All Signal, No Noise

MARKET ANALYSIS

MNI SNB Review: June 2024

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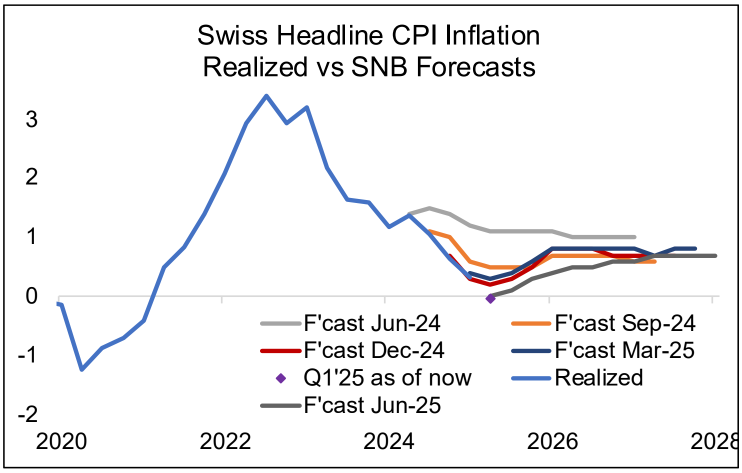
Executive Summary:

- **SNB cut its policy rate by 25bp, meeting market and analyst consensus**
- **The updated conditional inflation forecast, opening remarks and press conference all had a hawkish tilt to them in our view**
- **Market pricing through the next, September, meeting was initially aggressive but has since then paired back to OIS-implied odds of around 20% for a further cut into negative territory**

Link to press release **here**.
Governing board opening remarks incl. monetary policy outlook **here**.
Broadcast of the news conference **here**.
New instruction sheet governing sight deposits **here**.

MNI Point of View – Raising the Bar

The SNB chose to continue its easing cycle in Thursday's meeting in a move cutting its policy rate by 25bps to 0.00%, referring to lower inflationary pressure as rationale for the cut. Meanwhile, it only slightly downwardly revised its inflation forecast for the medium term, and added guidance on their view for further cuts into negative territory.



Swiss OIS-implied terminal rates shifted higher following the less dovish-leaning SNB policy outlook and press conference but remained in negative territory, standing at -0.18% through the March 2026 meeting (the highest since mid-May, vs -0.31% pre-meeting).

- That repricing happened throughout the press conference and accelerated on the back of Schlegel's comment of the SNB seeing a "considerably higher hurdle" to cuts into negative rates than for cuts within positive territory. Note that we flagged Schlegel's previous communication leaning hawkish, stating that the SNB is "aware that negative interest can have undesirable side-effects and presents challenges for many economic agents" already in his monetary policy outlook.
- For the next meeting in September, OIS-implied odds for another 25bp cut to -0.25% have been pared back to around 20% after initially more aggressive pricing.
- Put differently, our assessment of SNB rhetoric is that we would have to see considerable downside surprises to the new conditional inflation forecasts through the September meeting for a renewed cut to materialize, and this against the background of the SNB removing a "*downside inflation risks*" reference from their press statement this time.

CHF appreciated on the rate cut announcement given markets priced in around 30bp of easing ahead of the decision – but pared that strength subsequently, for both EURCHF and USDCHF remaining within recent ranges and printing little changed on the day.

Key excerpts from the governing council opening remarks as well as the press statement below:

- On monetary policy outlook:
  - “We are today lowering the SNB policy rate to 0%, bringing it to the verge of negative territory. Between 2015 and 2022, negative interest was an important instrument for ensuring price stability in Switzerland in an exceptional phase. However, we are also aware that negative interest can have undesirable side-effects and presents challenges for many economic agents."
  - "With our easing today, we are ensuring appropriate monetary conditions. Nevertheless, uncertainty about the development of inflation is still elevated. We will continue to monitor the situation and adjust our monetary policy if necessary, to ensure price stability over the medium term."

- On inflation forecast:
  - "In the medium term, there is hardly any change from March" [referring to the 2027 0.7% projection, vs 0.8% from the March meeting]"
  - “Inflationary pressure has decreased compared to the previous quarter. With today’s easing of monetary policy, the SNB is countering the lower inflationary pressure. The SNB will continue to monitor the situation closely and adjust its monetary policy if necessary, to ensure that inflation remains within the range consistent with price stability over the medium term.” [removing March’s “downside inflation risks” reference]

- On FX communication:
  - “The SNB also remains willing to be active in the foreign exchange market as necessary.” [unchanged from June]

Bank See Policy Implementation Unaffected by Move to 0%

Today's SNB cut to 0% raised some questions around their monetary policy implementation. Overall, the takeaway seems to be that while some Swiss money market rates may move (further) into negative territory, the SNB sees limited adverse effects from today's move - as opposed to more considerable challenges once the policy rate were to be cut into negative territory. Details below:

- The new press statement reads that "banks' sight deposits held at the SNB will be remunerated at the SNB policy rate up to a certain threshold. The discount for sight deposits above this threshold remains unchanged at 0.25 percentage points."
  - That means that as in previous cuts, above-threshold remuneration will be cut by the same amount as the policy rate was - thereby keeping the spread, as above, at 25bps.
- They have also uploaded a new "instruction sheet governing interest on sight deposits" on their website, giving details on threshold calculations and scope of application:
  - For sight deposit account holders subject to minimum reserve requirements (domestic banks: "*The threshold corresponds to the moving average of the minimum reserve requirements over the preceding 36 reference periods (RPs), multiplied by the applicable threshold factor. The last RP, i.e. RP 36, is the RP that starts on the 20th calendar day three months before the beginning of the respective interest period.*"
  - For all other sight deposit account holders: "*The SNB sets fixed thresholds. These are in principle set at CHF 10 million.*"
- In the press conference, the Governing Board have mentioned multiple times that the key rate to be considered for monetary policy purposes remains the SNB policy rate - not the remuneration rate for sight deposits above the threshold factor, which is lower than the policy rate in order to facilitate money market activity.
- They have also added that, while that is a factor they watch more broadly, they are not seeing financial stability in Switzerland being threatened by today's move. However, bank profitability more specifically is not part of the SNB's optimisation function, they've mentioned (see second press conference question following 09:42:02 timestamp).

Rough Transcript Of Post-Announcement Q&A (Times BST)

09:12:48
Q&A starting.

09:15:20
Q: What was the deciding factor behind the decision today? CHF, falling inflation, or the economic slowdown?
A: We lowered the policy rate today to 0% as inflation and also inflation pressure is lower – this makes this step a necessary one.

Q: Where do we go next? Can you go negative in the future? You've mentioned the negative side effects... What’s the line there in the future?
A: We will come together again in September. We would not take the decision to go negative lightly. Is has many negative side-effects - we are aware of these challenges, for savers, pension funds, and the general economy. Of course, as a central bank, we can never exclude any measure, though.

09:18:00
Q: With today’s move and the unchanged sight renumeration spread to the SNB policy rate, you’ve arguably already introduced negative interest rates?
A: Schlegel: What is relevant for us is the SNB policy rate, now at 0%, and not negative. Markets are of course free – it is possible that some products are seeing negative rates now.
A: Tschudin: We are not changing our monetary policy implementation today. The SNB policy rate is zero – not negative. We keep the sight remuneration spread to keep healthy money market activity in place, and for banks to take part in money market exchange – this incentive we set through price incentives. We are also

09:20:12
Q: The US Treasury's report on potential Swiss currency manipulation - any comments?
A: The SNB does monetary policy for Switzerland, and looking at monetary conditions: our policy rate and the foreign exchange market. However, we don't have an FX rate target, and when we intervened, we have never tried to get an unfair advantage for Swiss firms - but only to keep monetary policy appropriate. [unchanged communications here from previous]

09:24:07
Q: Were multiple options discussed? Did you consider cutting into negative territory?
A: We are always considering a multitude of options - but we would not take the decision lightly to move into negative territory [repeating the arguably hawkish communications from the monetary policy outlook here]. You’ve mentioned the cut to 0% could prove challenging to the banking sector, yes, that is a side effect of low interest rates, but we are not seeing financial stability being threatened by today's interest rate decision

Q: Can 0% interest rates work mid-term for the banking sector?
A: [Antoine Martin in French – appears to indicate that adverse effects for the banking sector remain somewhat limited at current rates.]

Q: Above the minimum threshold factor, sight deposits are now remunerated by -0.25%. Can you comment on the total amount of total sight deposits vs the ones remunerated at 0% (below the threshold factor) [that is at least how we think the question was intended]
A: The actual ratio here is not critical, since with our open money market operations (repo and SNB bills), we are skimming a lot of deposits above the threshold factor. What is actually remunerated at -0.25% is very little comparatively, we think… In theory, you could argue that as soon as one single Franc is remunerated at that lower rate, that tiered system would incentivise money market activity. Of course in reality, there are some frictions, but we are seeing that banks are reacting to the incentive we set here.
A: [Schlegel follow-up] Remember that the goal here is that Swiss money market rates are close to our policy rate – and we are achieving this through our tiered system, and skimming activity on the open market.

09:27:58
Q: The economic outlook – the KOF and the government have lowered their growth forecasts. Are you agreeing with them?

A: Yes, of course we looked at these also, and generally agree with them. There is high uncertainty on these currently, though, also on how to interpret the current figures… On balance, we think economic momentum is set to taper off throughout the remainder of the year, also as a function of the ongoing elevated uncertainty.

Q: Last December you did a 50bp cut, which earned you some criticism - would you make that decision again in hindsight?
A: If you are considering the inflationary trajectory, how it developed, and inflationary pressure, the trend is clear, and we acted to ensure price stability in the medium term. Note that in May, inflation was negative - but we don't have to act on singular datapoints, and rather focus on the medium term. That is when inflation has the be in our target range, between zero and two percent.

09:31:09
Q: You've mentioned that inflationary pressure has decreased, is that trend done by now? Or any risks? Where is pressure coming from, also looking at inflation picking up again over the forecast horizon?
A: Looking at our forecast, we are thinking inflation should increase slightly again over the next years, and will remain within our target range in the medium term. Most recently, looking at the decreasing inflationary pressure over the last 1.5 years, different factors contributed to lower inflationary pressures. Most recently, tourism services and oil products put downside pressure on inflation - rents also have a less positive contribution than previously. We are not making forecasts on subcategories. But look at our overall view here - we think inflation will increase again in the coming quarters.

09:36:51
Q: Negative interest rates may come soon - during the last period of negative interest rates, the SNB flagged concern around the real estate sector often, any comments here?
A: In the case of negative interest rates, we would face challenges and adverse effects. The Swiss real estate market is one of these. We assess the real estate market as vulnerable, and think prices in Swiss real estate are difficult explain with fundamental factors.

09:38:36
Q: Have you considered holding rates today? Some other central banks are currently holding off in a "wait-and-see" approach amid the elevated uncertainty...
A: We have discussed a multitude of moves for today's decision, as we always do, and we have reached the conclusion that a 25bp cut was right to keep monetary policy conditions appropriate in the light of lower inflationary pressure and low inflation.

09:42:02
Q: You've mentioned that you see inflation risks to the upside in the US but to the downside for the Eurozone - what is the rationale for that?
A: When a country puts tariffs on, parts of these tariffs will have to be borne by consumers of the country implementing these tariffs – they should put upside pressure on prices in the US, just as the Fed acknowledged yesterday. For the countries being subject to the tariffs, they would constitute a negative demand shock to economic conditions, yielding downside price pressure.

Q: On the negative side effects – what would you be looking for here exactly?
A: Side effects and challenges would be plentiful. One of them would be banking profitability. I want to be clear though that banking profitability is not part of the optimization function of the SNB. However, profitability of banks is important, since it is the first line of defense in stress scenarios for financial stability. A functioning business model is crucial there, and banks mostly living of interest differentials could be hit here.

09:44:18
Q: You think inflation will pick up towards the latter part of the year, 0.3% in Q4… What do you think will be the drivers of that?
A: If you are doing an inflation forecast [as opposed to a price level forecast], one of the factors flowing into it you already know for sure: past CPI. Some base effects might be at play in the months to come - but we are not commenting further on specific drivers for the inflation forecast.

09:49:59
Q: To what extent do you think today's cut can help in offsetting the safe haven allure of CHF, really?

A: It is always the case that a lot of different factors have an impact on the foreign exchange market. In times of crisis, investors turn to the Franc, prompting it to appreciate. But the interest rate differential is also important here, that is what our models tell us at least.

Q: Will FX intervention become the main tool of the SNB given you are now at 0%? Is it more important than before, as interest rate moves become less effective the lower you get?
A: We remain willing to be active in the foreign exchange market as necessary – this is still true.
Q: But is it more true than previously?
A: True is binary. So… it's true.

Q: Again on tariffs. Will effects on inflation for Switzerland be positive or negative?
A: The answer is… it depends, mostly on if there will be counter tariffs. We speak a lot with local businesses, and effects appear to differ almost from enterprise to enterprise. Some say the tariffs have less of an effect, some more, through direct effects, as food producers and luxury goods. Secondary effects also come into play, though, as global economic momentum might slow down.

09:55:12
Q: A question on wording. You have mentioned multiple times the challenges around negative rates. Do you want to make a statement with that? Is that a hint that the monetary cycle is over?
A: When we are mentioning something in the press statement, we are thinking about that, really, and are sending a signal. We are never excluding anything as a central bank - but note that the hurdle for a cut into negative interest rates is considerably higher than a cut within positive territory.
* Again, hawkish tilt here vs prior market pricing for terminal rates

09:56:12
Q&A over.

Sellside Analyst Summaries (A-Z)

Bank of America:

- "In June the SNB embraced zero interest rate policy. We do not foresee any other cut in 2H25. Rates in negative territory remain a risk scenario, contingent on a meaningful deterioration in inflation outlook."

CIBC:

- "We would view the CPI revisions as validating not only moving now but also supports the notion of taking rates back into negative territory at the September policy meeting. The downgrade in the CPI profile comes as the central bank bemoan trade tensions which according to the SNB are likely to weaken growth over coming quarters."
- "To counter potential flows, compromising Swiss competitiveness with its key trading partner the eurozone, (remember we assume that the ECB will look to hold rates at 2.00%) suggests a return to negative rates, (we assume a -0.25% terminal rate) in September."

Goldman Sachs:

- "While it was noted that negative rates would come with challenges, we continue to expect a final 25bp cut to a terminal rate of -0.25% in September on the basis of the weaker growth and inflation outlook."

HSBC:

- "The decision to maintain the tiering system was a bit more surprising to us, as it implies a soft form of negative rates (although it only affects a "very little" proportion of reserves according to SNB Board member Petra Tschudin)."
- "In our view, the bar for a return to negative rates policy remains elevated, given the potential side-effects in terms of financial stability. The tone of the message delivered by Martin Schlegel in its press conference supported our assessment."
- "Against that backdrop, our expectation remains there will be no further rate cuts, and we foresee the SNB to keep its policy rate to 0% until the end of our forecast horizon (end-2026). We think the Bank might prefer to rely more on FX interventions, in case of appreciation pressures on the CHF."

MUFG:

- "With the SNB forecasting inflation of just 0.2% this year and 0.4% next year, it seems highly likely that the SNB will have to cut again and indeed will likely have to become more active in FX intervention. Given the zero-bound problem, the SNB is at the mercy of foreign developments. Worsening global conditions will for example see more active rate cuts than currently expected with the SNB potentially having difficulties matching global monetary easing from here that leads to further upward pressure on the franc."

Nomura:

- "Chairman Schlegel was fairly balanced when speaking following the announcement. He said the SNB would not take the decision to move to negative rates lightly, but he also displayed willingness to cut again if necessary."
- "We believe inflation will be lower than the SNB's forecast over the coming months, which will ultimately lead to a 25bp cut at the next meeting."
- "we believe the central bank may be cautious on FX intervention, as it may not wish to strain US-Swiss political relations further while tariffs are being negotiated."