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Swiss May Spend 200 Billion Euros on Peg, BMO Says

By Allison Bennett - Sep 6, 2011

(Corrects headline, first quote to fix estimate.)

Andrew Busch, a global currency strategist in Chicago at Bank of Montreal, spoke in a conference call today with investors about the Swiss National Bank's decision to peg the franc to 1.20 or weaker per euro.

On the peg:

"I would assume the Swiss National Bank is going to absorb around 200 billion euros ($279.8 billion) in a relatively short period of time, perhaps within the first two months, to make a point and prove the worthiness of having this peg hold."

"It's truly an important development when a developed nation pegs its currency to another developed nation, it's very unusual."

On foreign-exchange market reaction:

"We have a tremendous amount of volatility in the foreign- exchange market, especially surrounding the Swiss franc," Busch said. "The leverage in the foreign-exchange market is pretty significant with retail investors levered 50 to 1. A 10 percent move is very significant."

On equity market reaction:

"This was a policy change that was primarily directed at aiding their exporters, so it's no wonder that Swiss exporters have risen today in the market. They essentially just got a 10 percent boost in the value of their exports. People will be factoring that in when they look at companies like Nestle and other major exporters."

On Bank of Japan:

In 2004, "they continued to intervene and eventually drove the U.S. dollar from 105 to 123. That is the level of effort that is going to be necessary from the Swiss National Bank to make this work for them."

"There will be additional central bank moves this week. The next one would be Bank of Japan."

"This is a wonderful opportunity for the Japanese to step up begin overt intervention."

"My guess is that Japanese exporters will be up tonight on this news."

To contact the reporter on this story: Allison Bennett in New York at abennett23@bloomberg.net

To contact the editor responsible for this story: Dave Liedtka at dliedtka@bloomberg.net