro, and to a lesser extent, the dollar). Its actions, among others, contributed to the euro appreciating a 10% in 2017, making those foreign assets worth more in franc terms.
3. **Higher stock prices** also helped, raising the value of its equity holdings. In September, the SNB owned more than 19 million shares of Apple worth \$3bn (whose shares rose nearly 10% in the fourth quarter, adding \$300 million to the \$55bn profits of SNB), and \$1,5bn in Facebook Inc. The USD just appreciated by a 0.7%, adding some millions more.

The difference with other central banks like the Fed, the BoJ or the ECB, is that they have also amassed large bond portfolios but those bonds are denominated in their own currency. What sets the SNB apart is that its balance sheet is comprised almost entirely of foreign assets (mostly in euros)

The problem:

The SNB can not spend its profits by selling its assets and turn them into Swiss Francs, for fear of lifting the franc's value and hurt the Swiss economy (precisely the objective with its operation was to reduce the value of the franc by selling them and buy euros and to a lesser extent dollars. This is to say that the SNB's balance sheet is at the mercy of financial markets in 2018.

Best regards on the way to Mexico City (Tenochtitlan). The oldest city in America