

Swiss National Bank Preview: June 2020

Details:

Monetary policy decision: 0830BST/0930CEST/0330ET, Thursday 18 June 2020 followed by press conference with SNB President Jordan.

Quarterly Bulletin and full Monetary Policy Report to follow on Wednesday 24 June 2020.

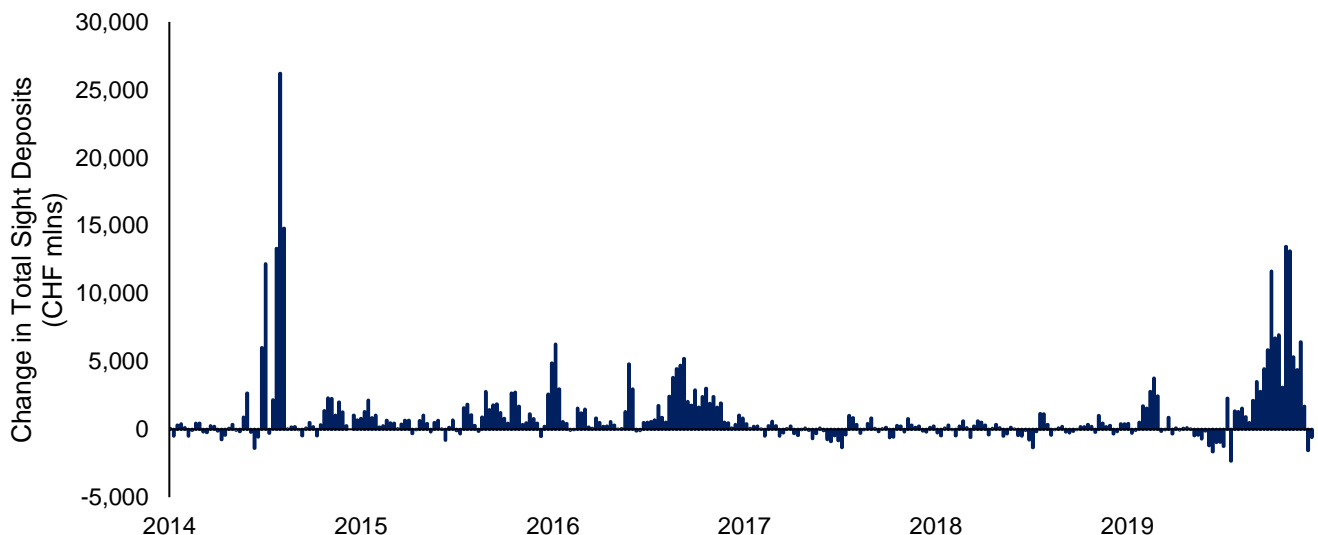
MNI Point of View

Jordan to keep combative stance, to stress SNB wary of renewed CHF strength

Despite being one of the only major central banks not to cut policy rates in the face of the COVID-19 downturn, the Swiss National Bank have been one of the most active in countering financial fragility and stemming the worst of the domestic economic downturn. They've done this by intervening in currency markets at a sustained pace, raising the negative rate exemption threshold, scrapping counter-cyclical capital buffers for Swiss banks and launching a new refinancing facility at the new sight deposit rate of -0.75%.

Following March's decision to keep rates at -0.75%, the Bank were quick to make clear that they still have room to manoeuvre on interest rates. But, it's clear that – for the time being - this suite of tools has succeeded in containing financial market fragmentation. As such, the Bank will likely reaffirm their vigilance this quarter, stressing that the CHF is “even more highly valued”, but decline to cut rates or expand their current toolkit amid a calmer market outlook.

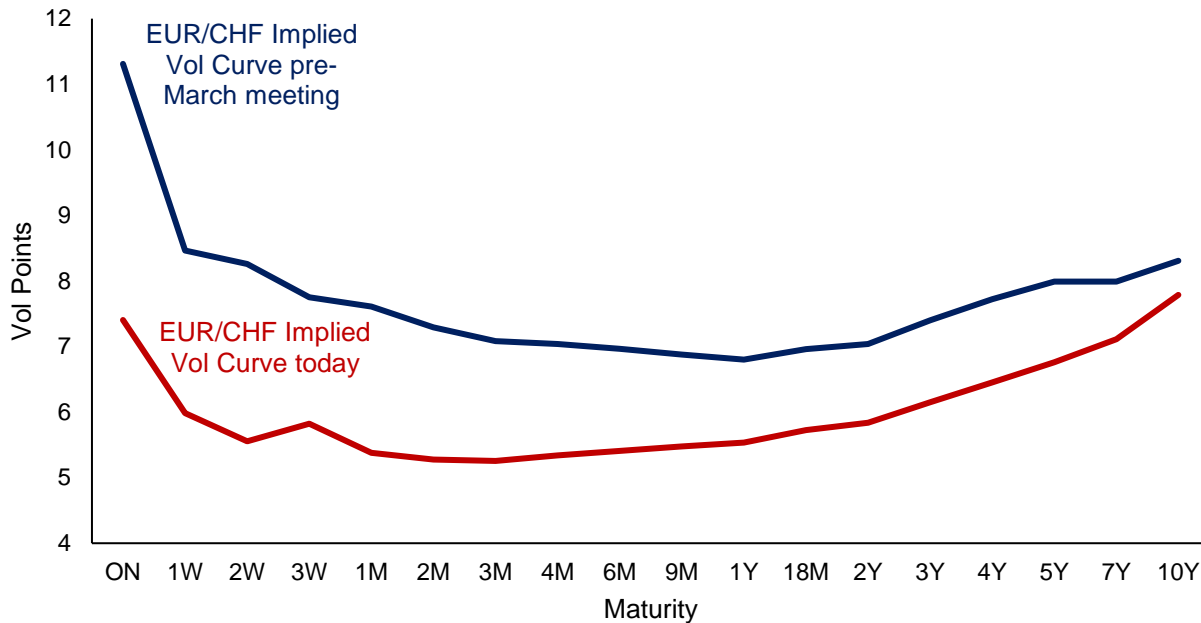
Figure 1: Less pressure on the SNB with Total Sight Deposits at all-time highs



Source: MNI/Bloomberg

Following the removal of the EUR/CHF floor in 2015, the Bank intervened in currency markets by a total of around CHF 55bn over the course of around three weeks. The strategy is suitably different this time around, with a slower but more persistent rate of intervention to match the more drawn out downside pressure on EUR/CHF. It's this element of policy that the SNB are likely to stress they stand ready to use should market sentiment turn again. As such, expect to see these weekly interventions continue and increase in size in the event a second COVID-19 wave pressures EUR/CHF back to 1.05.

Figure 2: Currency markets becalmed by SNB action



Source: MNI/Bloomberg

The success of these currency interventions should keep it as a preferred policy tool, soothing any concerns among policy makers that the US Treasury could rebuke their actions as ‘currency manipulation’. The ongoing global economic turmoil may suggest the US Treasury is pre-occupied with more pressing issues at present rather lashing out at a trade partner.

With markets expecting rates to remain negative for the foreseeable future, the ramifications for the domestic banking sector have been somewhat relieved by the Bank’s tiering multiplier (a mechanism that spares a multiple of minimum bank reserves from punitive negative rates) and this could be tweaked further. In March, this multiplier was raised to 30 from 25 and any increase to 35 or higher would be a firm message the Bank are digging in their heels for now.

Dovish risk: Should President Jordan stress that he wishes to make interest rates a more active policy tool, markets could be forced to consider a greater chance of a cut to -1.00%. Counterintuitively this could work in favour of CHF, as may suggest the Bank wish to lessen their dependence on currency intervention.

Hawkish risk: Having strengthened the language surrounding the CHF this year, any backtrack toward the previous assessment on the CHF (“Franc still strong”) would be a hawkish message, suggesting the SNB may not commit unlimited funds toward propping up EUR/CHF.

SNB Central Bank Watch

MNI SNB Data Watch List											
		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Inflation											
CPI	% y/y	-1.3	-0.1	↓	-0.1	↓					-2.45
Core CPI YoY	% y/y	-0.6	0.2	↓	0.4	↓					-1.61
Producer & Import Prices	% y/y	-4.5	-2.1	↓	-2.5	↓					-1.64
Economic Activity											
Manufacturing PMI	Index	42.1	49.5	↓	48.5	↓					-1.41
KOF Leading Indicator	Index	53.2	101.7	↓	92.6	↓					-1.76
Industrial Output	%y/y	0.8	1.2	↓	6.0	↓					-0.97
GDP QoQ	%QoQ	-2.6	0.3	↓	0.4	↓					-2.35
Monetary Analysis											
Money Supply M3	%y/y	1.91	0.02	↑	1.91	→					0.67
CH Household Credit Total	CHF bn	899.50	899.24	↑	891.39	↑					0.78
Foreign Currency Reserves	CHF bn	816.33	768.77	↑	782.95	↑					1.88
Total Sight Deposits	CHF bn	681.62	595.76	↑	589.43	↑					1.93
Consumer / Labour Market											
Retail Sales YoY	% m/m	-19.9	0.2	↓	0.3	↓					-4.38
Consumer Confidence	Index	-38.0	-10.0	↓	-6.0	↓					-2.41
Unemployment Rate SA	K	3.4	2.6	↑	2.3	↑					1.74
Registered Job Openings	% y/y	18415	38552	↓	34927	↓					-2.13
Markets											
Equity Market (SMI)	Index	9831	9831	↑	10493	↓					0.43
SW 10-Year Yield	%	-0.46	-0.82	↑	-0.61	↑					0.64
SW Yield Curve (2s-10s)	bps	-67.0	-86.7	↑	-78.0	↑					0.37
BIS CHF Nominal EER	Index	131.80	127.53	↑	125.57	↑					1.52

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Summary of Analyst Views

- All analysts surveyed see no change in interest rates at June's meeting, with the SNB to continue to lean heavily on FX intervention to influence domestic financial conditions.
- Among those who address it directly, all analysts see no change in language referencing the CHF, with the SNB expected to reiterate March's message that the CHF is "even more highly valued".
- A minority of analysts see further rate cuts down the line from the SNB, but conditional on either the ECB cutting the deposit rate further, or a renewed flare up of financial market stress from a second COVID wave.

Analyst Views (Alphabetic Order)

Bank of America: Expects rates unchanged, with FX intervention remaining the main policy tool.

- Despite the SNB keeping policy on hold, BofA write that that doesn't mean the SNB are an inactive central bank, with various policy tools including FX intervention already being used to prop up an economy hit hard by the COVID shock.
- This leaves the SNB with few policy choices at this stage, leaving BofA to reiterate their view that discretionary FX interventions may remain the instrument of choice to fend off currency pressures.
- Given these interventions are unsterilized, they create risks to domestic financial stability, BofA think further steps on tiering are likely and may move in the same direction as March's update, but timing of such a policy move will depend on defensive demand for the CHF.

Barclays: Expects policy unchanged, to continue leaning on FX intervention

- Barclays write that recent improvement in global risk sentiment and reduced Eurozone cohesion risk have taken some appreciation pressure off the CHF, leaving the SNB with less need to lower rates to curb CHF strength. They see the SNB continuing to use FX intervention as its primary policy tool.

BNY Mellon: Unlikely to shift on policy, braced for the long haul

- BNY write that pressure on the SNB may have lessened since the last March update, with growth risks now tilted less to the downside. Nonetheless, the SNB will likely still flag full-year negative GDP and inflation rates, while anticipating a strong rebound in 2021. In addition, the SNB's March forecasts likely did not factor in the additional fiscal support in Q2.
- This leaves the exchange rate as the dominant policy tool and moves to take rates further negative to complement the SNB's exchange rate policy should not be ruled out after the SNB President stressed that there was "room to manoeuvre" on both rates and intervention.

Citi: Expects policy unchanged, to retain view that CHF is overvalued

- Given that trade weighted CHF is around similar levels to the last SNB meeting, Citi expect they will maintain the view that the CHF remains very overvalued; therefore, they will also likely reiterate the need to maintain negative rates and frequent intervention.

Goldman Sachs: Expects policy unchanged, on hold for the foreseeable future

- Absent further deposit rate cuts from the ECB, Goldman Sachs see the SNB keeping rates on hold for the foreseeable future.
- Expects the SNB to reiterate its willingness to intervene in currency markets but do not think that it will disclose any recent interventions.

HSBC: Sees policy unchanged, with recent CHF weakening providing some relief

- The SNB should stress again the importance of FX interventions and of negative rates to curb the strength of the CHF. But HSBC see the barrier for further rate cuts remaining high, and expect the policy rate to be kept unchanged at -0.75%.
- The outbreak of COVID-19 now appears well contained in Switzerland, paving the way for a GDP recovery with the gradual re-opening of the economy.

ING: Expects policy unchanged, to remain active via FX interventions

- ING write that there's little doubt they will stick to a recipe of negative rates and FX intervention if needed, adding that the Bank's economic projections and any comments on FX intervention will be of more interest. It seems unlikely the Bank will have any interest in signalling a looser stance on the CHF.

SocGen: Expects policy rates unchanged, sees no change in language on FX

- SocGen write that Switzerland has made commendable progress in bringing the infection rate down, something that has enabled the economy and borders to re-open. This has made the impact on the labour market is relatively manageable.
- They write that the SNB is likely to revise down its March GDP forecast significantly to at least around -5% for 2020, while inflation has been tracking much lower this year than the latest SNB forecasts, mainly due to oil price developments, so there should also be sizeable revisions to the inflation forecast.
- SocGen believe more measures on the regulatory and collateral front are possible, if needed, but see little chance of interest rates being cut further.
- Sees no changes to the SNB's language regarding the strength of the CHF ("even more highly valued"), leaving the SNB to continue to make tactical interventions when needed.

UBS: Expects policy unchanged given no change in ECB/SNB rate differentials

- UBS cite the unchanged rate differential between Switzerland and the Eurozone and lessened upside pressure on the CHF as factors behind an unchanged policy decision this week.
- Sees the SNB as unlikely to alter policy unless the CHF begins to appreciate substantially despite FX intervention or if the ECB lowers the deposit rate further – neither of which are UBS’ base case scenario.
- Other options available to the SNB include an adjustment to the tiering multiplier. If the SNB wanted to reduce the cost of negative rates to banks (to levels inline with pre-March), the multiplier could be boosted to 33.

Inter-meeting Communications

Date	Speaker	Key Comments	Link
May 29th	Vice President Fritz Zurbrugg	"Fundamentally we've got room to maneuver on the balance sheet and on interest rates" "A quick normalization of interest rates has become even more unrealistic as a result of the pandemic"	https://blinks.bloomberg.com/news/stories/QB3HQBDWX2PU
May 27th	President Thomas Jordan	"It's clear that we have the possibility to cut rates if necessary." "We have room to maneuver for both instruments" [Rates and FX interventions]	https://blinks.bloomberg.com/news/stories/QAZOSCDWX2Q9
May 15th	Governing Board Member Andrea Maechler	Denies EUR/CHF at 1.05 is a new informal upper limit "A slim and full V-shaped recovery is unlikely. Social distancing, the higher level of debt, the rise in unemployment and falling incomes mean the recovery will take more time."	https://www.reuters.com/article/us-swiss-snb-maechler-idUSKBN22R3CJ?taid=5ebf3fc070bced00012afa3b&utm_campaign=trueAnthem%3A+Trending+Content&utm_medium=trueAnthem&utm_source=twitter
May 12th	Alternate Governing Board Member Martin Schlegel	"We've certainly not fired off all our ammunition" "We can cut interest rates further, we can intervene further" "Helicopter money possible in theory as a tool to raise inflation Says he's quite skeptical of the concept"	https://blinks.bloomberg.com/news/stories/QA8BS3T1UM1F
May 9th	President Thomas Jordan	"We still have room to maneuver if necessary but today we're concentrating on foreign exchange interventions to limit pressure on the franc"	https://blinks.bloomberg.com/news/stories/QA3UEADWX2Q2

MNI Policy

MNI PREVIEW: SNB To Restate FX Intervention Willingness

--Franc No Longer Appreciating

--Rates Set To Be Kept On Hold

By Luke Heighton

The Swiss National Bank is set at its meeting on Thursday to reaffirm its willingness to intervene to prevent appreciation of the franc, which Governor Thomas Jordan described as "even more highly valued" in March, but it is likely to keep interest rates on hold at negative levels amid hopes of economic recovery.

Jordan's remarks March 19, including the comment that the SNB was intervening "more strongly" in the foreign exchange markets, coincided with an interruption to months of franc strengthening, although fears of a second wave of coronavirus infections may keep alive concerns over possible renewed appreciation.

In response to the Covid-19 crisis, between March 19-25 the SNB raised the negative rate exemption threshold and deactivated the counter-cyclical capital buffer to give banks breathing space, and announced the creation of a refinancing facility at the -0.75% policy rate.

--BALANCE SHEET

The success of its measures will be partially visible on June 22, when the Bank publishes its latest round of economic data. But with signs of greater coordination between the European Central Bank and the European Commission to revive the eurozone, impetus for further action has dissipated. Jordan indicated last month that the SNB will only continue to expand its balance sheet so long as the benefits outweigh the costs, though he has reiterated that there is still "room for manoeuvre" when it comes to cutting rates.

Switzerland is easing pandemic restrictions and reopening borders with neighbouring countries, raising hopes of the beginning of a recovery. Core inflation fell to -0.6% in May, its lowest level in more than four years, with official forecasts suggesting it will not return to positive territory until early 2021 and only rise to 0.9% by Q4 2022.

The SNB is comfortable with the current level of its gold reserves, Jordan said recently, adding that it has "no intention to buy or sell gold, but that can change over time."