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All Signal, No Noise

MARKET ANALYSIS

Swiss National Bank Preview: September 2020

Details:

Monetary policy decision: 0830BST/0930CEST/0330ET, Thursday 24 September 2020 followed by press conference with SNB President Jordan.

Quarterly Bulletin and full Monetary Policy Report to follow on Wednesday 30 September 2020.

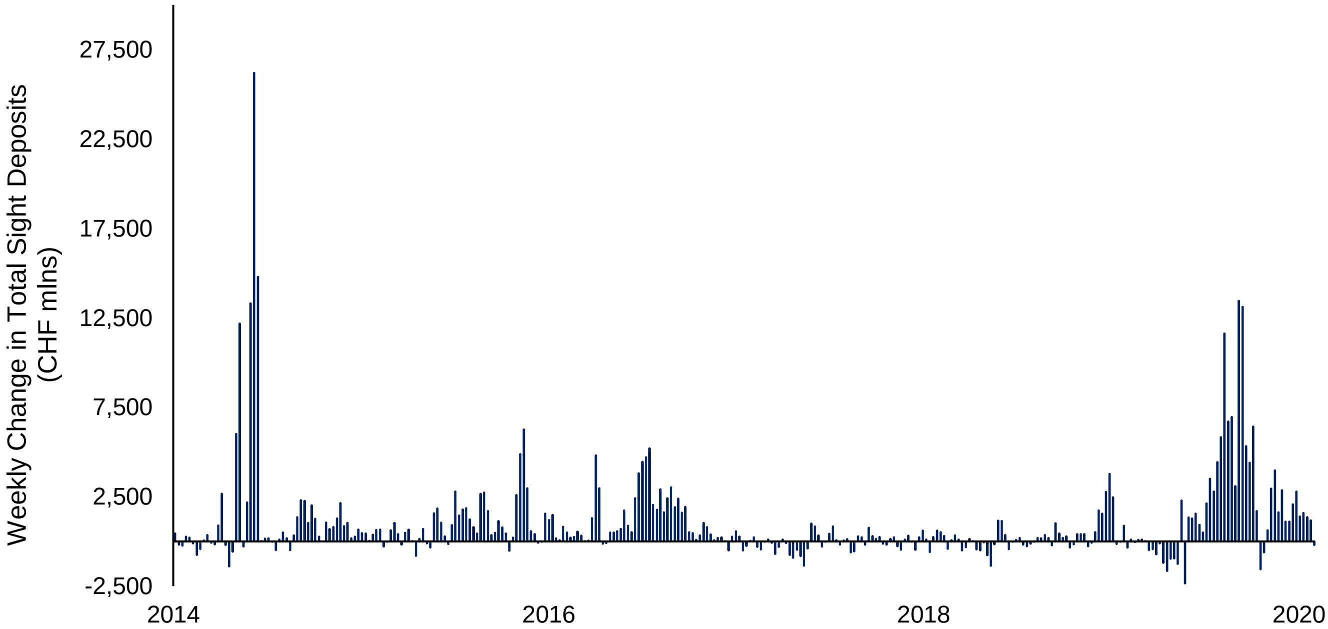
MNI Point of View

Board likely satisfied with current policy as CHF strength capped for now

With interest rates remaining deep in negative territory and persistent FX intervention boosting total sight deposits to all-time highs, it's likely the Bank are satisfied with this expansionary structure and will keep core policy unchanged in September. Moderating upside pressure on the CHF since June will have alleviated concerns among the governing council, although persistently low inflation remains a drag on policy.

Throughout 2020, the Bank have been 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: Pace of weekly FX interventions have slowed materially

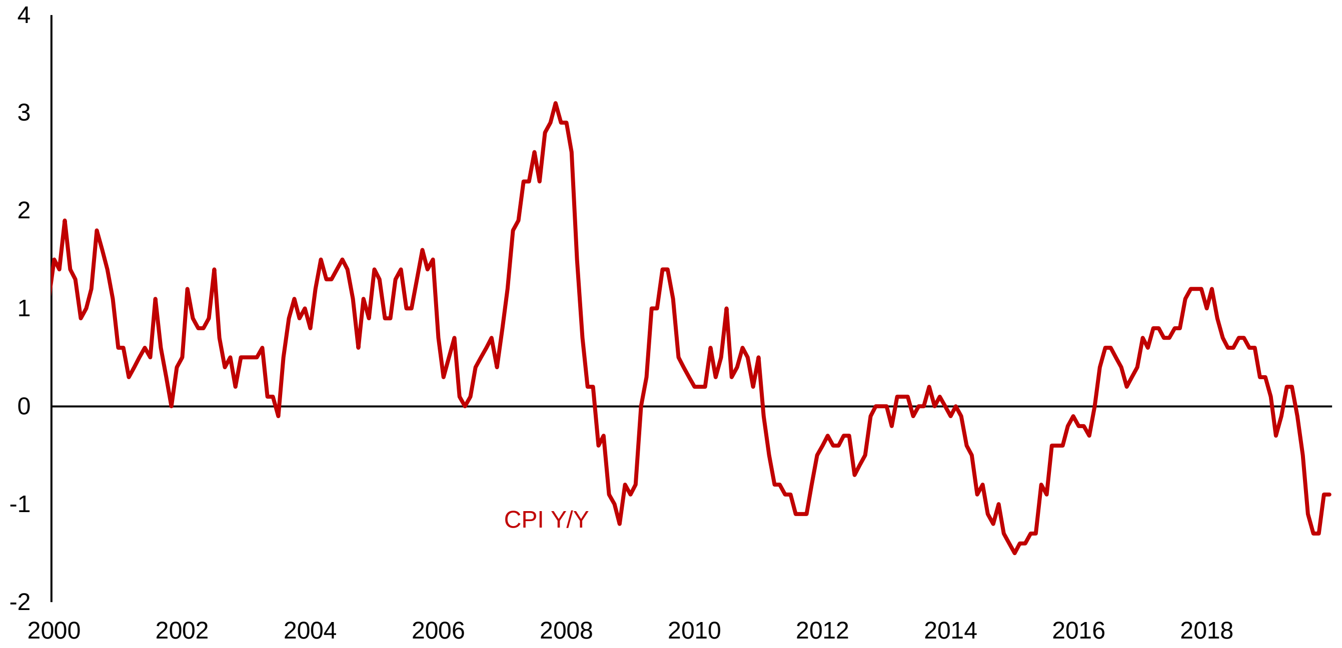


Source: MNI/Bloomberg

The pace of FX purchases since the June decision has slowed – the expected response given the recovery in EUR/CHF to trade either side of 1.08. While the bank will still stress that the CHF is overvalued, the governing board are under little pressure to strengthen or expand their language around the currency just yet. Nonetheless, the Bank are likely to stress they stand ready to use FX tools 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.

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

Figure 2: The SNB have persisted through extended deflationary periods before



Source: MNI/Bloomberg

On inflation, the Bank do not expect CPI to return to positive territory until well into 2022. These forecasts may be revised very modestly higher this quarter to account for the more stable oil price (and modest import price pressures), but revisions are expected to be minor and retain the expectation of negative inflation for much of the next two years. While that is a cause for concern, the bar for further changes to policy (particularly interest rates) remains high, particularly as intervention via FX and the bank tiering multiplier remain options with which to prevent further financial market fallout.

Switzerland persisted through extended bouts of negative inflation in the wake of crises past, and the SNB will be looking for this wave of deflationary pressure to abate before considering softening their language on the CHF or signalling any change to the sight deposit rate. As such, the risk of any market fallout from the September meeting is low.

SNB Central Bank Watch

MNI SNB Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	-0.9	-1.3	↑	-0.1	↓					-1.33
Core CPI YoY	% y/y	-0.4	-0.6	↑	0.2	↓					-0.27
Producer & Import Prices	% y/y	-3.5	-4.5	↑	-2.1	↓					-0.38
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Manufacturing PMI	Index	51.8	42.1	↑	49.5	↑					0.45
KOF Leading Indicator	Index	110.2	49.5	↑	101.7	↑					1.22
Industrial Output	%y/y	-8.6	0.6	↓	1.2	↓					-2.23
GDP QoQ	%QoQ	-8.2	-2.5	↓	0.8	↓					-2.33
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Money Supply M3	%y/y	4.01	2.47	↑	0.07	↑					1.25
CH Household Credit Total	CHF bn	910.32	902.36	↑	900.69	↑					1.77
Foreign Currency Reserves	CHF bn	848.31	816.54	↑	768.77	↑					1.05
Total Sight Deposits	CHF bn	701.58	681.62	↑	595.76	↑					1.10
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales YoY	% m/m	4.1	-18.8	↑	0.2	↑					0.96
Consumer Confidence	Index	-14.0	-13.0	↓	-7.0	↓					-0.12
Unemployment Rate SA	K	3.4	3.2	↑	2.6	↑					1.05
Registered Job Openings	% y/y	35295	31472	↑	29720	↑					0.53
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (SMI)	Index	10136	9831	↑	9831	↑					0.75
SW 10-Year Yield	%	-0.41	-0.46	↑	-0.82	↑					0.73
SW Yield Curve (2s-10s)	bps	-79.1	-67.0	↓	-86.7	↑					1.57
BIS CHF Nominal EER	Index	132.72	131.58	↑	128.44	↑					1.03

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 September'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 June's missive 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)

Barclays: Expects policy unchanged, to reiterate readiness to intervene in FX

- Given CHF overvaluation, they see the SNB keeping policy unchanged, restating their willingness to intervene in currency markets.
- There is no immediate pressure for the SNB to ease further despite the severe hit to its economy by the pandemic, as the recovery has been swifter-than-expected. Furthermore, with the ECB on hold for the time being, there is limited pressure to act to sustain the ECB-SNB rate differential.
- They see the bank's inflation forecast as likely to be revised up given higher energy prices, and likely higher core inflation, albeit only marginally.

Citi: Likely to reiterate a dovish message

- See the SNB articulating that the CHF remains highly valued and therefore negative rates and FX intervention remain necessary to ensure appropriate monetary conditions, especially in light of persistent deflation.
- On the margin this should be CHF negative in the short-term.

Commerzbank: Expects no change to core policy

- They write that due to the strong CHF, the inflation rate has been clearly in negative territory in recent months, however the recent depreciation has somewhat eased the pressure on monetary policy. As such, policy should be unchanged.
- On growth, they expect the SNB to revise real GDP growth forecast for the current year upwards to -5%.

Goldman Sachs: Sees no change to core policy

- Will be will looking for any details of SNB activity in the FX market in their statement. Expects the SNB to reiterate its willingness to intervene in the foreign exchange market. Goldman Sachs do not anticipate any policy rate changes in the near future, given that the SNB is close to its effective lower bound.

ING: Expects no change to core policies

- Sees no change to either the policy rate or their continued FX intervention to address the 'highly valued' CHF.
- If there is to be a move, it may relate to the threshold factor - the multiple of the minimum reserve requirement held by banks that are exempt from negative rates. An increase in the threshold could be seen as EUR/CHF positive via the SNB's ability to buy more FX without generating a greater charge for the local banking system.

SocGen: Expects monetary policy stance (and CHF language) unchanged

- With other central banks running very aggressive QE, there is little the SNB can do to induce a trend depreciation of the CHF. Nonetheless, the real effective exchange rate is still holding at not too extreme levels, suggesting that the SNB can continue with its tactical interventions while biding its time.
- The SNB is likely to revise up its GDP forecast somewhat, from around -6% in June. Expects some downward revisions to inflation for the second half of this year, with energy prices remaining soft. The longer-term forecasts could remain broadly unchanged.
- Expects no changes to the SNB's language regarding the strength of the CHF ("highly valued") and expect the SNB to continue to make tactical interventions when needed.

UniCredit: Likely to remain on hold but to continue to intervene in FX markets if necessary

- Do not see reasons for an immediate change in the SNB's current monetary-policy stance yet. Therefore, UniCredit expect the SNB to remain on hold.
- Concerning FX markets, the CHF has moved broadly sideways against the EUR since end of July, hovering around 1.08, which implies no major need for action for the time being.
- In contrast, UniCredit expect the Bank to continue its intervention operations (such as repo auctions with banks) to keep short-term money market rates closer to the key interest rate of -0.75%.

Inter-meeting Communications

Date	Speaker	Key Comments	Link
Sept 4th	President Thomas Jordan	"Franc is highly valued and interventions are needed to keep it in check" "Switzerland isn't a currency manipulator"	https://blinks.bloomberg.com/news/stories/QG52BHT1UM12
Sept 2nd	Vice Chairman Fritz Zurbrügg	The SNB "have enough room to manoeuvre for even more adverse scenarios" SNB will react accordingly but right now it looks like rates will be "low for long"	https://blinks.bloomberg.com/news/stories/QG1GJRT0AFBE
July 14th	President Thomas Jordan	"Expansionary monetary and fiscal policy is still therefore necessary." "Negative interest and foreign exchange market interventions have served us well."	https://www.snb.ch/en/mmr/speeches/id/ref_20200714_tjn/source/ref_20200714_tjn.en.pdf

MNI Policy

SNB To Keep Rates, FX Language Unchanged

By Luke Heighton and Jason Webb

The Swiss National Bank's monetary policy assessment Thursday is likely to see SNB Chairman Thomas Jordan echo his European Central Bank counterpart Christine Lagarde in keeping policy on hold, while stressing the franc remains "highly valued" and reiterating readiness for foreign exchange intervention if necessary.

June's assessment made reference to initial indications of a pick-up in economic activity, with further loosening of Swiss lockdown measures "likely to contribute to a significant economic recovery in the third quarter."

How significant that recovery is remains to be seen. The SNB's current inflation forecast for 2020 is -0.7%, rising to -0.2% in 2021, before breaching the surface to return to +0.2% in 2022. However, recent evidence of a strong domestic rebound, rising exports and improving net trade, do point to an improvement in GDP growth in Q3.

Jordan will be hoping that - as with the ECB - he can announce revised growth and inflation forecasts in line with, if not marginally better than previously predicted. But all inflation and growth forecasts will be subject to unusually high uncertainty.

The SNB's cause is not helped by the arrival of something approximating the further waves of Covid-19 referred to last time round as a downside risk. Upside risks stemming from monetary and fiscal measures introduced in Europe and elsewhere in response to the crisis are a long way from materialising.