Swiss central bank: Wait, see and hope

No change in monetary policy for the SNB, which still seems to be waiting to see what happens. But the bank will now publish data on the volume of its foreign exchange market interventions on a quarterly basis instead of just annually

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The intervention continues

The Swiss central bank didn't change its monetary policy today and the key rate is still at -0.75% and the franc is still described as "highly valued".

Since the June meeting, the Swiss franc has depreciated against the euro but appreciated against the dollar. The central bank, therefore, remains in the same position, indicating that it "remains willing to intervene more strongly in the foreign exchange market". This implies that it still intends to use foreign exchange market intervention as the primary instrument of its monetary policy in the coming months.

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Interestingly, the central bank announced it will now publish data on the volume of its foreign exchange market interventions on a quarterly basis instead of just annually. This will therefore provide a clearer picture of the situation. It cannot be ruled out that this decision is linked to the fact that Switzerland is on the US authorities watch list for currency manipulation, and this additional transparency is intended to allay US fears.

Technical revision of the outlook

The interesting element of the September meeting is the upward revision of the outlook for GDP and inflation; although this was clearly expected.

The SNB now believes GDP will contract by around 5% in 2020, compared to -6% at the June meeting, due to the smaller than expected contraction in GDP figures in the second quarter of 2020. It, therefore, seems that it has not changed its scenario or its assumptions and that the change in forecasts is purely technical.

For inflation, the SNB is revising its outlook slightly upwards by forecasting -0.6% for 2020, 0.1% for 2021 and 0.2% for 2022 (compared with -0.7%, -0.2% and 0.2% respectively in June). One might be tempted to see a “less dovish” sign of these upward revisions, but that would probably be a mistake. Anticipating 0.2% inflation by 2022 is low, very low, and implicitly implies that the SNB is aware that it has difficulty in keeping inflation in positive territory on a long-term basis.

In view of the fact that inflation has been negative over seven of the last 20 years (including 2020) and that, with inflation forecasts of 0.1 and 0.2% for 2021 and 2022, the risk of another year of deflation is substantial, achieving its monetary policy goal has become very complicated for the SNB. The risk is, of course, that the inflation target will become less and less credible. In the meantime, the SNB seems to be waiting and keeping its fingers crossed that a better economic situation will one day lead to higher inflation. For the time being, it is clear that such forecasts imply that absolutely no rate increases are expected.

It should be noted that a rate cut is also difficult to envisage at the moment. The ECB would probably have to lower its own rates to see a rate cut in Switzerland, and again, this would depend on the appreciation of the franc that would result from such a decision by the ECB.

No revision of monetary policy in sight

It is also interesting to note that the Swiss central bank does not even communicate about a possible revision of its monetary policy strategy like the Federal Reserve has done, which is now targeting an average inflation rate of 2%, or as the ECB, whose revision is in progress.

Clearly, the SNB is not there yet or does not wish to communicate about this (let's not forget that the SNB has always preferred surprise decisions in the past). Nevertheless, it is possible that the SNB may have to undertake such an exercise in the coming years. For now, it may wish to wait and see what emerges from the ECB's monetary policy review.

Ultimately, as it has done for some time now, the SNB seems to be waiting for better times to see what should be done.

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