

SNB: No longer restrictive, easing the upward pressures on the CHF



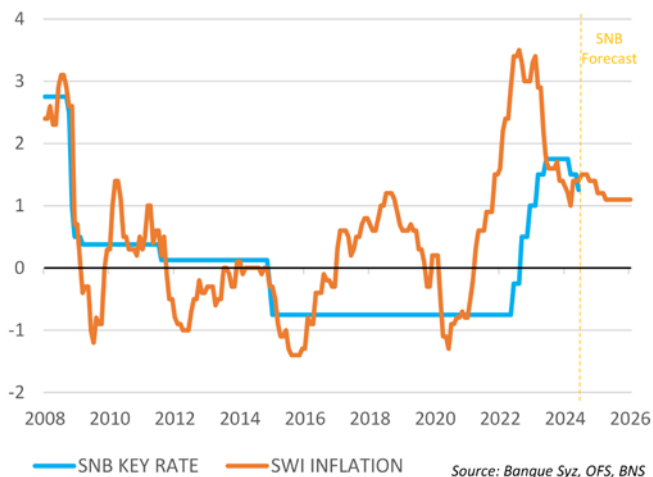
The SNB has lowered its key rate again today, to 1.25%, after the previous 25bp cut decided in March. This decision appears grounded in a combination of three factors: inflation is on a stable and moderate trajectory, economic growth remains soft and excessive upward pressures on the CHF may arise during the summer.. With this decision, the SNB has likely completed its monetary policy recalibration and is unlikely to cut rates further this year.. Should European or global developments trigger volatility and upward pressures on the CHF, the SNB will probably resort to interventions on the FX market to manage the impact on the economy, rather than use the interest rate lever.

Inflation is expected to settle comfortably within the SNB's target range

Latest inflation data has been in line with expectations, showing no sign of unwelcome development in consumer prices.

The inflation rate over the past twelve months remains stable at +1.4%, in line with the SNB projections, and remain well within the 0-to-2% inflation target of the central bank. The updated SNB inflation projections today anticipate a slight reacceleration to +1.5% in Q3, followed by a return to a disinflationary trend towards 1.0% by 2026. As inflationary dynamics are consistent with the SNB's definition of "price stability", the SNB has no reason to maintain a restrictive monetary policy.

Chart 1: Inflation is within the SNB target range, and trending toward 1% in the coming years

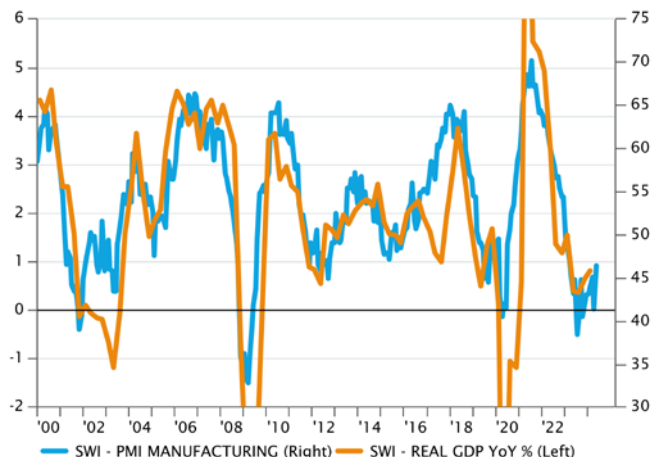


Growth will likely remain below potential for some time

Recent economic indicators suggest that economic growth in Switzerland remains sluggish. Subdued expansion in the service sector and continuing contraction in the industry point to moderate expansion for the remaining of the year (1% GDP growth expected for 2024). In the manufacturing sector, the trend has been encouraging lately, as external

demand, especially from Europe, gradually recovers. But GDP growth will likely remain below potential this year before reaching 1.5% in 2025.

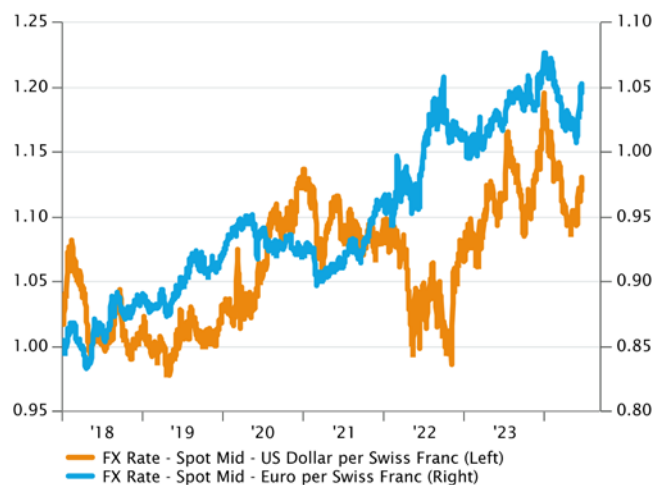
Chart 2: Economic growth is gradually recovering but remains moderate



Upward pressures on the CHF could resurface during the summer

The recent appreciation of the CHF, especially vs EUR, has likely been an additional factor prompting the SNB to act today, rather than wait for the September meeting. In particular, the resurgence of political uncertainties in Europe and France is increasing the risk of undue CHF appreciation in the coming weeks, which would negatively impact the still struggling manufacturing sector. In that sense, today's decision is also likely intended to take the wind out of the sails of potential upward pressure on the CHF ahead of an uncertain summer in Europe. During the press conference, Thomas Jordan referred to political uncertainties in Europe as a source of uncertainty around the inflation outlook, that makes the SNB ready to be active in the foreign exchange market as necessary.

Chart 3: The Swiss franc has recently resumed an upward trend after the early-2024 pull-back



The SNB is now done with the recalibration of its monetary policy

With this decision, the SNB is now likely done with the recalibration of its monetary policy. Unless unexpected developments on the growth and inflation front in the coming months, it will likely not cut rates further this year. Thomas Jordan referred to the neutral rate in Switzerland as being probably “at 0% or a little above 0%”. With today’s decision, the real CHF cash rate is now slightly below 0% (1.25% CHF rate minus 1.4% inflation = -0.15% real rate), tilting the monetary policy stance toward the accommodative side.

Based on current inflation projections, it will still be at this level at the end of the year if the SNB keep the cash rate at 1.25%. Monetary policy will therefore remain slightly accommodative in Switzerland for the second half of the year, which appears perfectly suited to support the ongoing gradual recovery in economic growth. If inflation continues to slowdown in 2025 toward 1%, and growth converges toward its potential, another 25bp rate cut might be warranted next year, but the SNB can afford to wait, and a lot can happen by then. In the meantime, should European or global developments trigger volatility and upward pressures on the CHF, the SNB will rather resort to interventions on the FX market to manage the impact on the economy, rather than use the interest rate lever. Mr Jordan has repeatedly said that the SNB was ready to do so.

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