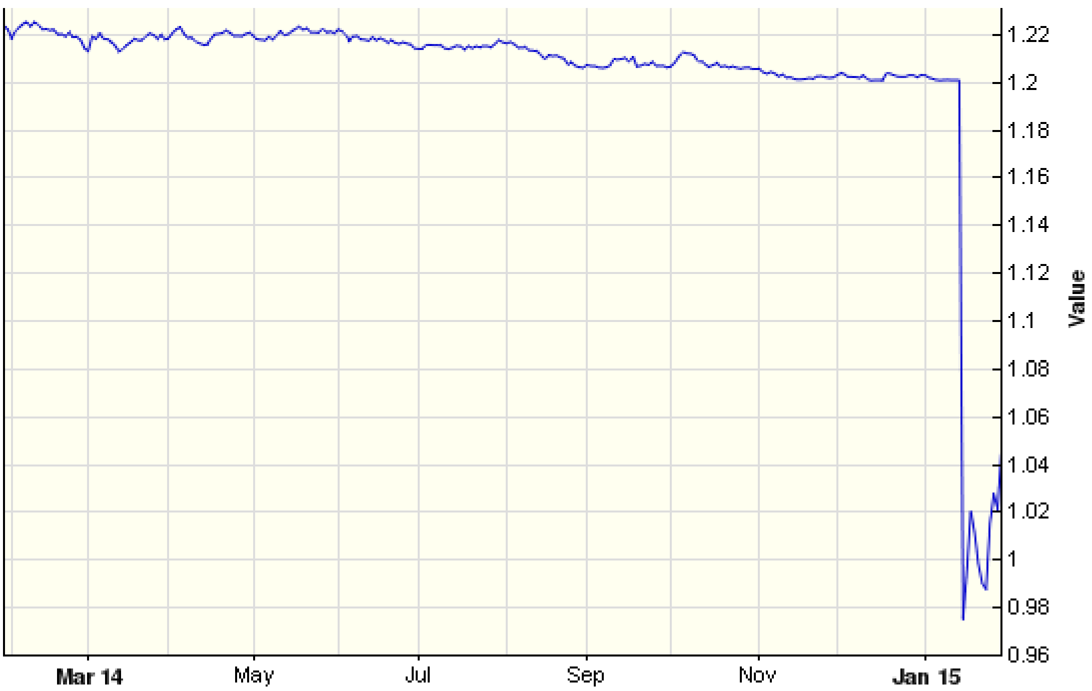
A currency-dominated month

January saw plenty of excitement on the currency front.

The first month of 2015 saw plenty of excitement regarding foreign exchanges.

At 10.30 am on 15 January the Swiss Central Bank surprised the foreign exchange markets by announcing that it would no longer attempt to keep the Swiss Franc pegged at a rate of €1.20. The peg had been in being since 2011 with the aim of curtailing speculation and protecting Swiss exporters. As the graph shows, when the peg was removed the euro fell sharply against the Swiss Franc and has since settled at close to parity.

What a difference a day makes: Euro v Swiss Franc



Source: www.digitallook.com

The Swiss central bank's move was attributed – somewhat with the benefit of hindsight – to action expected to be taken by the European Central Bank (ECB) the following week. This did come to pass, with the ECB at last announcing the start of quantitative easing (QE). As the ECB had been hinting at such a move for some while, the impact on the euro was limited, but it still pushed the value of the single currency down. Had the Swiss continued to cling to their €1.20 peg, life would have been very difficult.

As at the end of January the result is that your après-ski drink in Switzerland has become about 7% more expensive, while across the border in France it is about 10% cheaper (the pound now buys about €1.34 against €1.22 a year ago). You might even find that buying from Amazon.de is less costly than via Amazon.co.uk.

From an investment point of view January's moves are a reminder that currency gyrations can undo or amplify investment returns. Some funds investing overseas never attempt to hedge currency movements, while at the opposite end of the spectrum, there are funds which are always hedged back into sterling, leaving them unaffected by exchange rate fluctuations. Sometimes getting the currency strategy correct is more rewarding than choosing the right shares.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances. The value of foreign currency denominated assets can rise or fall against sterling's value.