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A surprise rate cut

PRIVATE BANKING

SNB comments – a surprise rate cut

- The SNB becomes the first major central bank to cut interest rates after the global rate hike cycle of 2022/23
- The decision is based on positive developments on the inflation side. SNB actions to fight and contain inflationary pressures during the previous two years, a combination of rate hikes and stronger CHF, have proven to be effective.
- The SNB has revised lower its inflation projection, to 1.4% for 2024 (1.9% previously) and to 1.2% and 1.1% for 2025 and 2026 respectively. Those projected inflation rates are right in the middle of the SNB inflation target range (0%-to-2%).
- With inflation expected to stabilize well within the targeted range, the SNB decided to adjust the level of short-term rates to avoid maintaining an overly restrictive stance that may weigh on economic activity. An explicit reference to this decision "supporting economic activity" was made in the press release.
- The SNB has also revised upward its 2024 GDP growth forecast for the Swiss economy, to "around 1%", compared to "0.5% to 1%" in December.

Our take:

- Today's decision comes as a surprise, as reflected by the drop in the Swiss franc (-1% vs USD and EUR after the announcement), and a pronounced decline in CHF rates.
- Rate cuts were expected later in the year, potentially starting in tandem with the ECB and the Fed in June.
- The fact that the SNB decided to act earlier reflects two key elements:
  - Inflationary pressures are much milder than in other developed economies. Unlike the ECB or the Fed, that are expecting domestic inflation to slow down, but still face actual inflation rates above their target, the SNB has already "accomplished its mission" on the inflation side.
  - The SNB acknowledges that maintaining a restrictive policy stance could ultimately prove to be harmful for the Swiss economy and can therefore adjust its policy to support economic growth now that it has won its fight against inflation.
- Provided there are no unexpected developments on the inflation front in the coming months, today's rate cut should therefore be followed by more rate cuts by the end of this year. Future markets now expect another 25bp rate cut at the next June meeting, that may be followed by a third cut in September, to bring down the CHF cash rate to 1% by the end of 2024.
- If the scenario of a stabilisation in inflation around 1% does indeed materialise, lowering the cash rate toward the same level will maintain real cash rate (rate minus inflation) around zero, thus avoid exerting an unnecessary toll on the Swiss economy and Swiss companies.
- Today's decision is a positive for Swiss exporting companies, that will benefit from the appreciation of foreign currencies in which they get revenues versus their reporting currency, the CHF.

For further information

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