MNI SNB Review: September 2024

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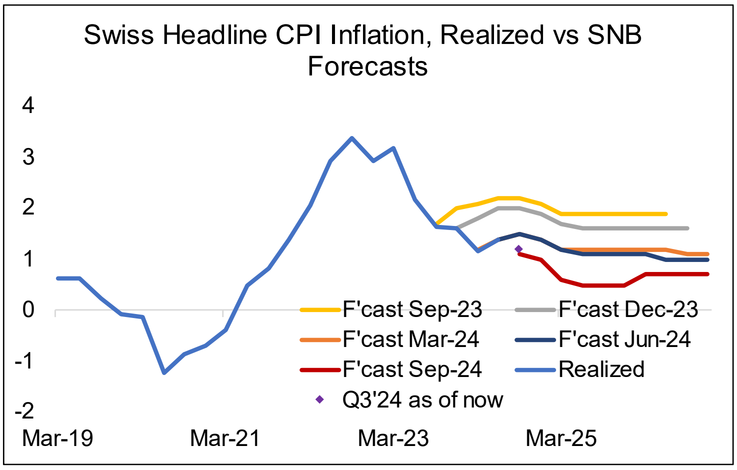
Executive Summary:

- **SNB has, as expected, cut its policy rate for the third consecutive time by 25bps, and materially kept its FX communications unchanged**
- **They have revised lower their inflation forecast amid lower inflationary pressures driven by a stronger CHF and lower energy prices, despite it being conditional on the new, lower, policy rate of 1.00%**
- **The biggest surprise of the meeting likely was the addendum of a comment on potential further easing, which yielded a repricing in longer-term Swiss interest rate markets**

Rough press conference transcript on page 3. Link to press release here.

MNI Point of View – Further 'Further Easing' Incoming

Most analyst and MNI's base case of a 25bp cut has materialized in Thursday's SNB policy meeting. An addendum of potential further rate cuts, a slight tweak in FX communications, and a lowered inflation forecast were not enough of a surprise for EURCHF to move out of Wednesday's intraday range during the announcement and press conference. The back end of the SARON strip saw the most movement Thursday - expectations moved towards more easing being priced in going forward - which is consistent with the dovish interest rate commentary not given before by the SNB.



SNB Conditional Inflation Forecast	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25	Q3'25	Q4'25	Q1'26	Q2'26	Q3'26	Q4'26	Q1'27	Q2'27
As of Sep'24		1.1	1.0	0.6	0.5	0.5	0.5	0.7	0.7	0.7	0.7	0.6	0.6
As of Jun'24	1.4	1.5	1.4	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	
Δ		-0.4	-0.4	-0.6	-0.6	-0.6	-0.6	-0.4	-0.3	-0.3	-0.3	-0.4	

One crucial factor of the decision appears to be the relatively strong growth outlook brought forward by President Jordan, who did not appear overly concerned about downside risks to incoming growth in the Eurozone, which Switzerland is highly exposed to. This relative optimism also seems to be apparent in the SNB's 2025 GDP projection, standing unchanged at +1.5% Y/Y. In the press conference, Jordan hinted that the SNB board did consider going with an outsized cut this time, while dismissing fears that deflationary tendences might take over again soon. So, the **solid growth outlook might have been the factor having moved the needle towards a regular 25bp move**.

The **largest surprise in the press statement was likely the newly added commentary of the potential of further easing looking ahead** ("Further cuts in the SNB policy rate may become necessary in the coming quarters to ensure price stability over the medium term"), which led the SNB to join other G10 central banks who recently tilted more dovish in their outlook, and was taken further by incoming President Schlegel in a post-meeting interview describing such easing as "likely". This comes as the SNB has previously only put out a neutral statement on interest rates ("will adjust its monetary policy if necessary"), and a considerable number of analysts having had a view on that saw a cut at today's meeting as the final one in the cycle for a terminal rate of 1.0%.

Consequently, **Swiss longer-term interest rate markets took that commentary as a positive** (at the time of writing, market pricing for further policy easing by the June 2025 meeting stands at around 61bp – that compares to Wednesday's 52bp pricing after subtracting last week's 25bp cut). In the press conference, Jordan stressed that the addendum is not an unconditional statement, rather, it would be dependent on further inflation, FX and growth trends, and is thus not to interpreted as forward guidance.

Considering two scenarios which would yield CHF appreciation, a materialization of downside risks to international growth / geopolitical stability, and declining rate differentials, the SNB seem more concerned with the former than the latter. Jordan/Schlegel appear to assume that the declining rate differentials are already priced in into CHF strength, and as international cut expectations are considerable as of now, they likely assume the risk of even more aggressive global easing / a further tightening in rate expectation differentials remains limited. On the other hand, Jordan did not appear to push back on appreciation risk on geopolitical risk, and highlighted that they remain ready to be active in FX markets. Consequentially, **intervention clearly remains on the cards going forward**.

In conjunction with this stands the **slight alteration in FX communications, which appeared a bit puzzling**. Specifically, the respective paragraph in the press statement was revised to "The SNB also remains willing to be active in the foreign exchange market as necessary" **-** with the only change being a replacement of "is willing to be active" to "remains willing to be active". As a reporter in the press conference pointed out, this might be perceived as a nod to intervention already having happened in the recent past, and does not indicate a dovish tilt along the lines of an acknowledgement of CHF strength, which some analysts have flagged as a risk ahead of the meeting (CHF strength being mentioned multiple times in President Jordan's opening statement points towards high awareness on that, regardless). However, President Jordan remained quite vague in his response to that question ("We do not comment on our past intervention – we publish data on that, with a delay. Yes, we remain active to intervene if necessary, as we have before ") **-** while we are a bit uncertain how this is to be interpreted, it should be clear that **if Jordan wanted to point attention to a clear change in stance here, he would have done so**.

Sight renumeration above the threshold factor was adjusted accordingly to 0.5% but its spread to the policy rate remained unchanged at 50bp, as expected.

Martin Schlegel will take over from current President Jordan starting October 1. He already started to take some parts of questions around monetary policy this time, and while largely remaining quite vague compared to Jordan in his answers, this might change once he is in charge fully by the December meeting. **We do not expect a material change in the SNB's reaction function on the back of the change in leadership**, and Schlegel's in-line answers to the questions he took do not call that into question.

Sellside Analyst Summaries (A-Z)

Bank of America: Dovish cut, 0.5% terminal rate

- "We think the new forecasts and overall wording send a dovish signal that help to frame the forward guidance the SNB gave"
- "We had expected more forceful messaging around concerns about CHF strength and perhaps explicit recognition of overvaluation. While this was absent, it is clear that the SNB's tone is skewed asymmetrically towards concerns about FX strength rather than weakness."
- "The SNB will lean on the CHF if the real effective exchange rate appreciates once more. Inflation data therefore becomes more significant for the CHF. We continue to look for a resumption of the CHF downtrend as the slew of global policy stimulus measures underpins asset reflation."
- "We leave our SNB call unchanged, with cum 50bp of additional cuts in this cutting cycle and the terminal rate at 0.5%"

CIBC: Mixed

- "The failure to adjust the language on the CHF alongside a mere 25bps adjustment could be deemed to be slightly more hawkish than expected."
- On the new SNB rates outlook commentary: "This supports the notion that until the downtrend in the CPI profile is arrested we can expect a dovish backdrop, even if the immediate language and action today is reminiscent of a mildly hawkish cut."

Goldman Sachs: Dovish guidance, 0.75% terminal rate

- "Given the SNB's dovish guidance and the new inflation projections, we now expect a further cut of 25bp at the December meeting, to a terminal rate of 0.75% (vs 1.0% before). We see risks skewed towards more easing in the event of further downside surprises to inflation and CHF strength."
- "We think a further cut in the first half of 2025 is more plausible than a 50bp move in December, in line with Chairman Jordan's comment that 'for the moment' a 25bp move is the 'right thing to do'."

HSBC: Clear dovish message, 0.5% terminal rate

- “We were more surprised by the clear dovish message sent by the SNB.”
- “We now expect further rate cuts of 25bps at the next two meetings in December 2024 and March 2025.”

Morgan Stanley: FX buying bias remains

- “While the SNB didn't explicitly commit to weakening the franc, we think it has a bias to sell CHF. In addition, the positive risk backdrop and potential spillover in the event the ECB cutting path is repriced lower could see CHF underperform G10 peers.”

Rough Transcript / Commentary of Press Conference

09:03:04 : Press conference starts - introductory remarks first, which were sent out under embargo and released at 9am UKT (see above comment), so little news for the moment.

09:12:55 : One of the more interesting comments from the introductory remarks is his decent outlook on growth in Switzerland - they think the negative effects of the previous CHF appreciation on growth will taper off over time, and although they view the risks to their outlook as high, their 2025 growth estimate was unchanged since the last meeting in June at 1.5% Y/Y. This contrasts with significant growth concerns in the Eurozone, and is especially noteworthy considering the export-heaviness of the Swiss economy.

09:14:53 : This decent growth outlook might have been one of the factors preventing a larger size cut - this might be discussed further in the Q&A, which should start in just a couple minutes. Antoine Martin currently speaking on financial stability.

09:17:44 : Q: On the lowering of the inflation forecast - what does that mean?
A: Jordan stresses again the forward guidance on potential further cuts. They might have to lower further to keep monetary conditions appropriate.

09:18:15 : Q: Is deflation a concern?
A: Do not see any risk soon. Look at the inflation forecast, that is our estimate.

09:19:37 : Q: What prevented a 50bp cut?
A: We always have different options. For the moment, we thought a 25bp move was the right one. As mentioned, further cuts might be necessary down the line - but also note that we moved early in March. Overall, we considered a "standard" cut as appropriate.

09:21:22 : Q: Your inflation forecast was off quite a bit recently, any comments? (referring to CPI undershooting the Q3 projection to date)
A: The lower inflation was due to a different macroeconomic environment, we don't think it was massively off, and it was always subject to risk. We will further act as necessary.

09:23:30 : Q: Interest rate differentials to the US might well decline in the near future. Will this yield further CHF appreciation, and how will you deal with that?
A: Note that this really depends on priced in curves / expectations - the fact that international interest rates change does not necessarily move CHF, but rather changes in expectations.
Now Schlegel (incoming president) commenting further: We will consider this also our next assessment in December.

09:29:39 : Q: You are painting a quite bright picture of Switzerland but are referring to large risks in the international growth outlook. Why are you so reserved in discussing these risks?
A: We don't think it is our task to discuss these risks and their impacts in detail. We are flagging those risks in general and have to act in case they materialize - but we have to put up a base case scenario, which we base off our decisions on for the moment.

09:32:13 : Q: To what regard can the geopolitical / international economic outlook risks boil down to CHF valuation ? Would it be possible that it further appreciates in case some of these risks materialize?
A: That is possible - but we remain prepared to act.

09:34:50 : Q: Was the possibility of a 50bp cut discussed during the policy meeting in the directorate? A: We are always discussing a set of options. We surely didn't debate about hiking, this I can guarantee you - we just debated which action would be the most appropriate. And we came to the conclusion that that was 25bp for the moment - but as mentioned, we stress that further moves might be necessary.

09:36:54 : Q: On real estate prices - can the policy rate cut further boost those?
A: We think the chance of a serious correction in the short term declined on the back of the interest rate declines. However, yes, real estate valuations could rise further going forward, and we already now cannot reconcile current valuations with prevalent economic models. [comment: that above question arose repeatedly in recent SNB press conferences - the SNB answer remained largely similar.]

09:40:36 : Q: On the restrictiveness of monetary policy. Where are we standing?
A: Both interest rates and FX developments play a role here. Real interest rates are currently around 0%, and taking into account our inflation forecast, will become slightly positive going forward conditional on our policy rate being held stable. If inflation comes in softer than expected, that would make our policy stance a bit more restrictive. Would say currently we are around a neutral level.

09:44:25 : Q: On the zero lower bound - what happens if downside economic risks materialize, and are you limited in your action set already given your policy rate is now already as low as 1%?
A: Yes, we did debate that, but still concluded that it remains the most sensible option to go with a cut right now. In case mentioned risks materialize to the downside, we remain open to act accordingly, and are going to think about all options we have then.

09:48:28 : Q: On the ever so slight change in FX communications - we "remain" active in foreign exchange. Does that mean that you already were active in the recent past?
A: "We do not comment on our past intervention – we publish data on that, with a delay. Yes, we remain active to intervene, if necessary, as we have before" [Jordan gave quite a unspecific answer here - appears to not stress that alteration in communications too much]

10:00:43 : Q: On the monetary outlook. Usually you are stressing that you are not giving forward guidance - this is a bit of a break in communications? Why?
A: No, I would not say that this is a break - we've always given some broader comments on the outlook in the press conference... [A bit of a surprising comment given we would also feel like Jordan was quite hesitant to give any proper view on how interest rates will develop going forward] The sentence was not unconditional, at our next meeting, we will assess the situation as it is again, and will act accordingly then. However, if you look at our inflation forecast, and at how that forecast was revised recently, we wanted to flag that there is potential for further cuts to happen going forward. We view this as an interpretation help for our inflation forecast [likely a nod to the downside risks to the inflation outlook highlighted in the press statement]

10:01:33 : Q&A more or less over - some final thanks for Jordan as this will be his last press conference after 17 years taking part. Schlegel will take over SNB presidency on October 1.