**Bankers, Traders Scramble to Regroup After Swiss Move**

SNB Says Shock Was Necessary to Avoid Improper Trading

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Even veteran currency traders who have seen it all were shocked.

**The Swiss National Bank ’s surprise decision on Thursday to stop reining in the value of the Swiss franc prompted an extraordinary move in the currencies market, one bigger than any that traders could remember. The franc soared 23% against the euro and 21% versus the dollar, as automated trading systems jammed and investors across the globe nursed losses.**

It was a demonstration of the power that central banks hold over markets but also underscored the costly disruption sudden changes can cause.

**Switzerland had sought to keep the franc weak to protect its exporters, as a weaker currency makes a country’s products sold abroad less expensive. Meanwhile, the European Central Bank is poised to announce a bond-buying program that would weaken the euro. The Swiss, in a race they probably couldn’t win, appeared to give up.**

Swiss private bank Julius Baer Group AG was holding a board meeting when news broke shortly after 10:30 a.m. in Zurich. The bankers paused the meeting to be sure it wasn’t a hoax. **The central bank had defended its cap vigorously for the past 3½ years—at 1.20 francs to the euro—and had assured investors, as recently as Dec. 18, that it was there to stay.**

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Bank executives hurriedly arranged a conference call with clients. Thousands dialed in, said Burkhard Varnholt, chief investment officer at the bank. “It was a shock and caused a lot of questions.”

Swiss National Bank President Thomas Jordan said any clues in advance from the central bank could have prompted improper trading.

Within minutes of the central bank’s announcement, the franc jumped by about a third against the euro. Mark Astley, chief executive of Millennium Global Investments in London, which manages $14 billion in currency funds, was hosting a breakfast seminar. He reached for his mobile phone to check rates. “The euro is trading below one!” he shouted. Never in history had the euro and franc reached parity.

**Late Thursday in New York, the franc was at 1.0245 to the euro, while the dollar bought 0.8391 francs, from 0.9815 francs Wednesday.** For a time Thursday, the franc was almost untradable said Tony Botting, head of spot foreign-exchange trading at Crédit Agricole SA. Saxo Bank told clients in an email that it was filling orders in an “extremely illiquid environment” and would have to revisit trades. Autobahn, a trading platform operated by Deutsche Bank AG , the second-largest currencies-dealing bank in the world, at one point stopped displaying prices, according to a person familiar with the matter.

The move reverberated around markets. The euro also slumped against the dollar, at one point dipping below $1.16 to its lowest point since November 2013. The euro finished at $1.1633, down 1.3% on the day. Switzerland’s SMI stock index closed down 8.7%. The worst performer in the index was watchmaker Swatch Group AG , which declined 16%.

The moves in the franc were likely exacerbated by the fact that before the announcement investors had held outsize positions that the franc would fall against the U.S. dollar. The most recent data, as of Jan. 6, from the U.S. Commodity Futures Trading Commission show a $2.6 billion net short position—or wagers the franc would decline—on the Swiss currency against the U.S. dollar. That position was close to the biggest wager against the franc since the Swiss National Bank introduced the limit. Those bets represent a tiny slice of the market but are also taken as a reasonable proxy for speculative trading as a whole.

The central bank “really hammered us all today,” said a top executive at a big asset-management firm.

Among the losers were computer-driven hedge funds that rely on algorithms to make investment decisions. As a group, these funds posted one of the best returns of any hedge-fund strategy last year.

Chris Cruden, chief executive of Insch Capital Management in Switzerland, said his computer-driven currency fund had bet against the franc versus the euro and had been up 4% this month. Thursday’s losses wiped out almost all those gains, he said. “Some people will be really, really badly hurt,” Mr. Cruden said. “It’s going to be bloody for some.”

Some computer-driven funds are likely to have been holding wagers against the franc for some time.

Broker Newedge’s Trend Indicator, a model portfolio that replicates the bets that these computer funds may put on, has been short the franc for more than 200 days up to the end of last year.

London-based Solaise Capital Management LLP’s Systematic Programme fund, which gained 12% last year, fell 1% on Thursday. A short bet on the franc was its worst-performing position. “It’s definitely hit our [results] today,” said Chief Operating Officer James Walker. “But it’s one thing out of 100 that we trade.”

Some managers were able to take advantage. One fund said it had bought the euro against the franc after the worst of the selloff and sold the position a few hours later when the euro rose.

A few also may have benefited from holding options on a stronger franc; they were cheap to buy, because most investors believed the central bank would hold the cap.

“Our feeling is that a few [macro funds] have probably done well,” said Michele Gesualdi, chief investment officer of multimanager funds at Kairos Investment Management Ltd. “It was very low cost and very low risk.”

Still, many were caught off guard. IG Group PLC, a London-based broker catering mostly to individual investors, said it was facing a negative impact of up to £30 million ($45.7 million) after the “sudden and extreme movement” in the franc.

Few are confident where the rate will settle but most expect a calmer day in the office Friday.

“The market was struggling…for some time,” said Mr. Botting at Crédit Agricole. “Now [that] the dust has settled, the main question on everyone’s mind is: Where to now?”

—Tommy Stubbington, Anuj Gangahar, Christopher Whittall, Juliet Samuel and Duncan Mavin contributed to this article.

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