

Independent Study Title	THE EFFECT OF UNPEGGING SWISS FRANC TO EURO AND IMPLICATION ON LIQUIDITY STATUS EMPLOYING SVAR MODEL
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ABSTRACT

We studied the impact of an announcement of SNB to unpeg CHF to EUR on Jan 15th 2015 on liquidity level and made comparison to pegging period. As a mean to observe changes in liquidity level we employed VAR and SVAR framework performed on daily and monthly data and subdivided time series data into pegging and unpegging period accordingly. The tests were performed on four currency pairs which are EUR/CHF, USD/CHF, GBP/CHF and JPY/CHF respectively. We found an evidence of liquidity spiral stated that when volatility is high in financial market as this would put upward pressure on funding constraint consequently this would lead to significant reduction in liquidity level. The deterioration in liquidity level was more observable and transparent during unpegging period however the impact on liquidity level was ambiguous and almost non-existent during pegging period. Finally we conclude that when SNB made an announcement of unpegging decision as this had cause spike in volatility level and this led to the crash risk as investors rushed to unwind their existing positions therefore this had caused significant reduction in in liquidity level in the aftermath as proposed by liquidity spiral theory.

Keywords: Unpegging, CHF, Liquidity, Commonality, Liquidity spiral