SNB Review: June 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 forecasts were lowered, with inflation seen remaining negative until 2023.**

Links:

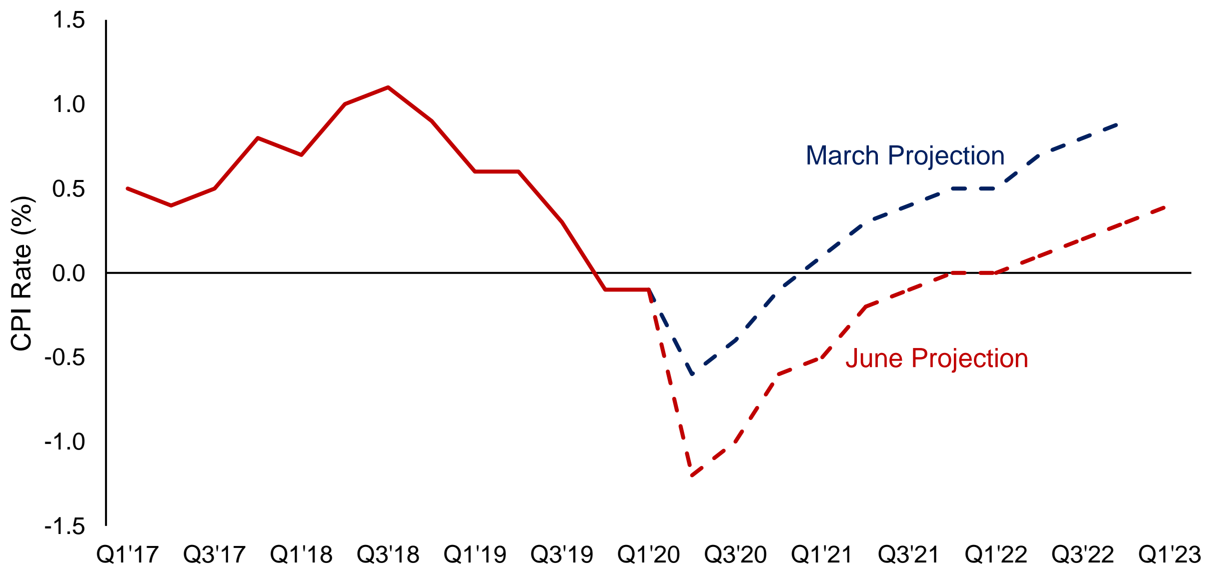
- Monetary Policy Assessment: **https://www.snb.ch/en/mmr/reference/pre_20200618/source/pre_20200618.en.pdf**
- Financial Stability Report: **https://www.snb.ch/n/mmr/reference/stabrep_2020/source/stabrep_2020.n.pdf**

Key Takeaways:

At June's meeting, SNB President Jordan reiterated the Bank's confidence and conviction in their current set of policy tools. The Bank see deeply negative policy rates, currency intervention and the COVID-19 Refinancing Facility (CRF) protecting the economy, providing ample liquidity and underlying inflationary conditions.

Despite this conviction, the SNB are now forecasting the most dire set of inflation projections since the Global Financial Crisis with Switzerland now seen in deflation for the next two years.

Figure 1: SNB more pessimistic on inflation, don't see prices rising until 2022



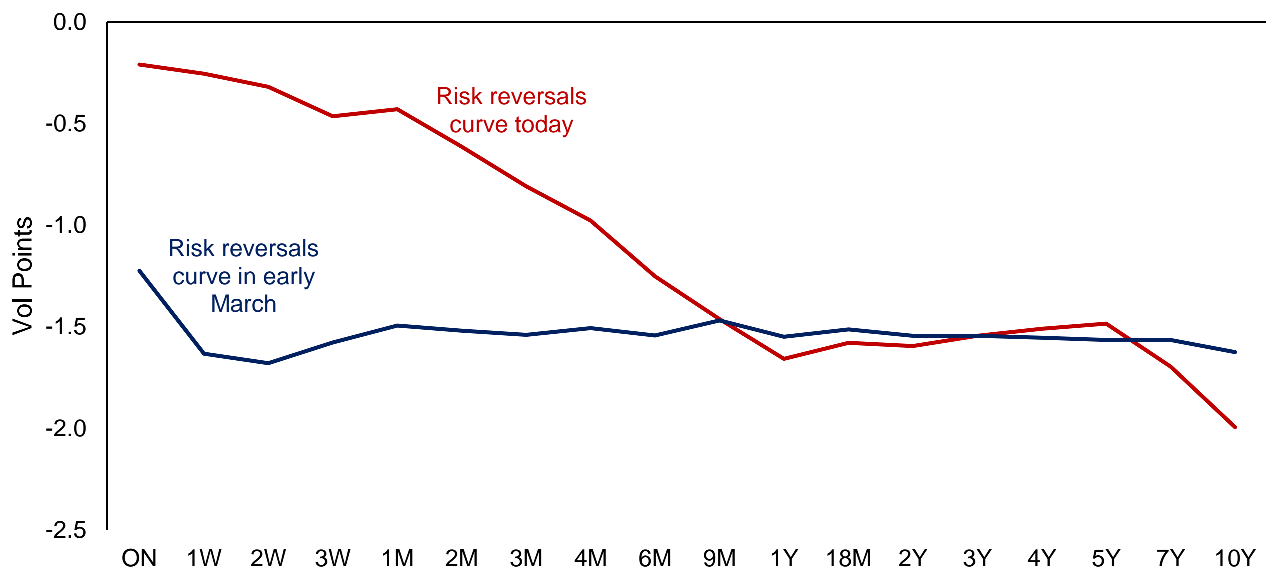
Source: MNI/Swiss National Bank

Unchanged policy in June twinned with the outright deflationary forecast will lead markets to factor out the possibility of further rate cuts from the SNB. While the Bank explained away the downside pressure as being due to "significantly weaker growth prospect and lower oil prices", markets will now begin to speculate just how much worse the outlook needs to get before more action is warranted.

The SNB cited their baseline scenario as anticipating “that further waves of infection will be successfully prevented” with the caveat that forecasts are “subject to a high level of uncertainty on the upside and downside” which may buy the bank some wiggle room should they wish to tweak policy in the coming quarters.

On currency markets, the SNB note that early appreciation in the CHF was countered by SNB intervention as well as European recovery fund proposals, reaffirming their satisfaction and conviction in their FX policy tools. This should reassure markets that the SNB will continue to prevent any further slides through 1.05 in EUR/CHF.

Figure 2: Currency markets soothed by evidence of SNB intervention



Source: MNI/Bloomberg

Similarly, any domestic concerns over the impact of negative rates have been soothed among SNB policymakers 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 small savers.

This tiering exemption multiple remains one of the tools the SNB could adjust to either stimulate a flagging domestic economy or put the brakes on a swift recovery while keeping the key policy rate unchanged and in negative territory for the coming years.

Dates to Watch:

June 24th – SNB Quarterly Bulletin to accompany Monetary Policy Report

July 2nd – June CPI Release

August 27th – Q2 GDP Release

September 24th – Q3 Monetary Policy Decision

Analyst Views (Alphabetic Order):

Citi: EUR bounce allowed no change in policy this quarter, sees risk of tiering multiple being increased going forward

- The bounceback in the EUR was what allowed the SNB to leave all policy parameters unchanged at today's meeting, as expected.
- On the SNB's CRF, Citi write that banks had only borrowed CHF10bn from the facility, which is far short of the government's envelope of 100%-guaranteed, zero-interest loans of up to CHF40bn. This may suggest that either companies are not using the government's scheme or banks are not using the SNB to refinance.
- Citi foresaw a chance the SNB would become more creative to support the domestic economy, but it did not. On the tiering exemption multiple, Citi had seen a chance for an increase from 30 to 35 times the minimum reserve and still think it is likely the future.

ING: Sees the SNB unchanged throughout Coronavirus crisis

- They write that under normal circumstances, the inflation revisions could be described as a "dovish" signal in the coming years. Nonetheless, the current situation is far from normal, as the coronavirus shock is causing a great deal of uncertainty. As such, ING doubt that the SNB will implement a more accommodative monetary policy in the coming months.
- Expects that it will continue to intervene in foreign exchange markets when it deems it necessary and that interest rates will remain at their current levels for several years.
- It remains possible that the SNB may decide to lower rates even further if the situation were to deteriorate sharply, but that is not ING's base case. They believe that it will try to wait until the crisis passes and the uncertainty dissipates with a broadly unchanged monetary policy.

UBS: Sees policy rates on hold this year and next

- The key surprise in Thursday's release was the extent of the downward revision in the conditional inflation forecast.
- Expects the SNB to keep policy rates at -0.75% this year and next and possibly adjust the exemption threshold up at some stage. This forecast assumes that the ECB refrains from cutting its depo rate (as per their forecast) and that the SNB can curb potential CHF appreciation pressures with FX interventions.

MNI Policy

MNI REVIEW: SNB Holds Rates Amid Drop In Inflation Outlook

The Swiss National Bank kept its policy rate and the interest rate on sight deposits on hold at -0.75% Thursday, saying that while the inflation outlook was deteriorating, further easing of containment measures was likely to spur growth.

The most recent forecast is for inflation to be -0.7% in 2020, -0.2% in 2021, and 0.2% in 2022, Governor Thomas Jordan said. These are based on the policy rate remaining unchanged, Jordan said in his opening remarks to the press following the June monetary policy assessment.

Jordan described the Swiss franc as "highly valued", having said in March that it had become "even more highly valued." The SNB remains willing to intervene "more strongly" in the foreign exchange market, SNB chairman Thomas Jordan said, repeating language used on March 19.

An expansionary monetary policy "remains necessary" to ensure appropriate monetary conditions in Switzerland, he added. In March he had said that such a stance was "more necessary than ever for ensuring appropriate monetary conditions in Switzerland."

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The SNB anticipates that "further waves of infection" will be successfully prevented, Jordan said, though demand is likely to remain moderate "for some time," and the possibility of future waves, coupled with trade tensions, could additionally impair economic activity.

Swiss GDP fell 2.6% in Q1 2020. The decline is likely to be "even stronger" in the second quarter, Jordan said, with signs of improvement tempered by the expectation that the recovery will be only "partial [...] for the time being, and GDP will not return quickly to its pre-crisis level." Overall, Jordan said, GDP is likely to contract by around 6% this year, "the strongest decline since the oil crisis in the 1970s."