

WHy The Swiss National Bank Dropped the CHF EUR Cap And What It Means for the ECB's QE Program

Draghi; Hi Tom. I'm going shopping next Thursday.

Jordan: How nice Mario. What are you buying?

Draghi: Nothing special. Just some high grade bonds.

Jordan: Really. How interesting. How much are you buying?

Draghi: Well, that's the thing Tom. It sort of depends.

Jordan: Oh. On what Mario?

Draghi: Well, on how much YOU will be buying.

Jordan: I'm sorry? What was that?

Draghi: The exchange rate cap... Tom. Tom, are you there... Hello?

Could the ECB embark on a large scale bond buying program without consulting the SNB, which has been a large buyer of Euro sovereign investment grade bonds in order to maintain its currency cap? Of course not. The ECB would have to consult the SNB as to its intentions if it was to calibrate its own bond buying program size.

The fact that the SNB has abandoned its cap means that on Jan 22, the ECB will act with high probability and the program

size is likely to be large, compensating for the fact the SNB will not be party to the purchase efforts.