Jordan Says There’s ‘No Alternative’ to Franc Ceiling
By Simone Meier - Sep 13, 2012

Swiss central bank Chairman Thomas Jordan said there’s currently no alternative to the franc ceiling, with policy makers ready to intervene “at any time.”

“It’s not just speculators who are to blame for the strong franc,” Jordan told Swiss state radio DRS1 in an interview today after the Swiss National Bank kept the franc cap at 1.20 versus the euro. “We have a huge insecurity among market participants about the future of the euro. That forces us to be active around the clock and conduct a policy that’s making it totally clear to markets that we’ll impose” the measure “under any circumstances,” he said.

The SNB’s foreign-currency reserves increased 64 percent to 418 billion francs ($446 billion) in the year through August as policy makers stepped up euro purchases to stave off attacks spurred by the region’s turmoil. Jordan, who took over the SNB’s helm in April, said the central bank “can’t have doubts” in its policy and any further appreciation of the franc would have “massive consequences” for the economy.

The Swiss franc, which is seen as a haven in times of global turmoil and reached near parity with the euro before the ceiling was introduced on Sept. 6, 2011, traded at 1.2131 versus the single currency at 2:13 p.m. in Zurich, down 0.3 percent on the day. Jordan called today’s move an “improvement.”

‘Sufficiently Strong’

“We say, 1.20 is the limit,” he said. “We say it very clearly -- this is the limit and you can’t go beyond. We’re sufficiently strong and will enforce this limit.”

To protect the economy, policy makers have been forced to pile up foreign-currency holdings amounting to about 73 percent of gross domestic product. Euros accounted for 60 percent of total reserves at the end of the second quarter, up from 52 percent in the previous three months, the latest data show.

“If too many people want to buy francs or sell euros -- at the exact moment of a potential risk of the exchange rate falling below 1.20 -- we buy sufficiently in order to keep it above 1.20,” Jordan said. The Zurich-based central bank monitors developments “very closely.”

Pressure on the franc ceiling eased over the past month, after the European Central Bank pledged on Aug. 2 to purchase government bonds of distressed nations such as Spain and Italy in tandem with Europe’s rescue fund to fight the turmoil. The Swiss franc weakened 0.8 percent last week, after ECB President Mario Draghi outlined details of the bond-purchasing plan.

Jordan, 49, said the ECB decision has given the euro area an “important instrument” to weather the fiscal crisis. He cited the reasons for pressure on the Swiss currency as some investors betting on further gains, companies reducing their exposure and institutional investors cutting euro holdings.

‘No Hostage’

“At the moment we introduced this policy, we also had to expect a need to intervene with large amounts,” Jordan said. “At this point, you can’t have doubts anymore but have to intervene decisively. We’re not hostage to our decision but we’re convinced that it’s the right policy -- at the moment there is no alternative.”

The BAK Basel economic institute on Sept. 11 forecast the SNB would keep borrowing costs at zero for “a prolonged period of time,” with the franc remaining close to 1.20 in 2013. David Kohl, deputy chief economist at Julius Baer Group Ltd. in Frankfurt, said policy makers will have to stay “vigilant.”

Jordan agrees.
“Every time I take a break, I check the franc exchange rate,” he said. “I’ve become used to checking it in the morning before I shave.”

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