# SNB Review: September 2020

## Executive Summary:

- **The SNB kept policy unchanged, with the Sight Deposit Rate and main Policy Rate at -0.75%.**
- **The Bank retained their view that the CHF is "highly valued" and that it is willing to "intervene more strongly in the foreign exchange market".**
- **Inflation and GDP forecasts were lifted slightly, with inflation now seen turning positive early 2021.**

## Links:

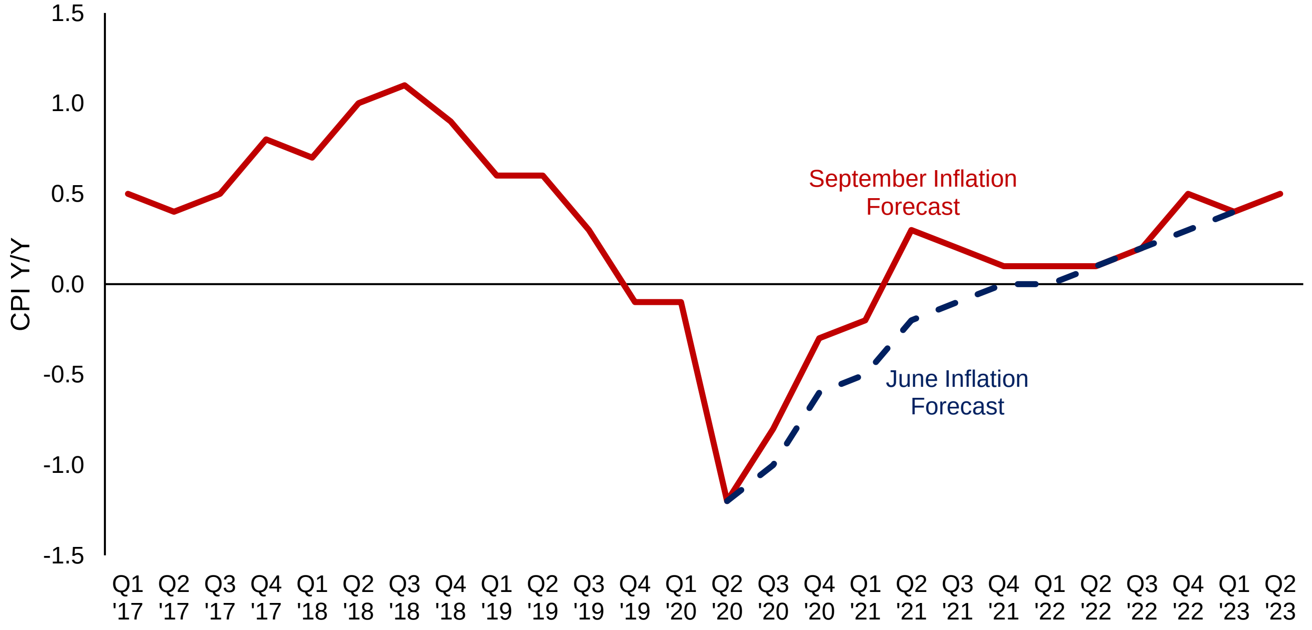
- Monetary Policy Assessment: https://www.snb.ch/en/mmr/reference/pre_20200924_1/source/pre_20200924_1.en.pdf

## Key Takeaways:

In keeping policy unchanged, the SNB continue to signal to markets that they will look through deeply deflationary conditions and that the bar to further rate cuts is high – despite the Committee stressing that it remains an option. Instead, it seems the SNB will continue to rely on FX intervention to defend against financial market fragmentation and the continued use of the negative rate exemption thresholds to shield the domestic banking sector against the pitfalls of negative interest rate policy. The COVID-19 refinancing facility (CRF)

A slightly rosier inflation forecast will have alleviated some pressure on the SNB this quarter. After seeing outright deflation out to the beginning of 2022, higher-than-expected energy prices have brought this forward by four quarters.

**Figure 1: SNB less pessimistic on inflation, with CPI seen turning positive in Q2 2021**




*Source: MNI/Swiss National Bank*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While warning of unusually high uncertainty that clouds the inflation outlook, the SNB anticipate that higher oil prices will have an upward influence on prices in the short-term, but the longer-term forecast is unchanged. Its baseline scenario is that the global COVID pandemic will be kept under control “without a renewed serious impairment of economic activity”, but carry over the phrase from the prior report that scenarios remain subject to a high degree of uncertainty.

Markets continue to discount the possibility of negative interest rates being pushed lower still, and any domestic concerns over the impact of negative rates have been soothed by the increase in the negative rate exemption thresholds earlier this year. The SNB noted that around 75% of bank sight deposits don’t fall under the negative rates anyway, thereby reducing materially any pressure for banks to apply negative rates to smaller savers.

## Dates to Watch:

**September 30th –** Q3 Monetary Policy Report

**October 10th –** September CPI Release

**December 1st –** Q3 GDP Release

**December 17th –** Q4 Monetary Policy Decision

## Analyst Views (Alphabetic Order):

**Citi:** No surprises

- No surprises from the SNB, with the guidance on being willing to intervene more strongly in FX not new.
- Switzerland is likely to be named a currency manipulator by the US Treasury when its next Macroeconomics and Foreign Exchange Report is released, potentially in the coming weeks.

**Goldman Sachs:** On hold for some time to come

- Expects the SNB to remain on hold for some time to come. Recent commentary suggests that the SNB has intervened more strongly in the FX market to ease appreciation pressures on the Franc, and they expect the SNB to continue with this policy in line with their guidance.

**ING:** The risk is that the inflation target will become less and less credible

- The SNB remains in the same position, indicating that it "remains willing to intervene more strongly in the foreign exchange market". This implies that it still intends to use FX intervention as the primary instrument of its monetary policy in the coming months.
- ING write that the interesting element is the upward revision of the outlook for GDP and inflation. It seems that it has not changed its scenario or its assumptions and that the change in forecasts is purely technical. One might be tempted to see a “less dovish” sign of these upward revisions, but that would probably be a mistake. Anticipating 0.2% inflation by 2022 is low, very low, and implicitly implies that the SNB is aware that it has difficulty in keeping inflation in positive territory on a long-term basis. The risk of another year of deflation is substantial, achieving its monetary policy goal has become very complicated. The risk is, of course, that the inflation target will become less and less credible.
- In the meantime, the SNB seems to be waiting and keeping its fingers crossed that a better economic situation will one day lead to higher inflation. It is clear that such forecasts imply that absolutely no rate increases are expected. However, it should be noted that a rate cut is also difficult to envisage at the moment. The ECB would probably have to lower its own rates to see a rate cut, and again, this would depend on the appreciation of the CHF that would result from such a decision by the ECB.
- It is also interesting to note that the Swiss central bank does not even communicate about a possible revision of its monetary policy strategy like the Federal Reserve has done. Clearly, the SNB is not there yet or does not wish to communicate about this (let's not forget that the SNB has always preferred surprise

decisions in the past). It is possible that the SNB may have to undertake such an exercise in the coming years. For now, it may wish to wait and see what emerges from the ECB's monetary policy review. Ultimately, as it has done for some time now, the SNB seems to be waiting for better times to see what should be done.

- Lastly, it cannot be ruled out that the switch to publication of quarterly FX intervention data is linked to the fact that Switzerland is on the US authorities watch list for currency manipulation, and this additional transparency is intended to allay US fears.

## MNI Policy

**MNI REVIEW: SNB On Hold; Inflation, GDP Forecasts Inch Higher**

The Swiss National Bank kept interest rate policy on hold Thursday and said the Swiss franc remains "highly valued," albeit amid high levels of uncertainty, noting policymakers remain "willing to intervene more strongly in the foreign exchange market" if needed.

Alongside the policy decision, the SNB also increased its forecasts modestly for both growth and inflation. CPI is seen at -0.6% this year, followed by +0.1% in 2021 and +0.2% in 2022 - an increase of 0.8%, 0.4% and no change, respectively. Previously the SNB had not expected inflation to become positive until 2022. GDP, which fell more than 10% below its pre-crisis level in Q2, is now expected to drop by around 5% across 2020 as a whole.

The SNB attributed the improving outlook, with inflation expected to move back into positive territory next year, to a rise in oil prices, and warned of a continuing high degree of uncertainty despite "significant" pick-up in economic activity in Switzerland since health restrictions were eased in May.

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"In its baseline scenario for the global economy, the SNB anticipates that it will be possible to keep the pandemic under control without a renewed serious impairment of economic activity," the Bank said in a statement.

The economic recovery should thus continue into Q3, it added, with a "strong" rise in inflation expected later this year and into 2021, following a downturn in the first half of this year that proved to be "somewhat less strong than feared."

Also highlighted were the risks posed by a rapid increase in infections that could necessitate renewed containment measures, and trade tensions, and potential downside risks. On the upside, economic policy measures introduced in many countries could support the recovery more strongly than expected.

Swiss mortgage lending and residential property prices continued to rise during the second quarter despite a strong decline in GDP. "Imbalances thus persist on these markets and continue to present risks for financial stability," the SNB statement said.

From September 30, the SNB will publish information on the conditions and volume of individual monetary policy-related transactions at the end of each month for the previous month. The volume of foreign exchange market operations, which was previously only made public annually, will now be disclosed at the end of each quarter for the previous quarter, a separate statement published shortly after the monetary policy assessment announced.


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