Mr Jordan waves goodbye with a rate cut, more are to come

Image source: Fabrice Coffrini/AFP

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The SNB cut today its key rate by 25bp to 1.00%.

- Since the June meeting of the SNB, two developments have led the central bank to opt for an additional monetary policy easing.
- First, inflation has continued to slowdown throughout the summer and has proved to be below the SNB estimates.
- In parallel, the Swiss franc has strengthened against both the US dollar and the euro, back around the levels of end-2023 and close to record highs.
- This combination of softer current inflationary pressures and additional disinflationary pressures from the strong CHF warranted to cut the key rate further today.

With today's reduction of its rate at 1.00%, the SNB simply brings back its monetary policy just at the neutral level, with a real rate close to 0%.

Indeed, today's move by the SNB is an adjustment of its policy to the slowing inflation rate (from 1.4% to 1.1%), that maintain the monetary stance as it was in June (when the 25bp rate cut to 1.25% was already aimed at lowering the real rate close to 0%).

It cannot be seen as a proper "monetary policy easing" as it would have been the case had the SNB cut its rate by 50bp. The resilience of economic growth in Switzerland so far, along with some lingering upward pressures on prices in the service sector, may have prevented the SNB to opt for a clear easing signal at this stage.

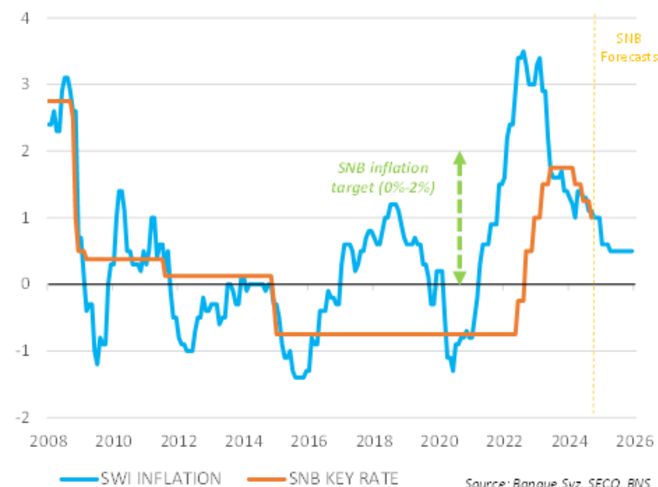
The outlook for SNB rates will remain highly dependent on developments on the inflation and on the Swiss franc sides.

The SNB today revised lower its inflation projections compared to June: it now expects inflation to settle around 1% till the end of 2024, before slowing down further in 2025 with an average expected rate of 0.6% (and 0.7% for 2026). This clearly highlights the fact that inflationary pressures have been dampened in the Confederation.

In this context, the SNB must ensure that monetary policy remains at least neutral, and possibly slightly accommodative if economic growth dynamics remain moderate. Based on inflation projections for next year, at least one additional 25bp rate cut will be necessary to maintain the real rate (SNB rate minus inflation) close to the 0% neutral level.

The weakness of economic growth in neighboring European economies, the global rate cut cycle at play across most developed economies, political uncertainties in Europe and global geopolitical risks could all raise upward pressures on the Swiss franc in the coming month. In that respect, the SNB reiterated that it stands ready to intervene on Forex markets if necessary. Should the CHF strengthen further by the end of the year, it will also possibly involve more rate cuts ahead, in December and in 2025. The SNB will probably be willing to act forcefully and early if deflation becomes again a risk for the Swiss economy. After having finally exited negative interest rates, the SNB probably wants to avoid falling back into such situation.

With lower inflation projections for 2025, more rate cuts lie ahead



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