The Swiss central bank is sounding rather dovish

As expected, the Swiss National Bank kept rates unchanged, but sounded a bit dovish revising its conditional inflation forecasts downwards. But as things stand now, it seems that no rate increase can be anticipated over the forecast period

Source: Pexels

As expected, the Swiss central bank left its key interest rate unchanged at -0.75% and remains ready to intervene in the foreign exchange market if necessary. As with every monetary policy assessment for the last two years, it still considers that the franc is highly valued and that the situation on the foreign exchange market remains fragile.

Inflation forecast going even more down south

However, the central bank has revised its conditional inflation forecasts downwards, assuming the SNB's key interest rate remains constant at its current level.

It now forecasts an inflation level of 0.4% in 2019, 0.1% in 2020 and 0.5% in 2021. These downward revisions can be seen as a rather dovish signal from the SNB because the very low level of these forecasts implies that monetary policy can only remain extremely accommodative in the coming years. With inflation forecast at 0.1% in 2020, far from the SNB's target and capable of falling below 0% in the event of a negative shock, the SNB can only maintain its interest rates in negative terms and fight against the appreciation of the franc on the foreign exchange market.

> As things stand now, it seems that no rate increase can be anticipated over the forecast period.
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> We expect rates to remain unchanged at its current level of -0.75% in the coming years. Nevertheless, risks are on the downside, which means that if the Swiss economy is hit by a negative shock or if the franc appreciates too much, the central bank could be forced to lower its key interest rate even further, possibly to -1%.
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> This is not our base scenario, but the risk of a fall in interest rates is ever present and the probability of this risk has slightly increased.

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