GREYCOURT

Friday January 16th, 2015

As many of you have seen or heard, the Swiss National Bank (SNB) abandoned its exchange rate ceiling of 1.20 francs per euro yesterday. The cap had been established to bolster Swiss exports by making Swiss goods relatively inexpensive and therefore more attractive to foreign consumers. In the long-run, the central bank simply couldn't keep up the pace and volume of purchases of foreign exchange needed to keep the franc down. Some observers believe that the likelihood of near-term quantitative easing by the European Central Bank was an immediate catalyst. The timing of the SNB's announcement caught almost everyone by surprise releasing the franc to soar in search of a new and unfettered equilibrium price.

The fallout of the rapid adjustment in the price of the franc has generated large losses for many global banks and foreign currency brokerage firms who weren't positioned for this sudden and extreme move. The change in volatility hurt the value of large options positions at the banks and impacted the highly levered currency positions held by some customers of currency brokerage firms. For some of the less-well-capitalized broker dealers, client losses might result in bankruptcies or severe impairments to equity buffers.

We have spoken to our investment managers around the world today and have not detected any material impacts on our managers or our clients' portfolios. Some of our macro managers have, in fact, been able to capitalize on the near-term disruption. We don't anticipate this episode having a material impact on our managers or clients and will update you as events might warrant. As in most cases when central banks peg exchange rates, the SNB was adamant it would hold the peg until it decided it wouldn't hold the peg, confirming Greycourt's constant counsel to manage risk through appropriate position sizes and diversification.

Jim Foster
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