Swiss National Bank Preview: June 2022

Details:

Monetary policy decision and assessment: 0830BST/0930CET/0330ET, Thursday 16 June 2022

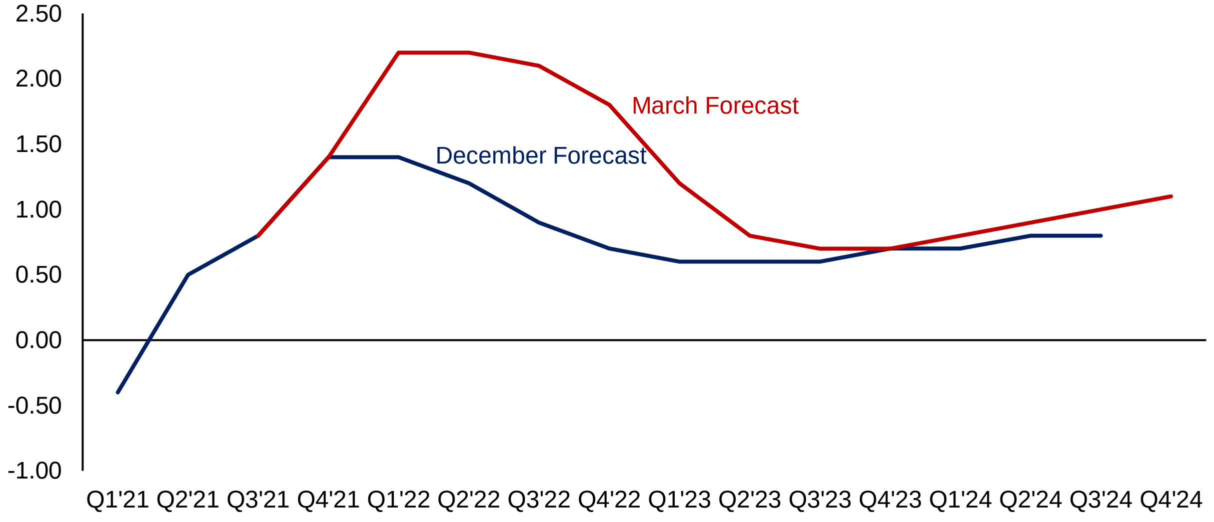
MNI Point of View

The SNB are expected to lay the groundwork for the first change to the policy rate in seven years at this week's meeting. But the bank will likely hold rates for a further three months so as not to add to market uncertainty by prematurely widening the ECB/SNB policy rate differential and inducing FX market volatility.

For the best part of seven years, SNB rates policy has been dormant, with the bank installing deeply negative rates to accompany the removal of their enforced cap on the CHF in 2015. That will likely come to an end in 2022, with inflationary pressure and a more active approach from the ECB forcing the SNB's hand.

March's inflation forecast round put CPI above target this year for the first time in years, but the actual CPI turnout since then has been higher than the bank had expected. This should lead to a substantial upgrade to inflation projections this month, pressing the bank to step up their language and signal an end to negative rates by the end of 2022.

Figure 1: March CPI forecasts were north of target, and will likely be boosted further this week



Source: MNI/Swiss National Bank

It's clear from recent SNB speeches that the board are already relatively advanced in their thinking around policy. Since the March meeting, Jordan, Zurbruegg and Maechler have all talked up the SNB's willingness to raise interest rates in the face of "solidified" inflation and have even argued that the SNB could move on policy independently of other global central banks (read: The ECB). Nonetheless, the proximity of this decision to the expected July ECB hike makes such an outcome unlikely.

Markets have already begun to price tighter policy across Switzerland this year, with a substantial implied probability of tightening at this week's meeting alone. While a 25bps hike (from -0.75% to -0.50%) in June has not been fully priced, markets see close to 50bps of tightening at September's meeting, signalling that pressure on the bank remains despite most sell-side analysts seeing no change.

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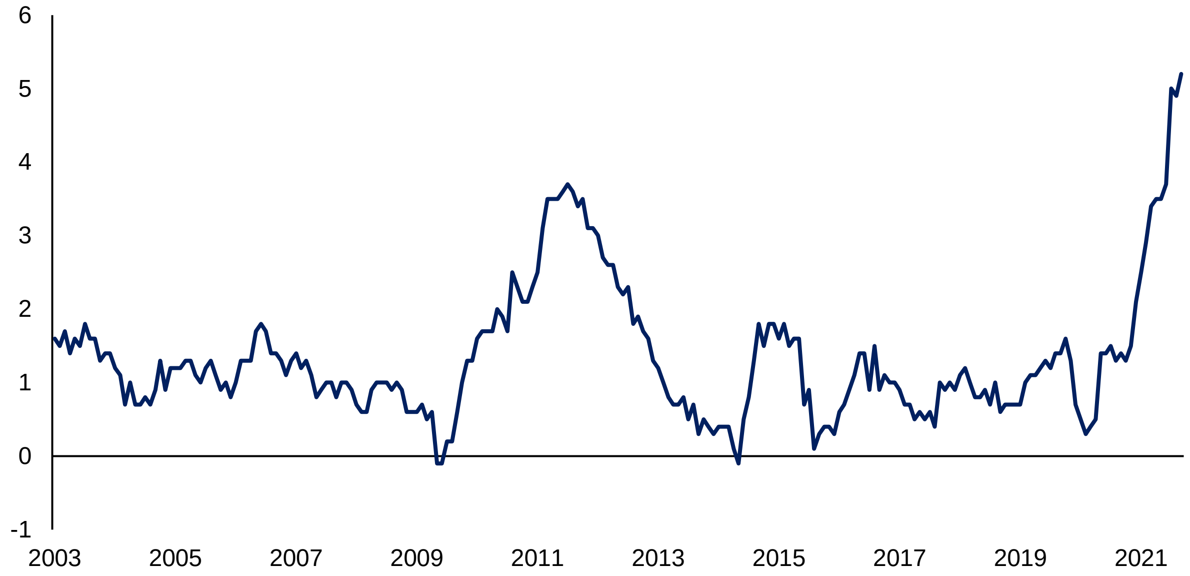
One communication tool the SNB could use to signal an end to negative interest rate policy is their language surrounding exchange rates. The normal missive describing the currency as “highly valued” could be dropped so as to dampen the impact on FX channel of rate hikes later this year. Market moves since March’s decision would also support this view, with the CHF around 5% weaker on a real effective exchange rate basis over the last quarter. Regardless of their view on the strength of the currency, however, they will likely retain the option to intervene going forward, with the currency tools available “as necessary”.

Figure 2: Swiss-Eurozone Inflation Differential at a new high



Source: MNI/Bloomberg

While rate lift-off for the SNB could look similar in timing and magnitude to that of the ECB, it’s likely the pace of tightening and terminal rate for any cycle would be very different at the two central banks. The inflation rate differential between the Eurozone and Switzerland remains stark thanks to the lack of imported inflation in Switzerland through FX intervention. President Jordan could stress this point in the subsequent press conference, indicating that an end to negative rates policy (and possibly active FX management) would not lead to a return to rates of 2.00-3.00%. To do so could jeopardize the inflation outlook, which is still expected to moderate back below 1.00% next year - even while assuming rates hold at -0.75%.

To conclude, the SNB are likely to signal that rates will move away from -0.75% this year as near-term inflationary pressures build, but a rate hike at this meeting is unlikely. Jordan is expected to stress that rate lift-off is a significant moment for Swiss monetary policy, but does not mean a return to pre-crisis interest rates of 2.00% and above as price pressures ebb across the forecast horizon.

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	2.9	2.2	↑	1.5	↑					1.90
Core CPI YoY	% y/y	1.7	1.3	↑	0.7	↑					1.43
Producer & Import Prices	% y/y	6.9	5.8	↑	5.8	↑					1.53
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Manufacturing PMI	Index	60.0	62.6	↓	63.8	↓					-0.14
KOF Leading Indicator	Index	96.8	105.1	↓	107.2	↓					-1.70
Industrial Output	%y/y	6.8	6.1	↑	7.2	↓					0.51
GDP QoQ	%QoQ	0.5	0.2	↑	1.9	↓					-0.02
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	-0.10	1.10	↓	2.54	↓					-1.45
CH Household Credit Total	CHF bn	986.5	977.0	↑	973.2	↑					1.87
Foreign Currency Reserves	CHF bn	925.4	938.0	↓	921.7	↑					-0.31
Total Sight Deposits	CHF bn	754.0	725.2	↑	719.4	↑					1.87
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	-6.0	5.9	↓	1.8	↓					-1.09
Consumer Confidence	Index	-26.0	7.0	↓	-16.0	↓					-1.66
Unemployment Rate SA	K	2.2	2.2	→	2.5	↓					-0.74
Registered Job Openings	% y/y	71048	67826	↑	50552	↑					1.00
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (SMI)	Index	10729	11987	↓	12160	↓					0.34
SW 10-Year Yield	%	1.47	0.26	↑	-0.23	↑					1.34
SW Yield Curve (2s-10s)	bps	80.9	67.2	↑	52.7	↑					1.38
BIS CHF Nominal EER	Index	133.80	134.11	↓	131.19	↑					0.87

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

Analyst Views (Alphabetic Order)

Barclays: Laying the ground for normalisation

- We expect the SNB to sound hawkish as it lays the ground to hike in September by 25bps, with a risk of a 50bps move.
- As global inflation prints hit new highs, and is expected to remain sticky, Switzerland has not been immune, even if the strong CHF has provided a partial shield. The SNB is no longer comfortable staying put. Inflation uncertainty has pushed the SNB to shift its rhetoric. Complaints from the banking sector and savers about negative rates are growing, as well as over financial stability concerns.
- We expect the SNB to lay the ground for normalisation in June. Our Taylor rule model suggests the Swiss policy rate should already be at 0.2%. We expect the SNB to sound hawkish at the June meeting, to lay the ground for a 25bp hike in September. However, we would not rule out the risk of: 1) a 25bp hike at the June meeting, or 2) assuming no June hike, a 50bp initial hike in September.
- We expect normalisation to be supported by an upward revision of inflation forecasts by the SNB, while its growth forecast is unlikely to be revised down significantly (SNB forecast for 2022 growth was 2.5% at the March meeting). We expect a resilient Swiss economy to support the SNB to hike 25bp per quarter for the next four quarters to bring the rate marginally above zero, to 0.25%, at the June meeting next year.
- The rate path in H2 23 will depend on whether the anticipated dissipation in price pressure arrives and how well growth holds up.

BNY Mellon: To define inflation vigilance

- For the first time since before the Global Financial Crisis, a rate hike just might be on the table at the policy meeting. If President Jordan follows through on his recent comments regarding 'vigilance' on inflation, policy changes will likely happen.
- However, it won't be as simple as a rate hike: negative deposit rate adjustments aside, we also see potential tweaks to the thresholds of commercial banks' reserve balances on which the charge is applied.
- The SNB is unlikely to move on rates in isolation. Even if the SNB chooses not to hike, any firm commitment to end intervention should be considered a de facto tightening step. We are not expecting the SNB to actively engage in any form of quantitative tightening, as this would require selling of FX assets. As much of its euro-denominated portfolio is held in Eurozone sovereign assets, sales into ECB tightening and a general steepening environment is pro-cyclical for Eurozone-related volatility, and that does not serve Switzerland's economic interests. However, as the marginal supply of francs dries up, another form of market adjustment will likely be through implied volatility.

Credit Suisse: Sees no movement on rates with medium-term inflation unchanged

- Expects the SNB to maintain its policy rate unchanged at -0.75%. The medium-term outlook for inflation has not changed much in our view, and we have kept our forecast unchanged for 2023 at 1%. Similarly, SNB board members have recently indicated that they expect inflation to decelerate in the second half of 2022 and in 2023.
- This should allow the SNB to remain a bit more patient than other central banks with interest rate hikes. In our view, it is quite unlikely that the SNB will upgrade its 2023 inflation forecast from currently 0.9% to 2.0% or more. However, the risk of such an upgrade is higher for 2024. An inflation forecast at or above 2% for 2024 would signal that the current monetary policy stance is not sustainable anymore in the medium term (the SNB inflation forecast is conditional on an unchanged policy rate) and would pave the way for a rate increase in the second half of 2022.
- While we currently expect the SNB to wait until December to raise its policy rate from currently -0.75% to -0.50%, we acknowledge that the risk of a policy rate increase in September has increased. Finally, we expect the SNB to stop calling the Swiss franc "highly valued," as it has done since September 2017.

Goldman Sachs: See strongest signal yet that era of weaker FX is over

- We see a strong possibility that the SNB will hike on Thursday in what would be the strongest signal yet that the era of targeting weaker exchange rates is over. The rising inflation outlook makes it more likely the SNB will tolerate, or even encourage, CHF strength in response.
- After a decade of guarding against currency appreciation, Switzerland has built substantial ($1tn) FX reserves that could also be used to stabilize the currency. This would likely be in conjunction with policy rate hikes, in our view, but does add a layer of complexity when judging the exact policy mix the SNB will choose at the start of the normalization process.
- Swiss policymakers have been unusually vocal in the run up to this meeting, and in particular have highlighted that they will not hesitate to hike if inflation proves more persistent than anticipated.
- We think policymakers will not only tolerate but likely want to see some nominal exchange rate appreciation. That might make them hesitant to open the possibility of a 100bp policy rate differential with the Euro Area by the time of the SNB's September policy assessment.
- Because rate increases from -0.75% to zero will likely be more effective to stabilize CHF than directly restrain the domestic economy, the question of the optimal policy mix beyond 0% policy rates becomes less clear.

UBS: Base case is for a first rate hike in September by 50bp

- We now expect the SNB to deliver a first rate hike from -0.75% to -0.25% at its meeting on 22 September (up from +25bp before), followed by further 25bp hikes in December and March, June and September of next year, to lift the policy rate to +0.75%.
- We do not expect a policy rate change at the upcoming meeting on 16 June, but acknowledge it is a close call. While a June rate move is possible, we believe the SNB will err on the side of caution, and believe urgency on the side of the SNB is less than for other central banks.
- Still, even without a policy rate change, there may be changes to the monetary policy statement and the inflation forecast will be closely watched after May inflation surprised substantially to the upside and wage inflation picked up in Q1.
- A key question is whether the June monetary policy statement will retain the language that the Swiss franc is "highly valued". This statement could be dropped and be interpreted as a sign of preparing the market for a September hike, and signal more explicitly that a stronger or at least stable exchange rate is acceptable, given currently high inflation.
- Arguably, the SNB has over recent months prepared the ground for a changed exchange rate assessment by arguing that the nominal appreciation does not entail an appreciation in real terms, given the inflation differential between Switzerland and abroad. Another option in June to signal normalisation is that the tiering framework could be made less favourable.
- All combined, our impression is that the SNB is watching carefully whether inflation becomes persistent but that there is no sense of urgency. Unless the June inflation forecast for 2023/24 moves towards or above 2%, we believe the SNB will delay a first rate hike until September.
- We expect the June monetary policy statement to show a conditional inflation forecast of 2.7% for 2022 and 1.5% for 2023 (both up 0.6pp from March) and 1% in 2024. The 2022 GDP growth forecast should remain "around 2.5%".

UniCredit: First rate hike in September

- It has become clear that the very accommodative policy of the SNB is drawing to an end, after maintaining an interest-rate level of -0.75% for more than seven years. Some SNB watchers have recently even argued that there will be a rate hike already at the quarterly meeting in June in order to demonstrate the independence of Swiss monetary policymaking.
- In our view, such a “preemptive” move before the ECB starts normalizing interest rates is still unlikely for two major reasons. First, the SNB is in a rather comfortable position, as inflation rates in Switzerland are low compared to those in other European countries. Second, and probably even more importantly, the SNB might not want to narrow the interest-rate gap with the euro zone, even for a brief period. Thus, this would actively make the Swiss franc more attractive for investors and cause volatility on FX markets.
- It is likely that policymakers will sound decisively more hawkish. We expect the first tightening by 25bp to be announced at the meeting on 22 September. At that time, the ECB might have already increased the depo rate twice. This should give Swiss policymakers enough room to maneuver to start their own normalization in monetary policy. Going forward, we expect two further rate hikes of 25bp each to be announced at the following meetings in 4Q22 and 1Q23.

MNI Policy

MNI STATE OF PLAY: SNB Seen Holding For Now Despite ECB Moves

By Luke Heighton

The Swiss National Bank is expected to increase inflation forecasts but keep rates on hold at this week's meeting, even as speculation builds that it will soon have to tighten for the first time in 15 years as the European Central Bank readies its own hiking cycle.

While the ECB has indicated it will hike by 25bps in July and by at least that amount again two months later, the SNB is unlikely to increase its policy rate from -0.75% before September, before possibly raising it again in December, with Switzerland's economy growing by just 0.5% in Q1 and export demand subdued.

The SNB's March's headline inflation forecasts of 2.1% for 2022, 0.9% in 2023 and 0.9% 2024 are likely to be revised higher on Thursday, but core inflation remains subdued and signs of secondary effects from wage increases scant despite a 0.4-percentage-point jump from the month before to 2.9% in May's headline inflation print.

Some analysts have predicted 75 basis points in hikes to take the SNB back to zero by March next year. But this would run the risk of pushing inflation to the lower end of the central bank's 0-2% target range, former SNB senior economist Daniel Kaufmann told MNI in May, adding that the Bank's forecasts showed it saw little scope for tightening.

ECB PRESSURE

But depreciation of the franc prompted by a faster-than-expected increase in ECB rates could force the SNB to follow suit, Kaufmann cautioned.

The SNB has in recent months sounded relatively relaxed about a stronger currency, with the franc's exchange rate holding up better against a basket of currencies. President Thomas Jordan will continue to refer to the franc as highly valued and stress the SNB's willingness to intervene in FX markets as necessary.

While this week's decision is likely to be a hold, recent remarks by Jordan, who pointed to global inflation pressures even as world economic activity weakens and by Governing Board member Andrea Maechler, who said rates would be raised if inflation remains high, suggest a move closer to positive rates territory could be approaching.