

# **Presentation at Swiss Young Liberals**

## **Jungfreisinnige Zürich**

**George Dorgan, [snbchf.com](http://snbchf.com)**

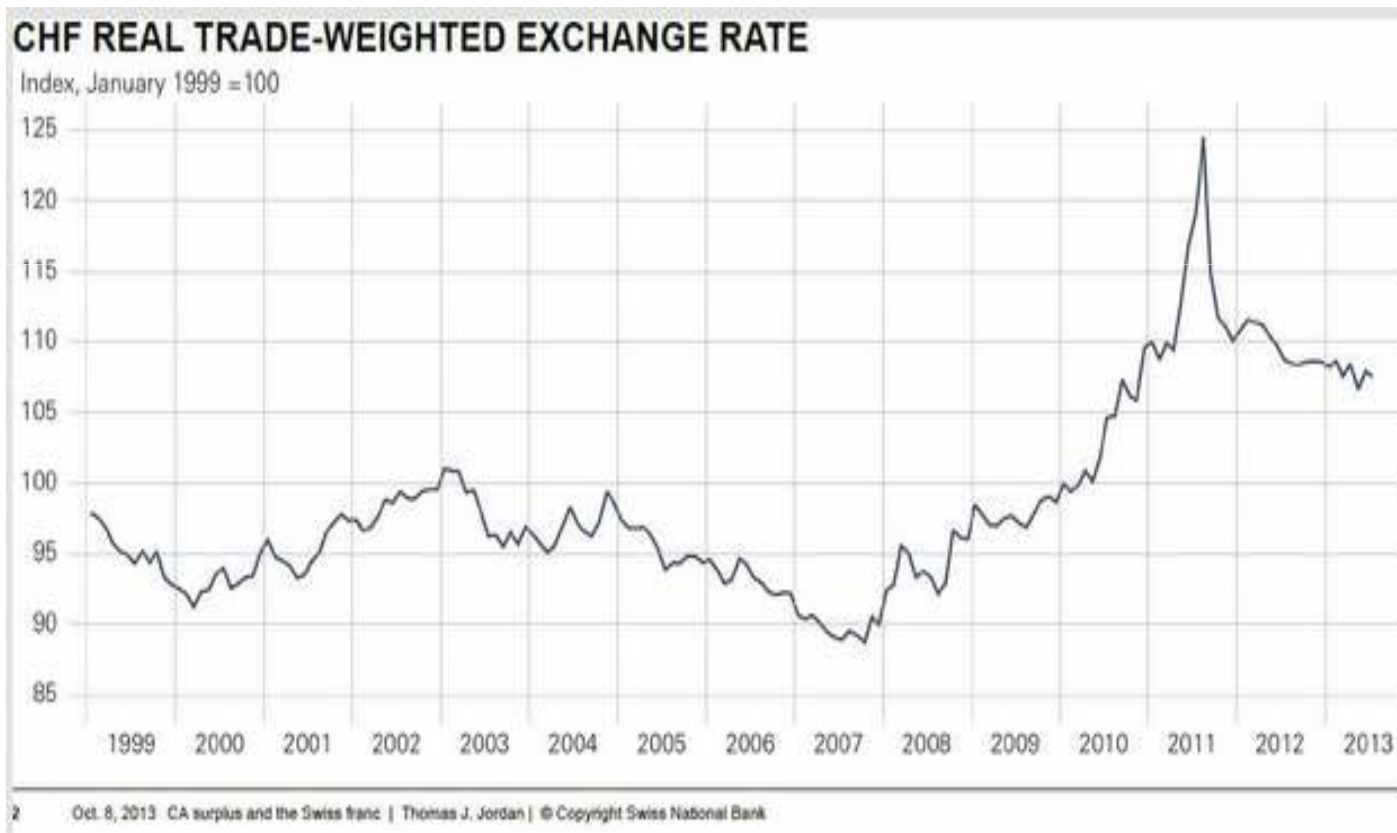
- **Part 1: CHF**
- **Part 2: Swiss Economy**
- **Part 3: SNB**
- **Part 4: Gold Referendum and SNB Holdings**
- **Part 5: Inflation, SNB and Referendum against Mass Immigration**

## Part 1: CHF

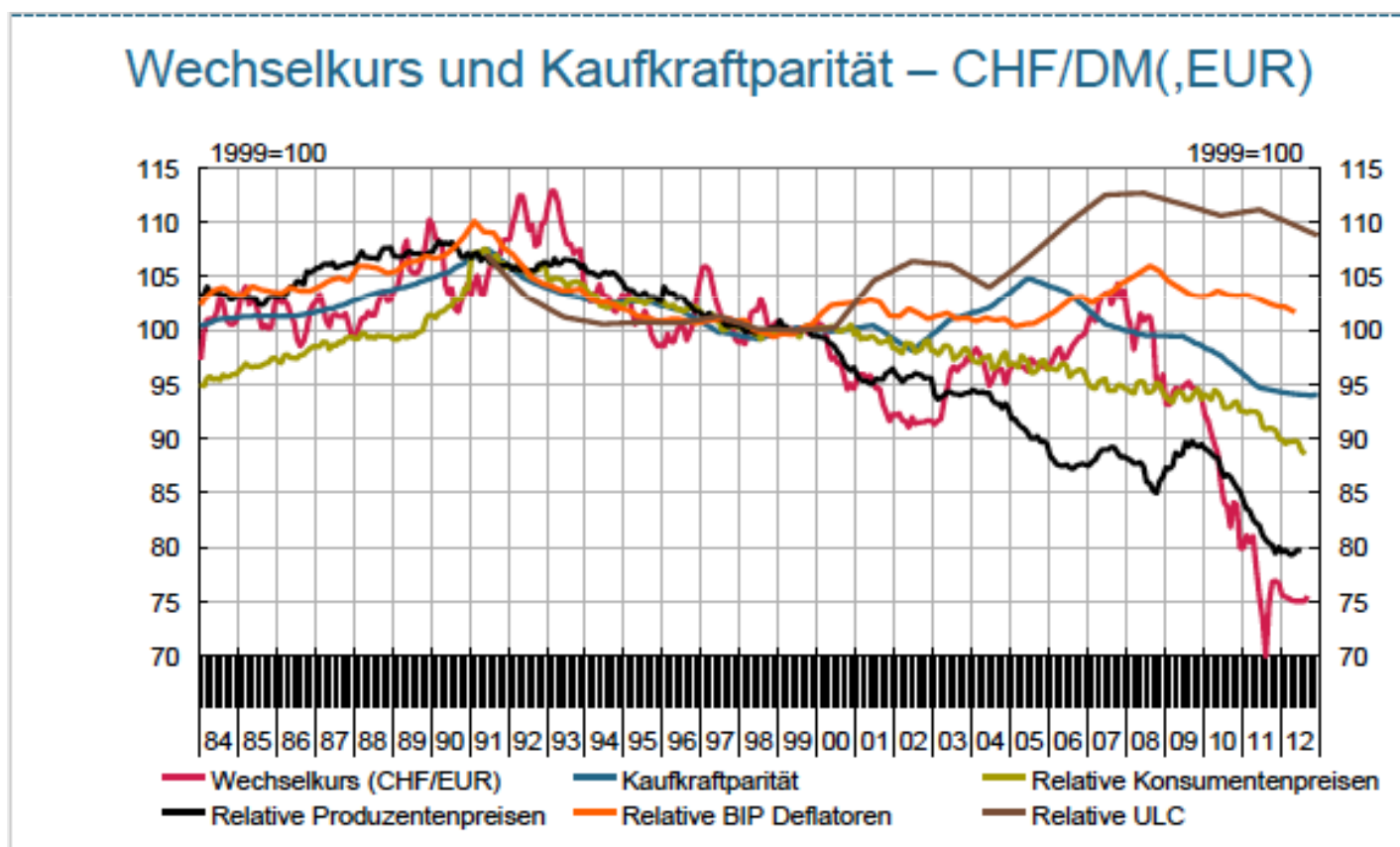
**CHF 7% overvalued against 1999? A problem?**

**13% higher population in Switzerland compared to 1999**

**1999 CHF fairly valued ? (strong dollar, Swiss real estate bust)**



## Different Methods for Calculating Fair Values

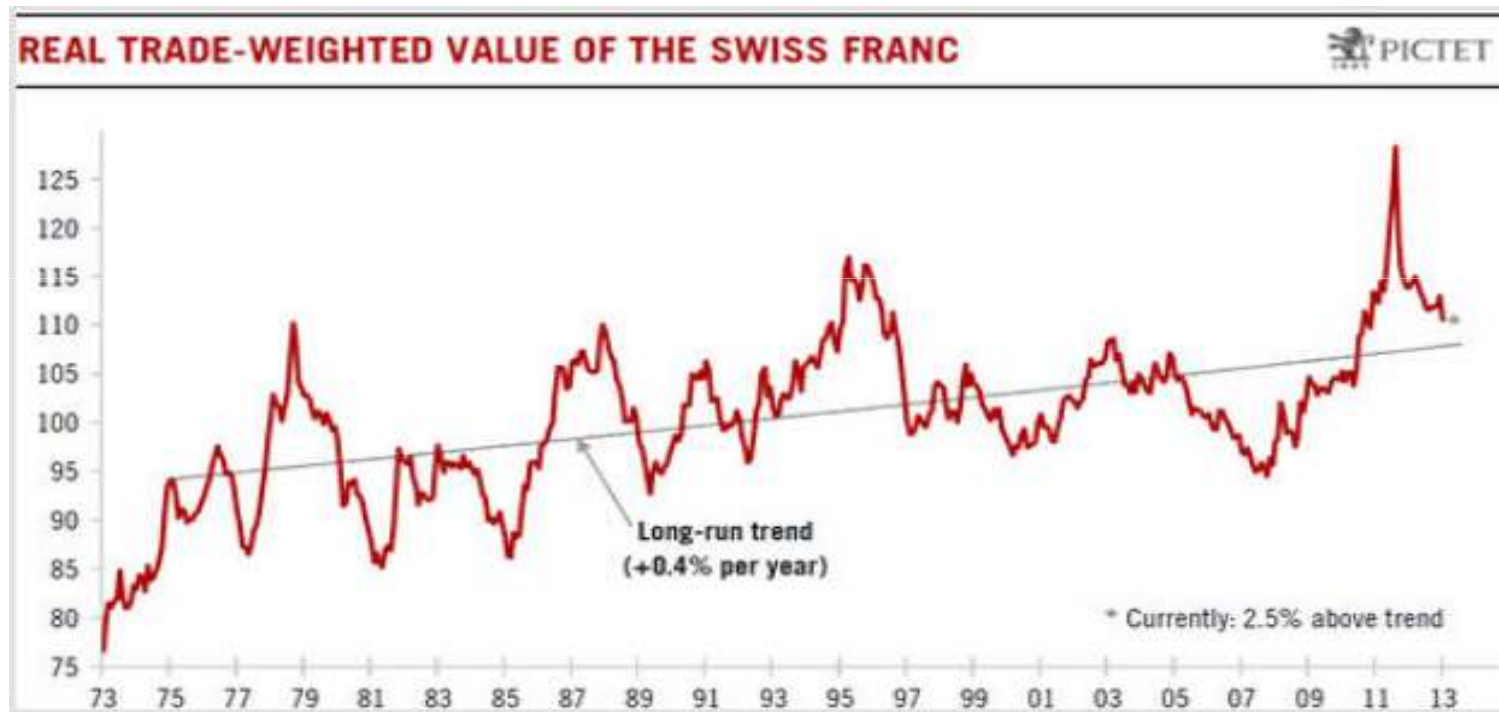


## Unit Labor Costs Are Only a Part of Competiveness



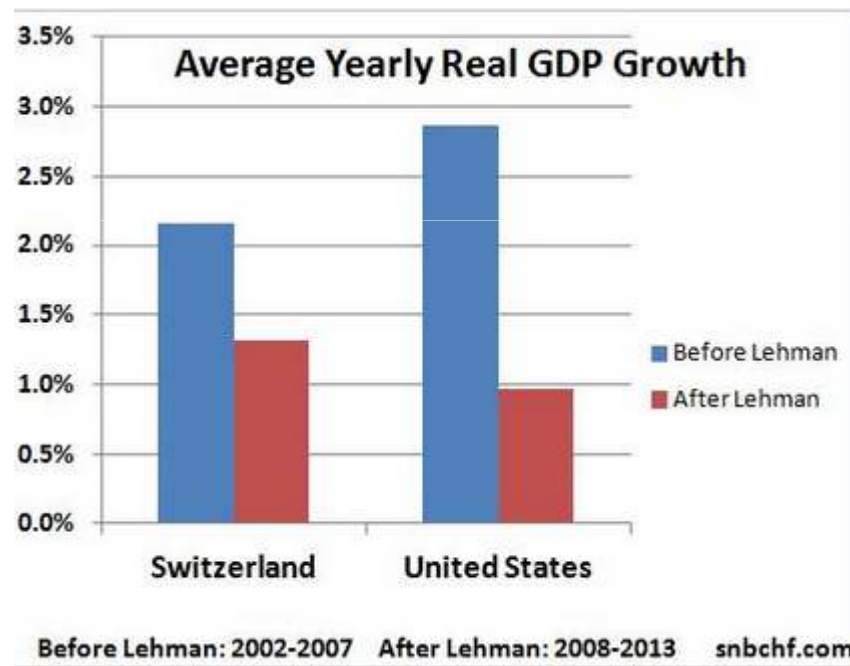
## Long-term: CHF Real Value Rises by 0.4% per Year

Reasons: availability of capital, low taxes, immigration,  
infrastructure, administration, long hours



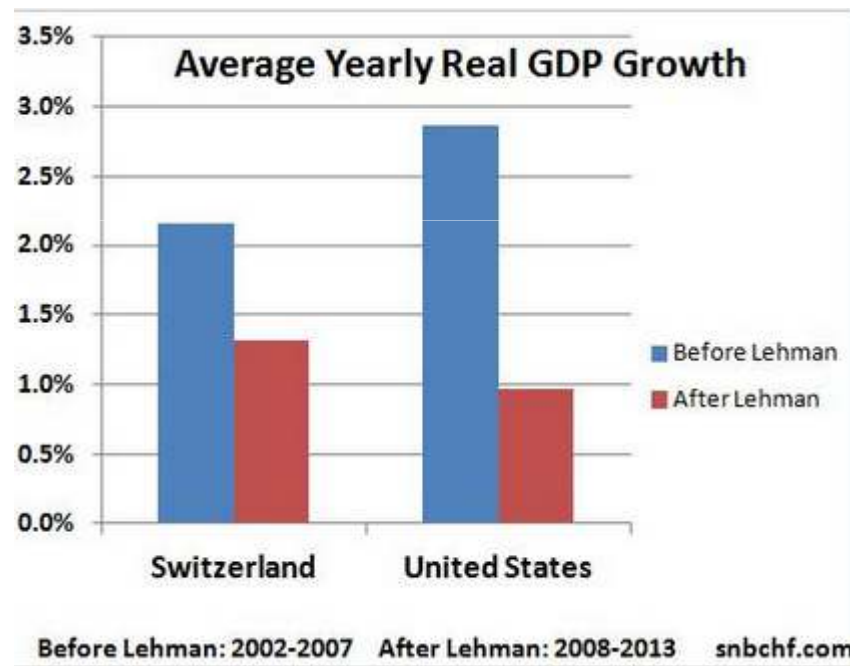
## Part 2: Swiss Economy

Since Lehman, Switzerland has outpaced  
U.S. yearly GDP growth by 0.34%

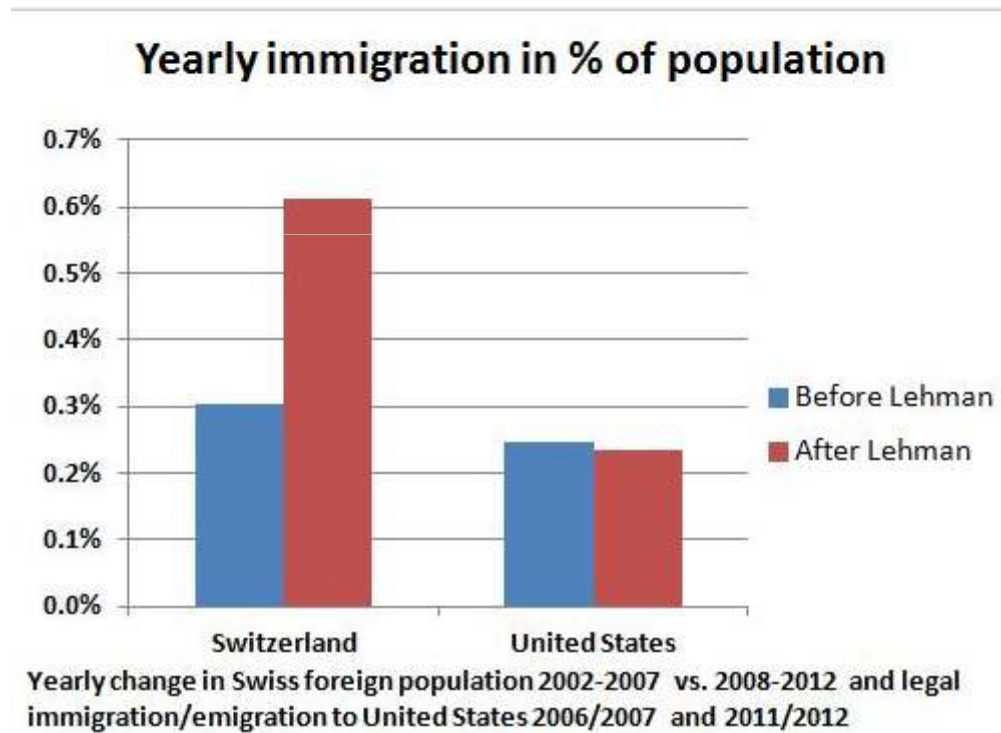


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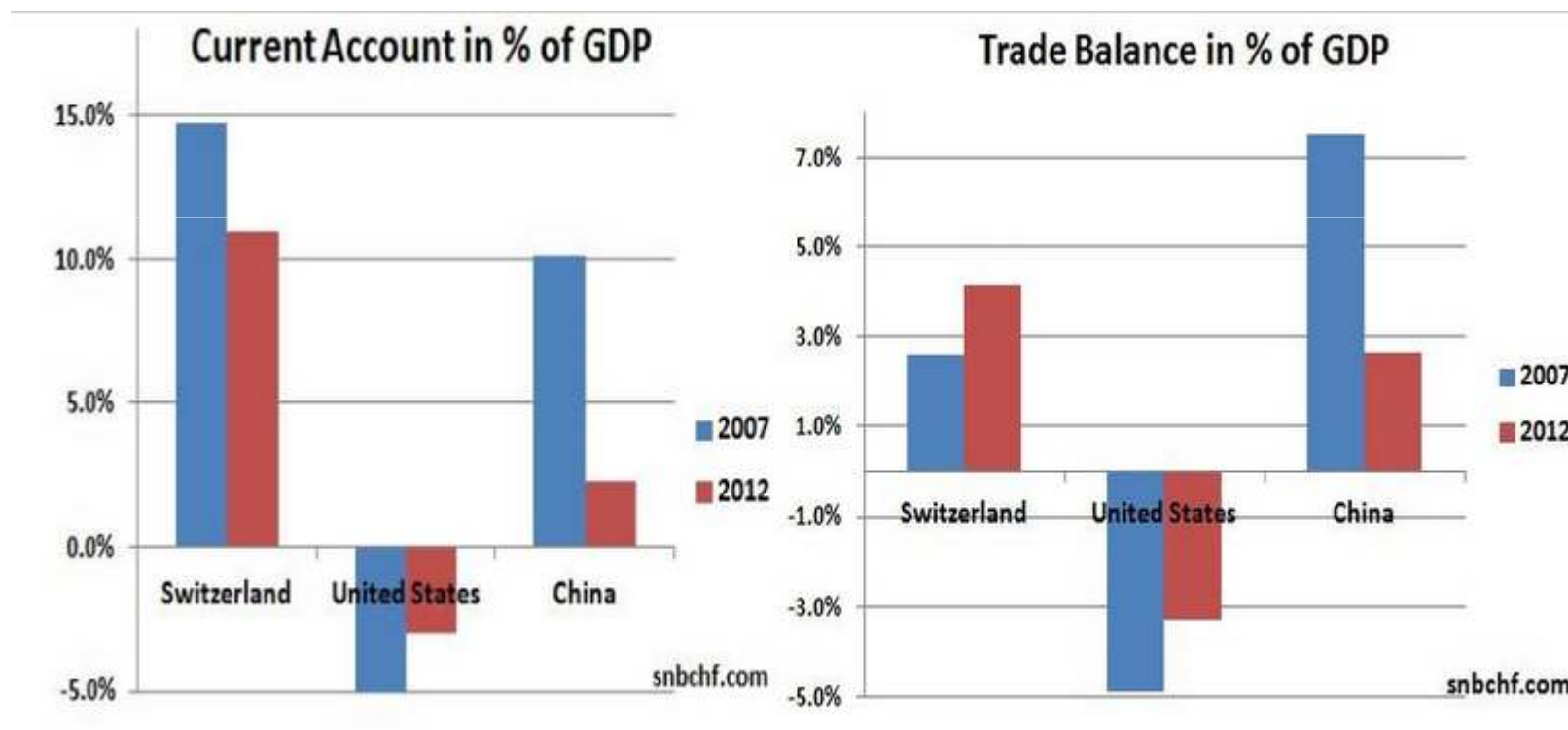


## One big source of Swiss GDP growth is immigration

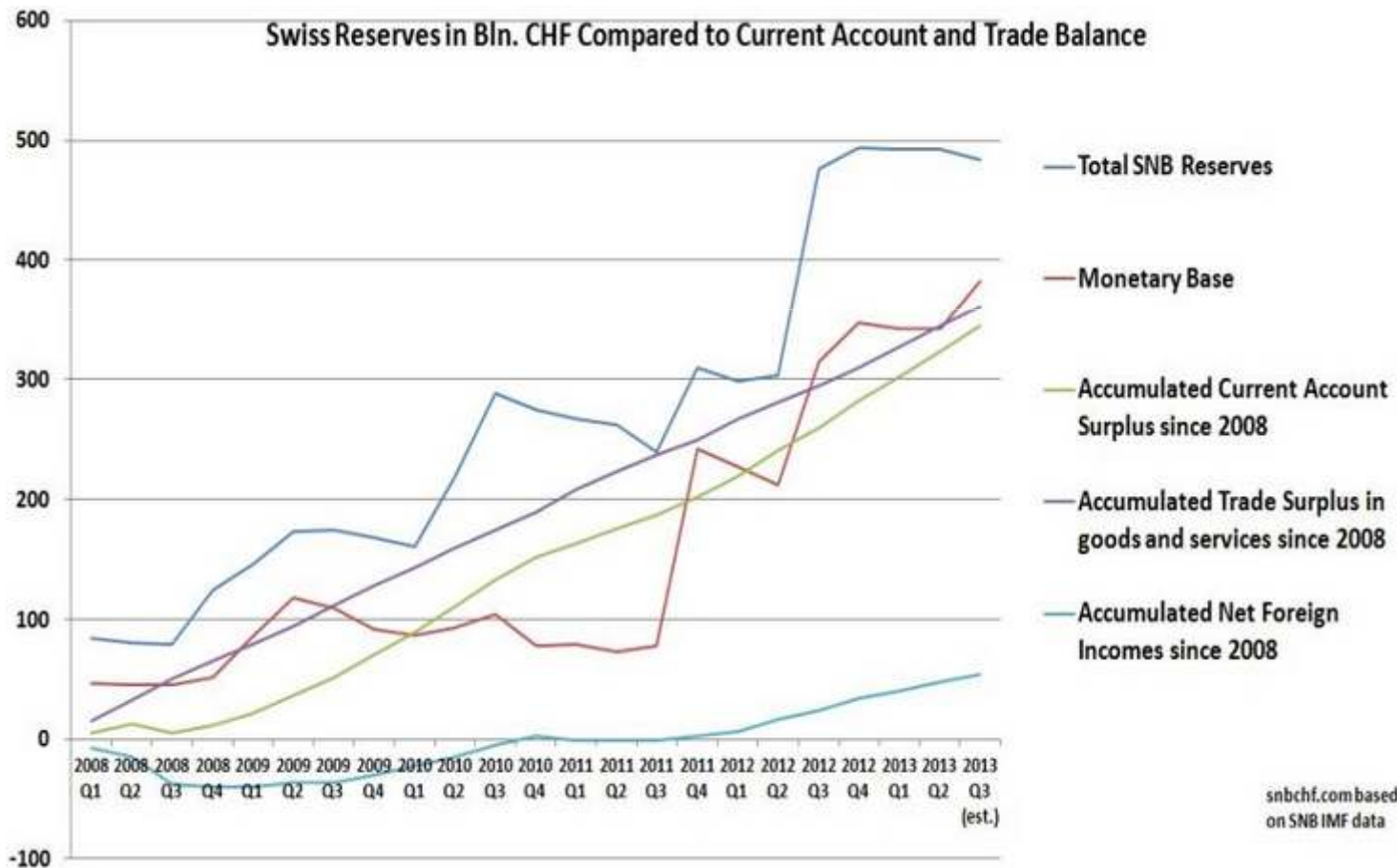




## But also continuing trade surpluses



## Will the CHF Weaken Again?



## Part 3: Swiss National Bank

SNB-chairman Philipp Hildebrand's nightmare at 3:05am:



"Yes, Mr. Hildebrand, we bought 1.1 trillion Euros tonight."

(c) Lighthouse 2011

## Does SNB Drive Switzerland into Euro Zone?

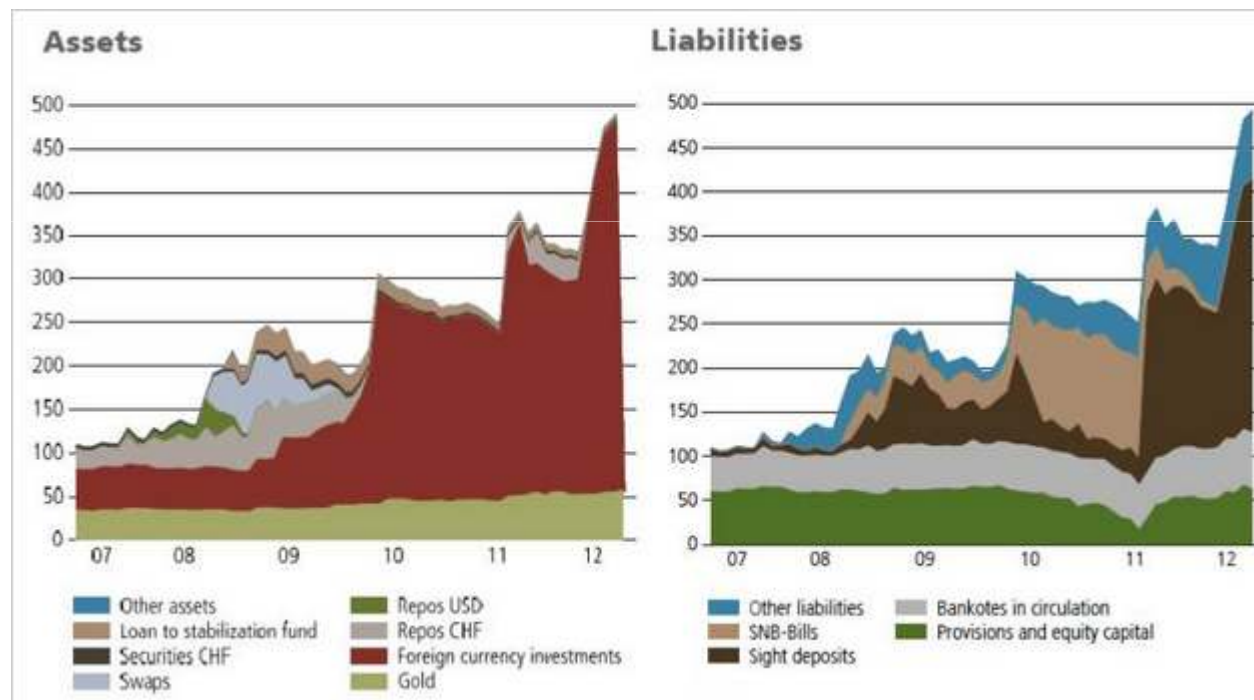
In 2012 SNB Euros for 73% of Income of each Swiss  
and 49% other currencies → Total 112%

EUR/CHF to 1.10 → SNB Equity from 60 bln. To 25.8 bln. CHF

EUR/CHF to 1.00 → SNB Equity from 60 bln. auf -7 bln. CHF

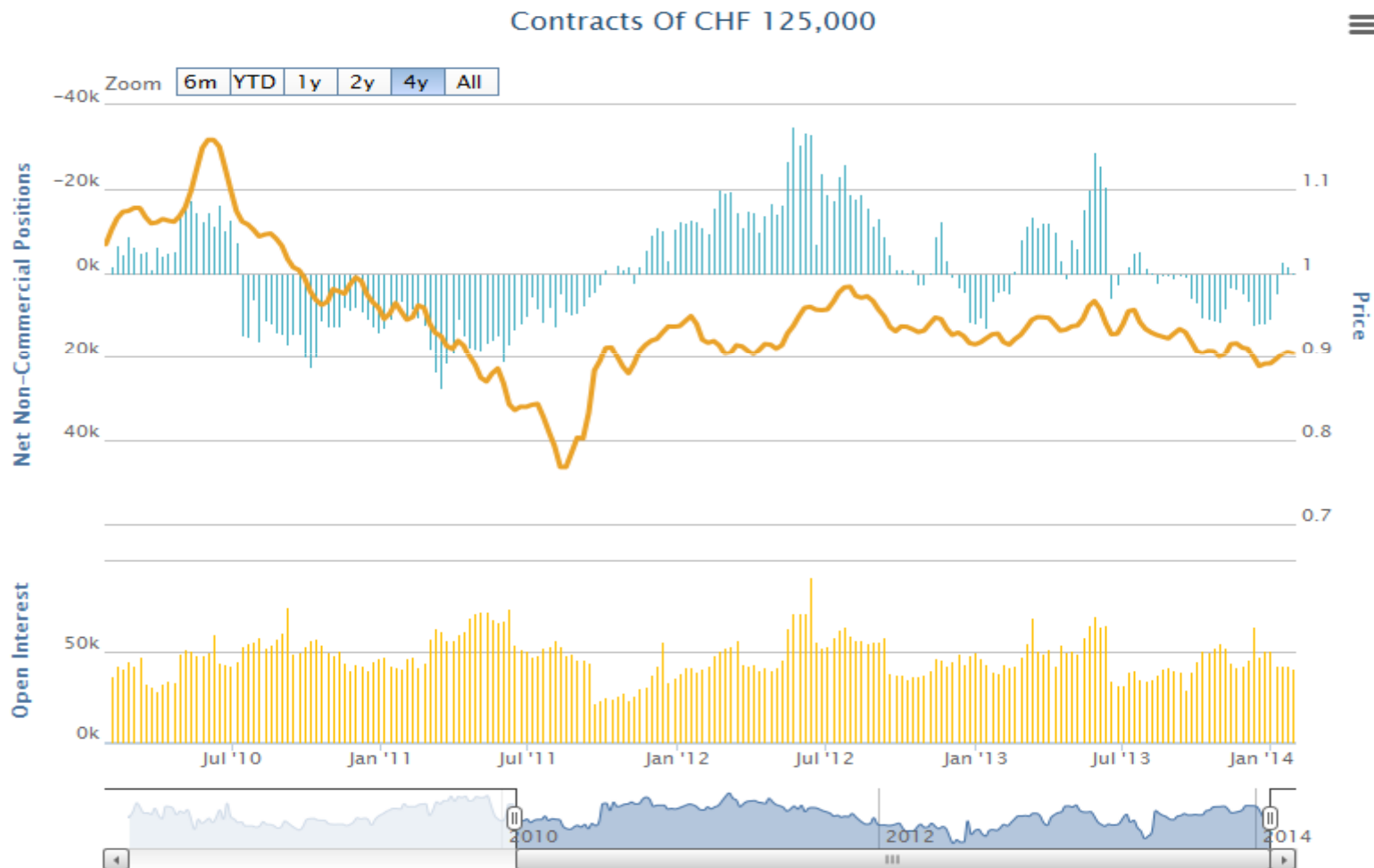
## Explosion of SNB Assets and Liabilities

“Höhere Sichtguthaben” oder “Liquidität schöpfen”  
heisst mehr Schulden



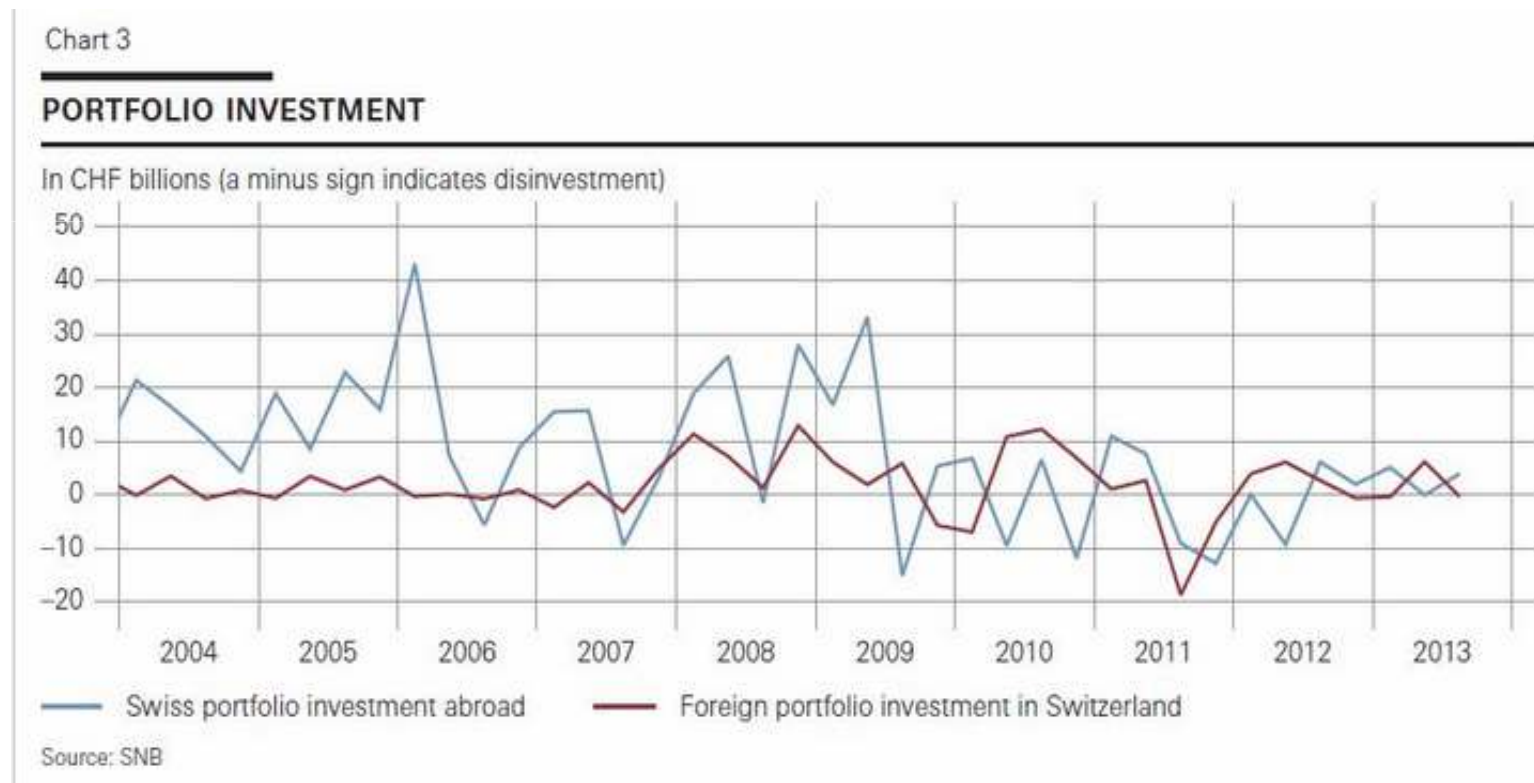
# The Myth: “Hedge Funds Are Trading Against SNB”

## CHF Net Speculative Position

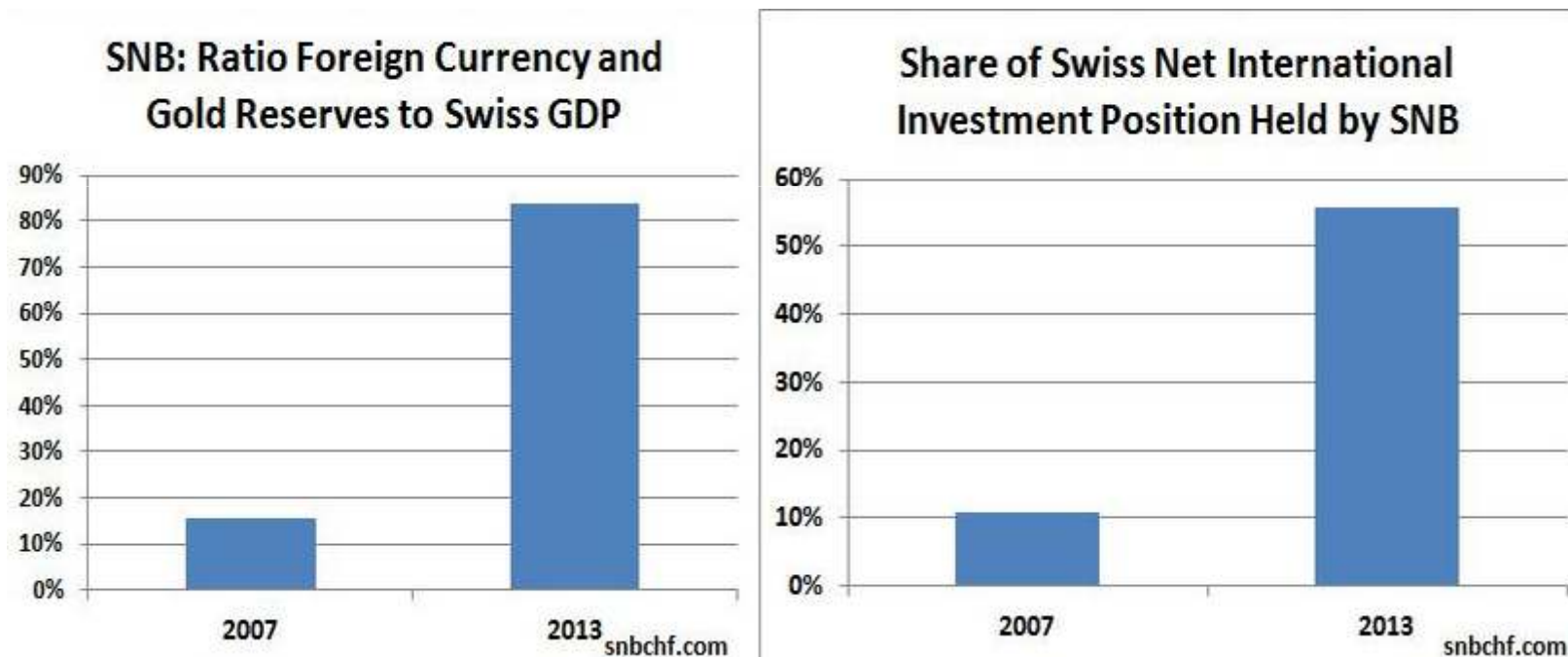


## CHF Safe-Haven-Myth: “If you buy Nestle, I buy Nokia”

### 2012: While World is Buying Swiss Stocks, SNB Buys Global Equities

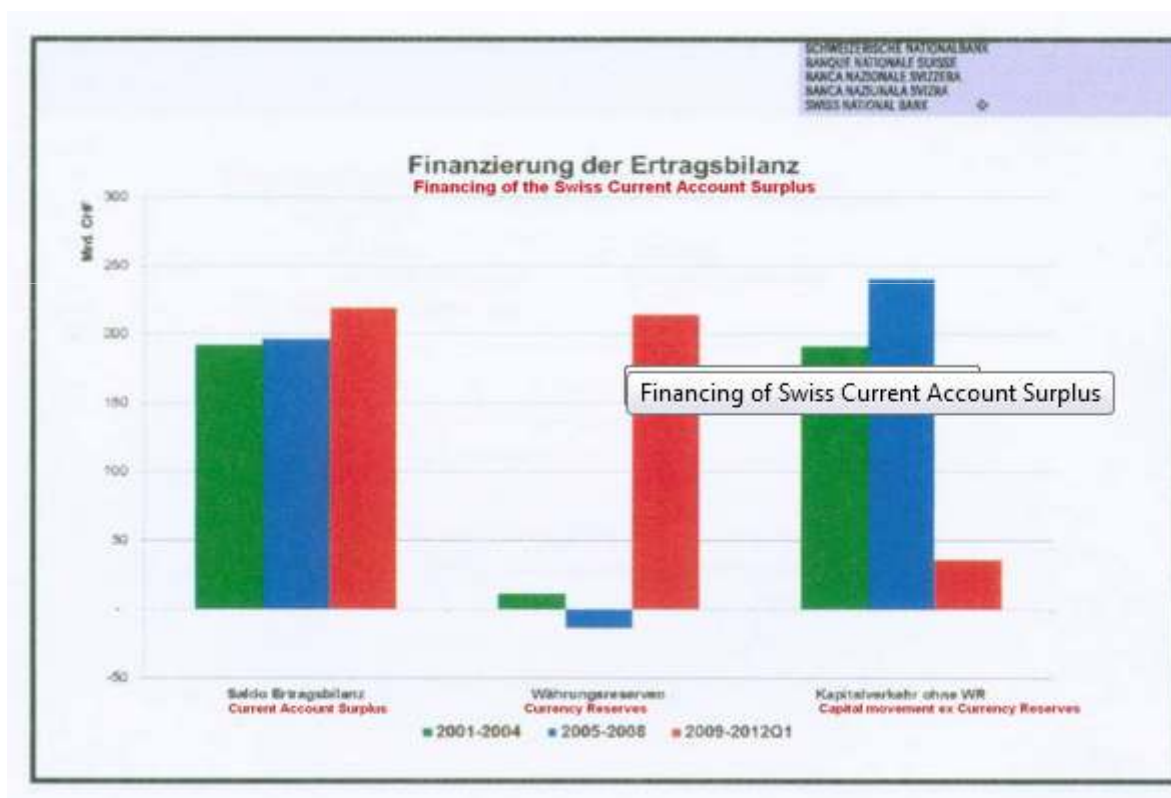


## Is the SNB Nationalizing the Swiss Foreign Investment Position ?



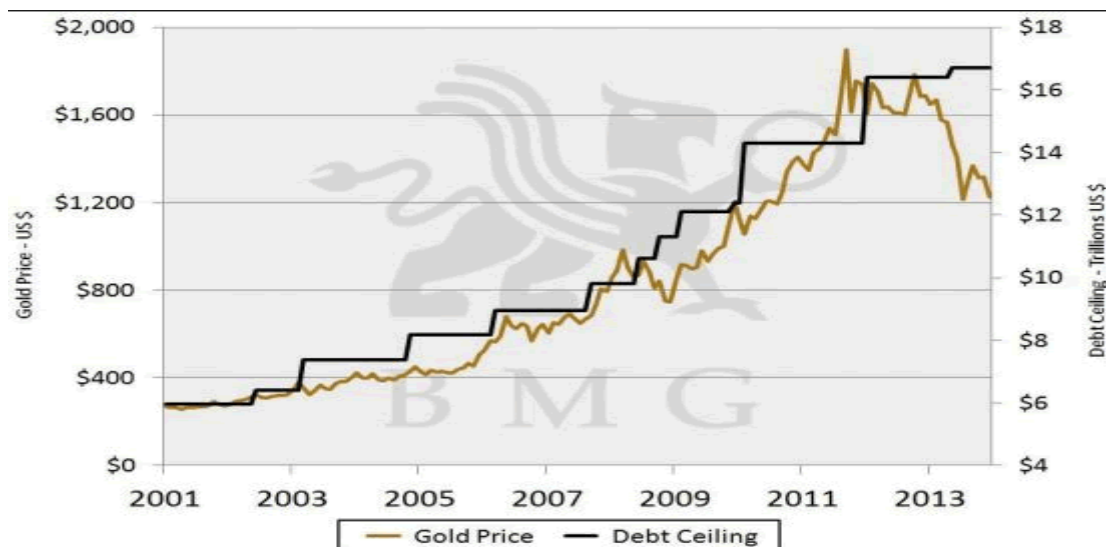


## Swiss Financed the Bubbles in U.S. and Europe Balance of Payments 2005-2008 vs. 2009-2012



# Positive SNB results thanks to gold sales at cheap prices

SNB Total Results and Results on Gold															
in Billion CHF	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total since 2000
Annual Results (until 2004 Net income)	0.5	4.5	2.3	4.1	0.4	12.8	5.0	8.0	-4.7	10.0	-20.8	13.0	6.0	-9.0	32.1
Net Result from Gold	-2.2	1.3	1.5	2.6	-0.9	7.5	4.2	6.4	-0.7	7.3	5.8	5.4	1.4	-15.0	24.6
snbchf.com based on snb results, 2003/2004 write-ups and write-downs excluded															



snbchf.com

# Falling gold portion in SNB portfolio

## But Rising Gold Price

Swiss National Bank Reserves Decomposition														
Year	2007		2008		2009		2010		2011		2012		2013	
	mil. CHF	Share	mil. CHF	Share	mil. CHF	Share	mil. CHF	Share	mil. CHF	Share	mil. CHF	Share	mil. CHF	Share
Foreign Equities	5653	11.2%	5561	11.7%	6943	7.3%	21427	10.5%	20571	8.0%	52121	12.1%	70924	16.0%
Foreign Bonds	41548	82.1%	39587	83.5%	86477	91.3%	179209	87.9%	202814	78.8%	288823	66.8%	303892	68.6%
FX cash at other (central) banks	628	1.2%	287	0.6%	0	0.0%	452	0.2%	29782	11.6%	85310	19.7%	68459	15.4%
Other (repo, MM)	2756	5.4%	1993	4.2%	1260	1.3%	2722	1.3%	4337	1.7%	5955	1.4%	0	0.0%
Total Foreign Currency Holding	50585	100.0%	47428	100.0%	94680	100.0%	203810	100.0%	257504	100.0%	432209	100.0%	443275	100.0%
Foreign Currency Holdings	50585	62.4%	47428	63.3%	94680	73.1%	203810	82.5%	257504	84.1%	432209	89.5%	443275	92.5%
Gold Holdings	30532	37.6%	27521	36.7%	34758	26.9%	43349	17.5%	48663	15.9%	50768	10.5%	35565	7.4%
Total Gold&FX holdings	81117	100.0%	74949	100.0%	129438	100.0%	247159	100.0%	306167	100.0%	482977	100.0%	479347	100.0%
snbchf.com, data source SNB monthly bulletins														

# Seigniorage: Time is Money

2% Income per year via interest on 65% Bonds share  
0.5% Income per year via dividends auf 15% equity share  
0% income on 15% cash share (decreasing in 2013, increase 2012)  
SNB pays 0% on its liabilities

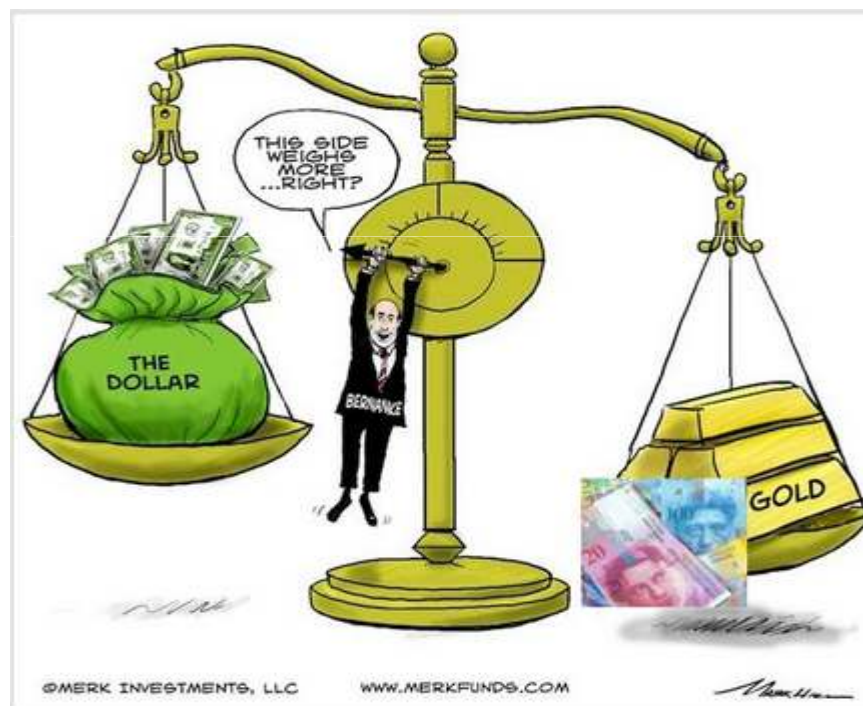
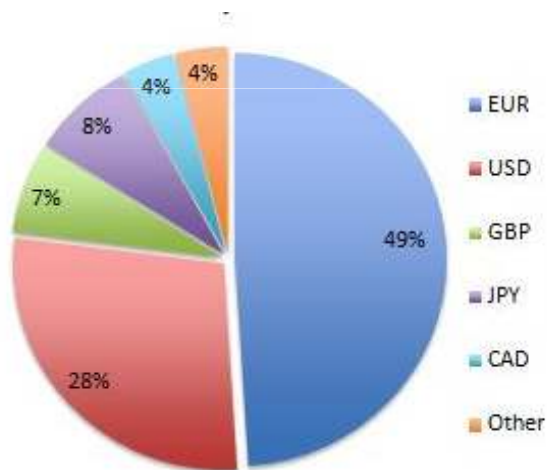
**In 5-7 years SNB can afford the EUR/CHF of 1.10**

**Problem:** High bond purchase prices in 2012

# Part 4: Gold Referendum and SNB Reserves

## Gold up to 20% again, Back to Switzerland

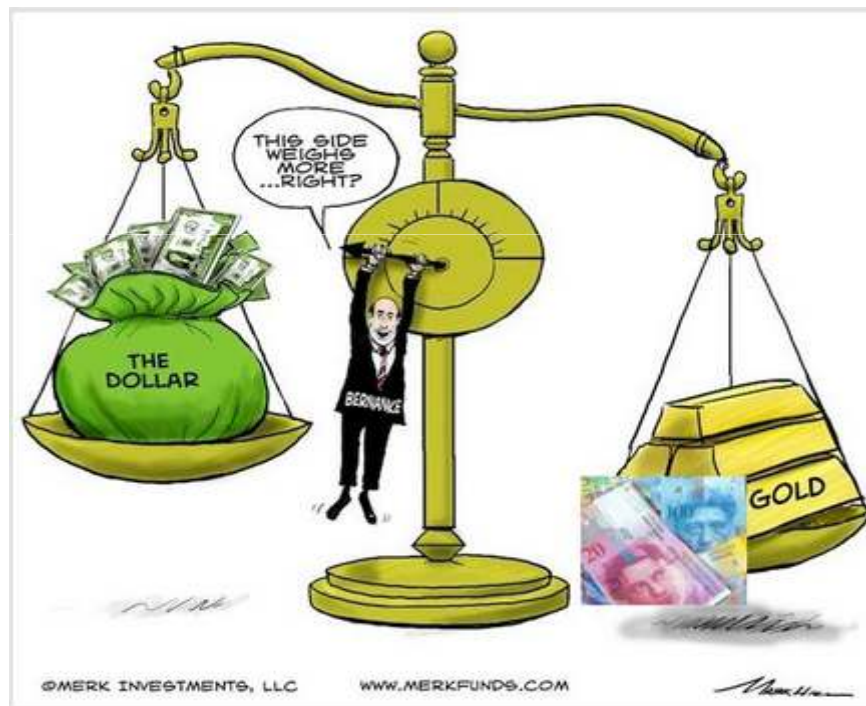
„Fiat Currencies“



Gold 8%  
(from 38% in  
2007)

# What Determines SNB Portfolio Performance?

Equities/Dollar  
Low U.S. Inflation  
Low Global Growth  
Small Wage Increases  
High Profits  
Cheap Oil  
Weak Emerg. Markets



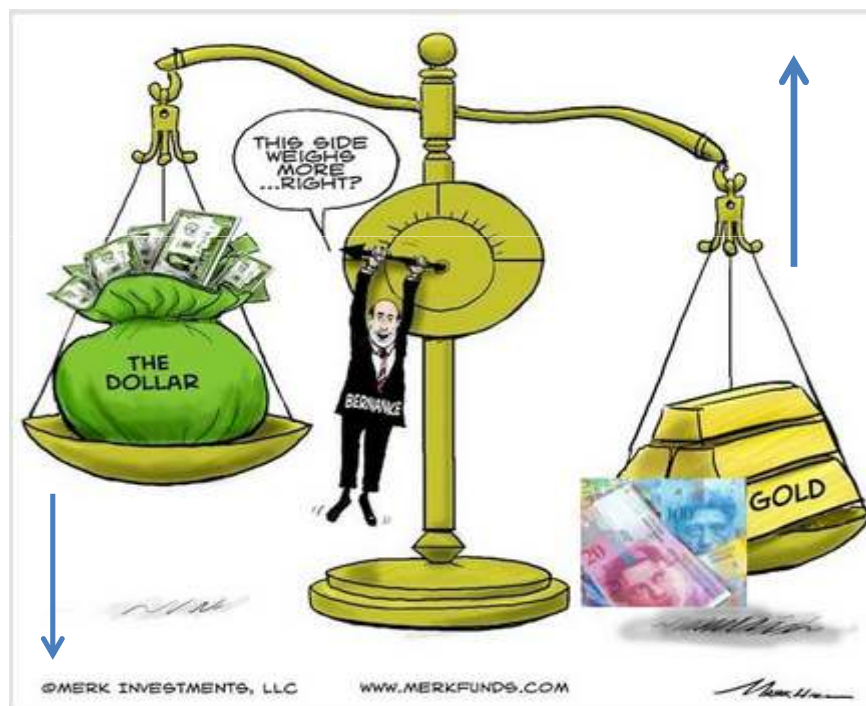
Gold/Partially CHF  
High U.S. Inflation  
High Global Growth  
High Wage Increases  
Weak Profits  
Expensive Oil  
Strong Emerg. Mkts.  
Gold Demand EM

# Will workers always accept that shareholders get all profits?

## Will Emerging Markets Be Always Weak?

### Equities/Dollar

Low U.S. Inflation  
Low Global Growth  
Small Wage Increases  
High Profits  
Cheap Oil  
Weak Emerg. Markets

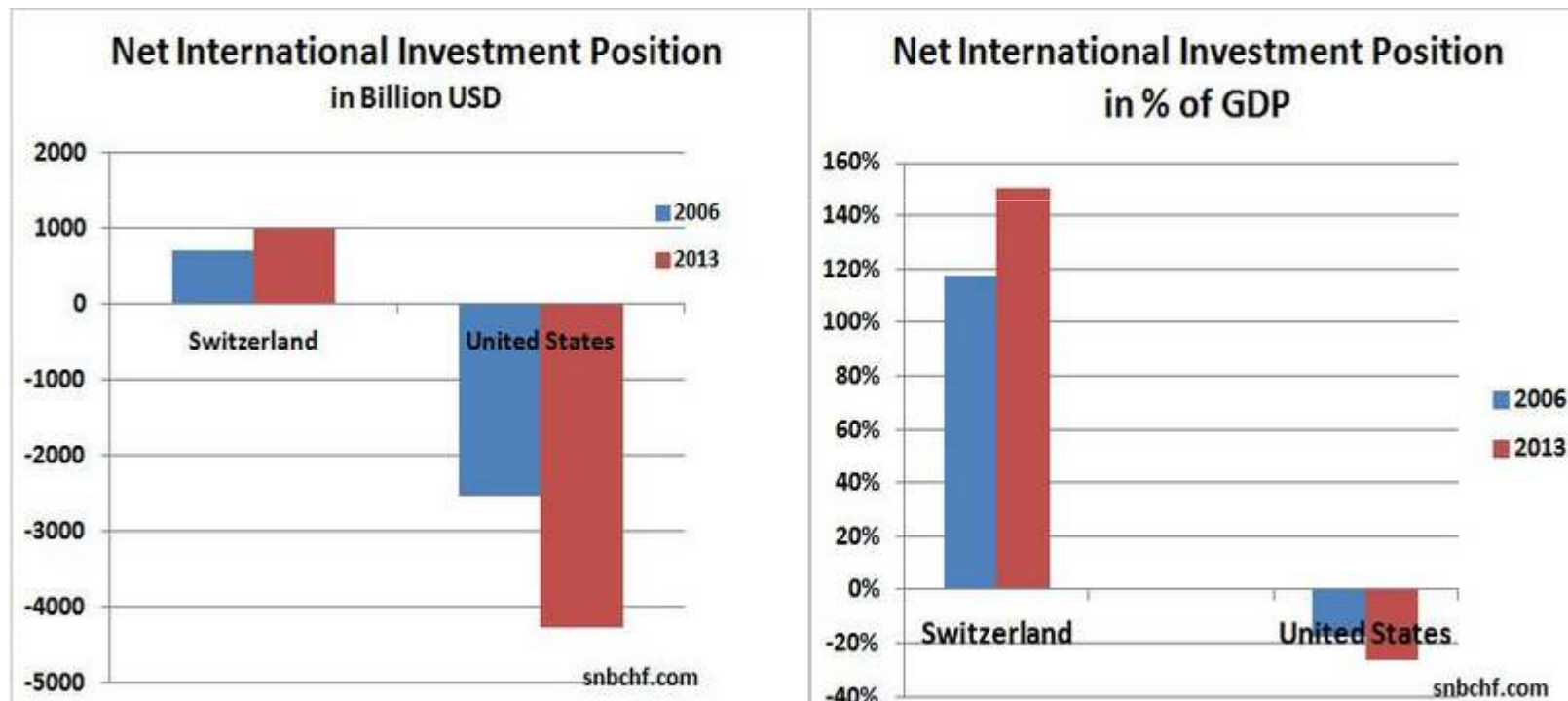


### Gold/Partially CHF

High U.S. Inflation  
High Global Growth  
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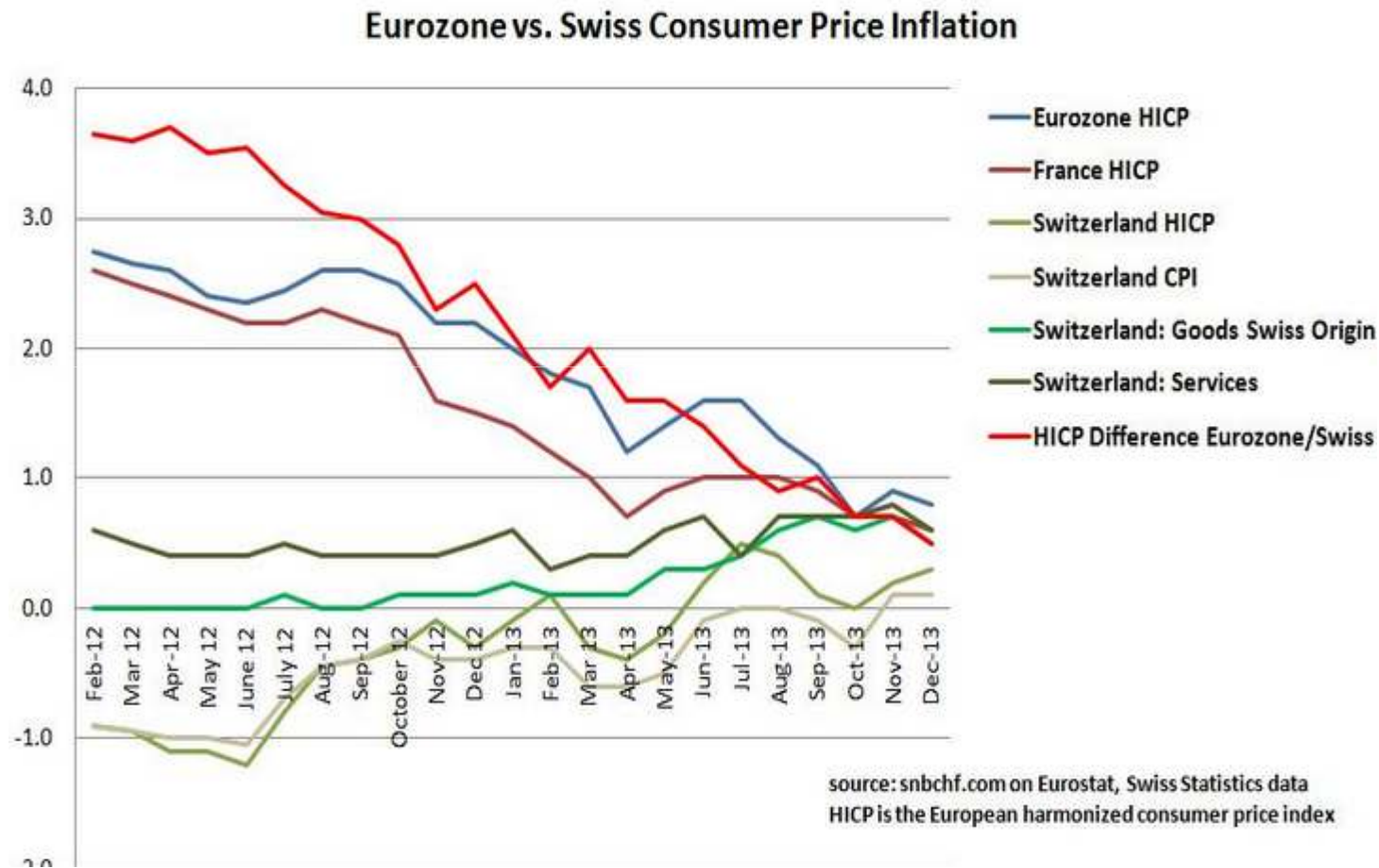
## Part 5: Inflation

Switzerland is a global creditor, does not like inflation  
It destroys foreign holdings





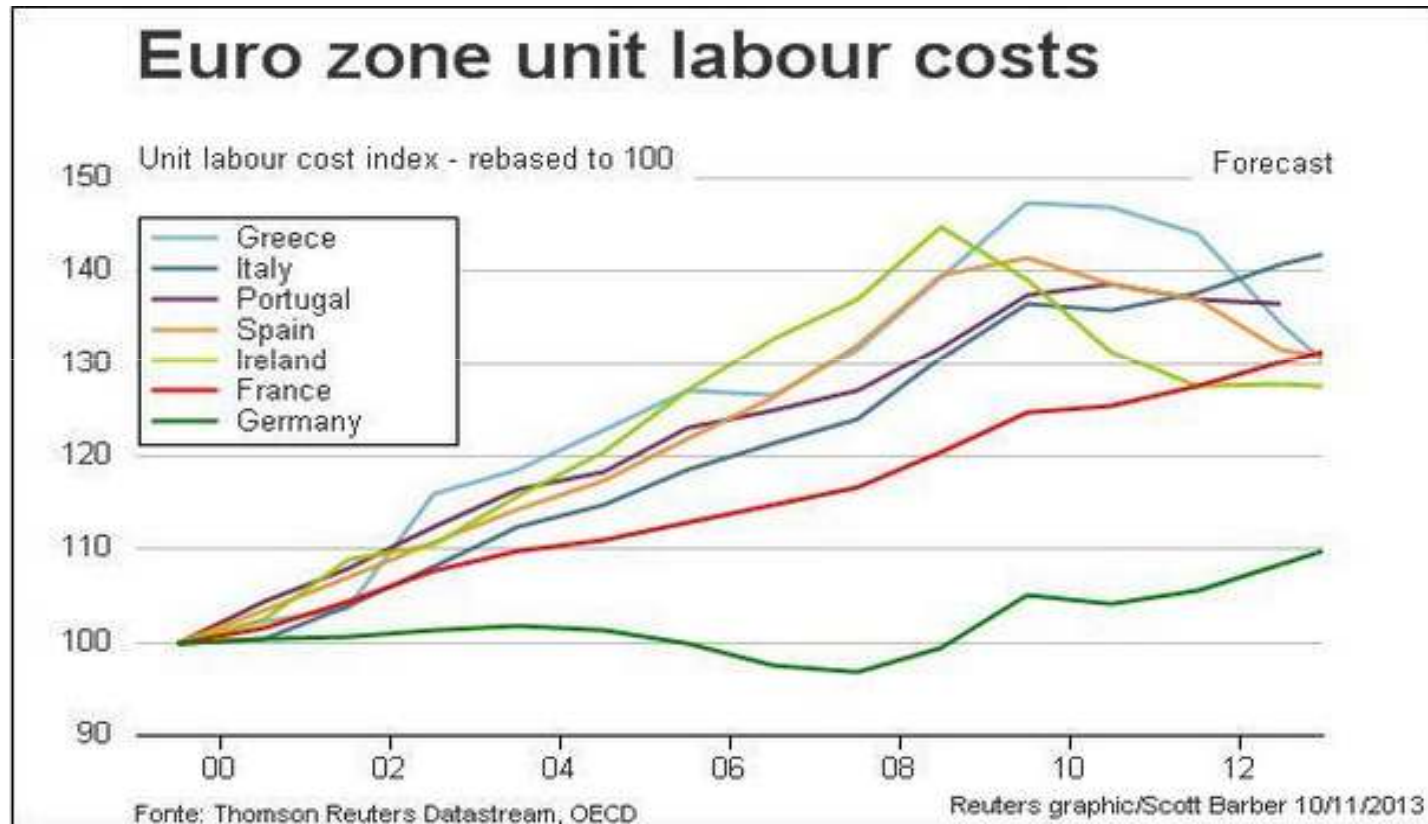
## Swiss Inflation Rate Will Overtake Euro Zone Inflation



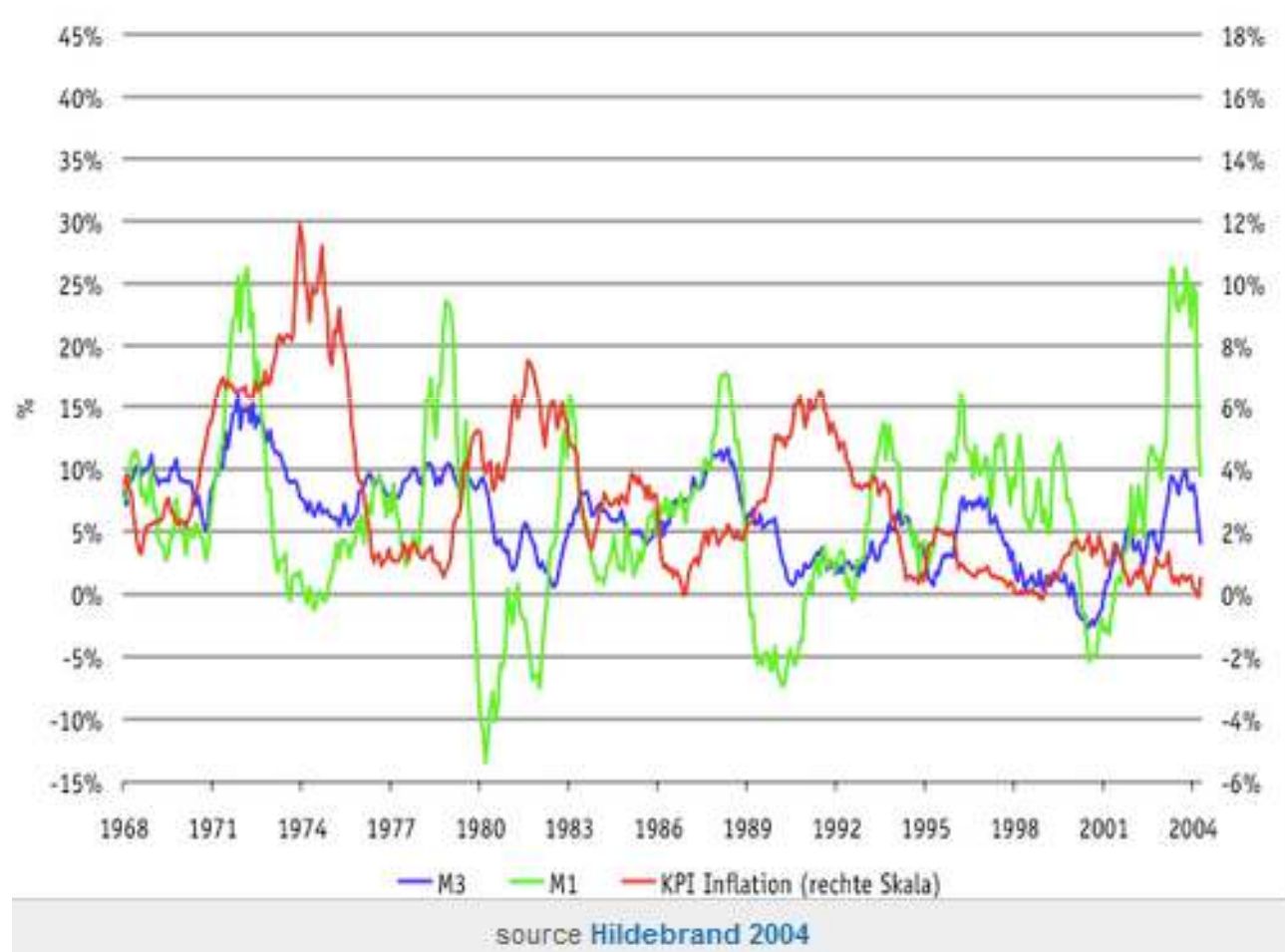
# Inflation Driver 1: Wages

## First European Improvements thanks to Merkel

### SNB was right to Peg to Euro

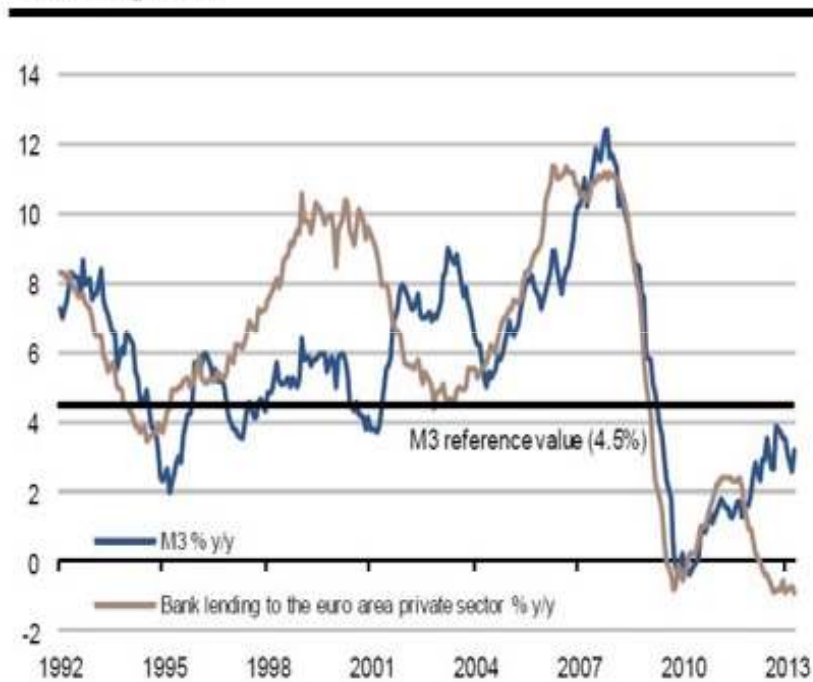


## Inflation Driver 2 : Money Supply



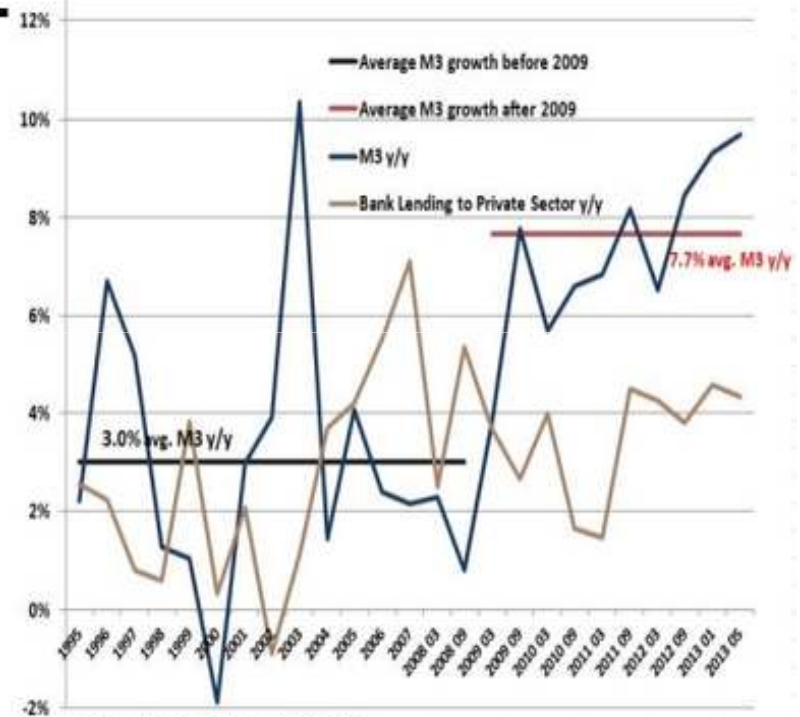
# Will Switzerland be the next Spain and Ireland?

EMU M3 growth



Source: ECB, SG Cross Asset Research / Economics

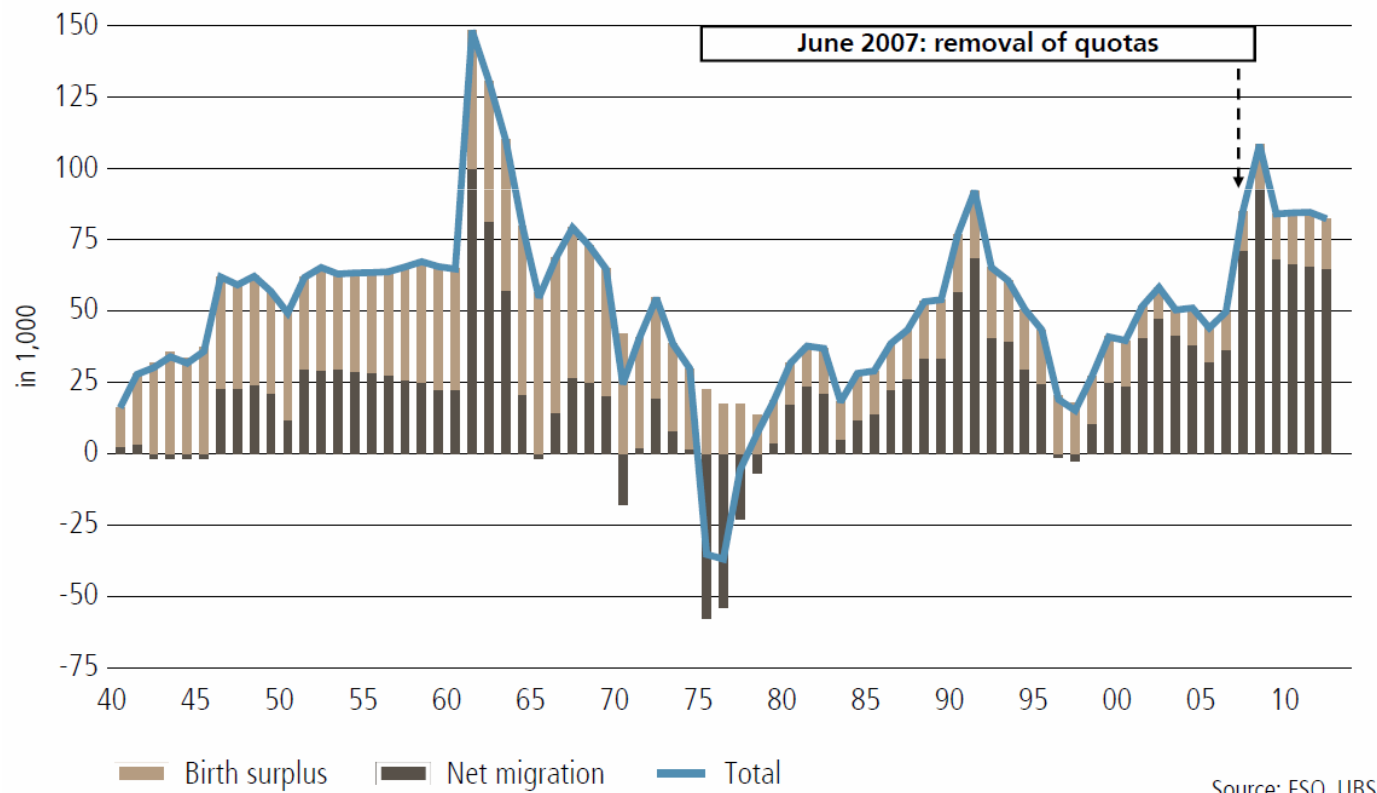
M3 and Bank Lending in Switzerland Exceeds Eurozone by far



snbchf.com based on SNB monthly bulletins  
(effect on bank lending in 2006 caused by inclusion of smaller banks removed)

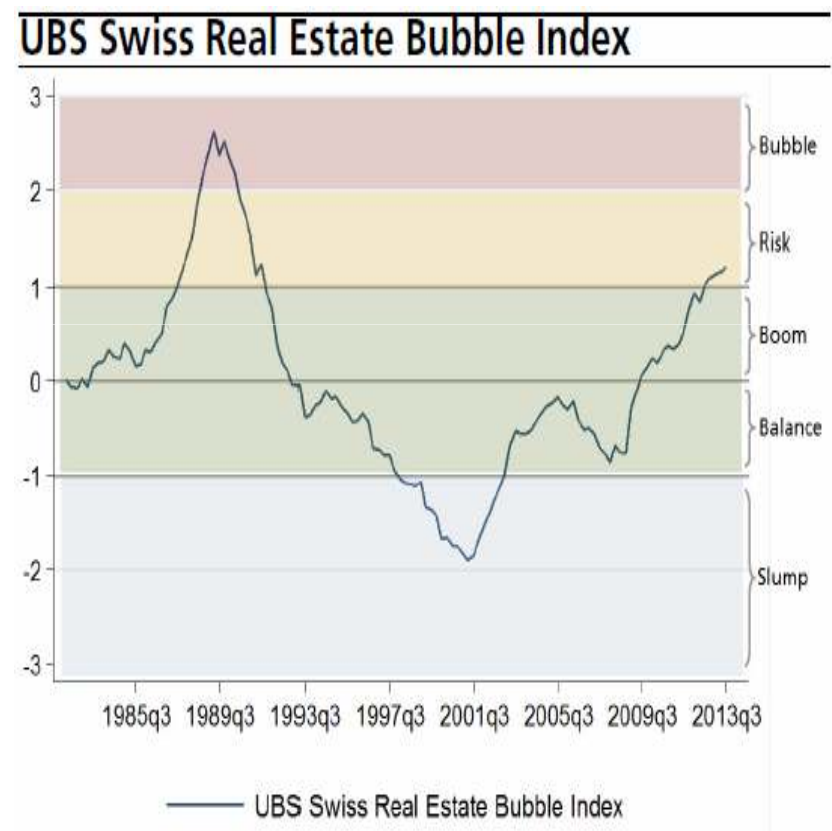
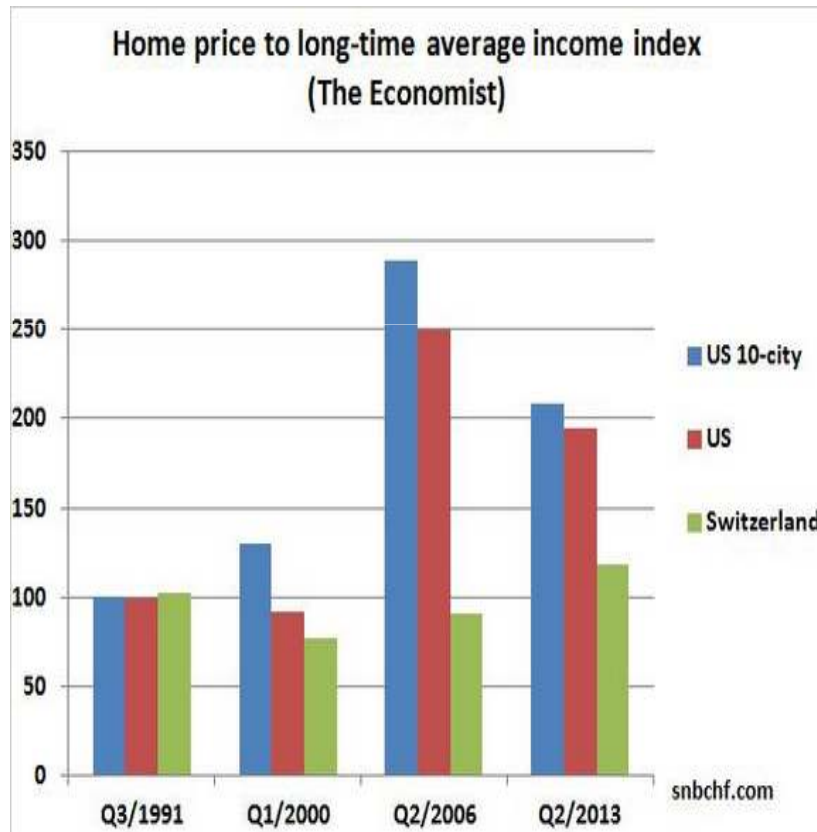
**A Yes to the Initiative against Mass Immigration  
Increases Wages and Inflation  
A No Increases Company Profits, the Swiss Franc and Potential SNB Losses**

Change of permanent resident population



Source: FSO, UBS

**But Swiss home price to income ratios are still low.  
Another 10-15 years of bubble building?**

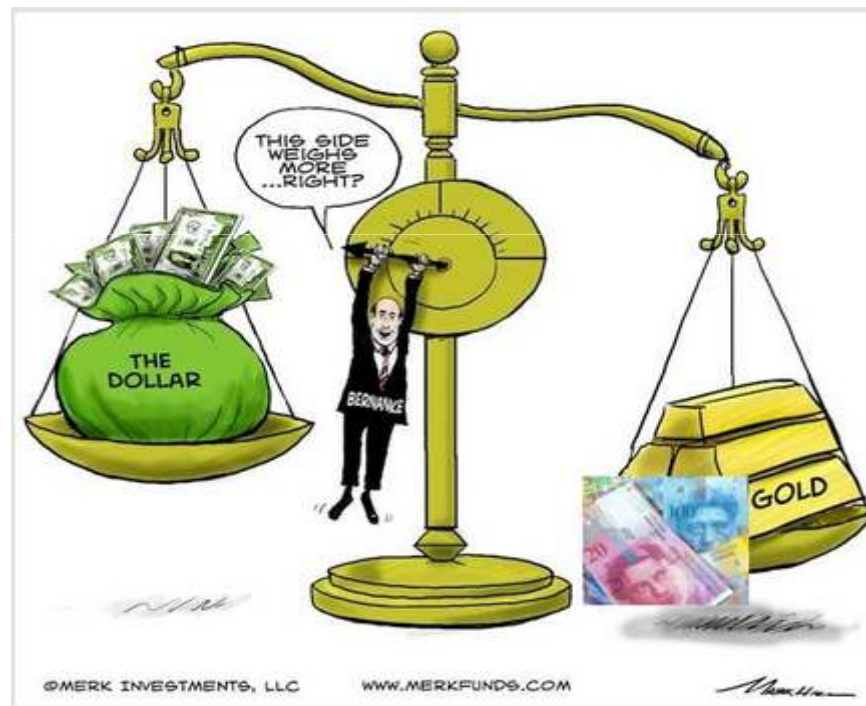




## Current Situation and Mid-Term Outlook: Developed vs. Emerging Markets

### Developed Markets:

Small Wage Increases  
Weak Consumption  
No Investments  
Low Inflation  
Low Money Supply  
High Profits thanks to  
Global Supply Chains



### Emerging Markets:

High Wage Increases  
Rising Consumption  
High Investments  
(Relatively) High Inflation  
High Money Supply  
Weak Profits  
→ Fragile Five + Russia:  
Currencies collapse