THE RIO CLUB

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SWISS FRANC

Various Sources.

The Swiss National Bank (SNB) abandoned the cap on the Swiss franc-euro rate as markets went in to chaos.

The SNB had capped the rate at 1.20, meaning that 1.2 francs purchased one euro for the past three-and-a-half years. It was designed to keep the franc – a global "safe haven" asset – from appreciating too much against the euro. A stronger franc would hamper Switzerland's exports.

In December, the SNB said it would defend the peg (the fixed exchange rate) with "the utmost determination." Just two days ago, SNB Vice President Jean-Pierre Danthine said the peg would "remain the pillar of our monetary policy."

So that goes to show members that RIO are justified with yet another posting for our section on banks-never trust them- the banks President Thomas Jordan said he wanted to surprise the markets. Wow that worked then as the franc soared as much as 39% against the euro – as a currency trader this is the largest one-day move in a major currency I can remember.

First, in order to maintain its 1.20 peg to the euro, the SNB would print francs and buy euros. It was building a massive stockpile of a deteriorating currency. The SNB's foreign-currency reserves hit a record $490 billion in December. As of the third quarter of 2014, 45% of its reserves were in euros Only 29% were in U.S. dollars.

According to statistics the SNB took a 60 billion franc ($68 billion) hit to its reserves after today's move.

If you're Switzerland, why abandon the peg now?

The most obvious reason is because the Swiss expect the European Central Bank (ECB) to begin quantitative easing following the meeting on January 22. The ECB would fill the SNB's role in purchasing massive amounts of euros.

This is a massive message from SNB to the market: ECB is going to do QE, and it's going to be big.

The Swiss could also fear a collapse in Russia – Gold may have its day ARC Bullion Account anyone?