

Swiss National bank: Doves remain silent

The Swiss central bank decided today to keep its monetary policy unchanged and leave the main policy rate at -0.75%. It has reiterated its willingness to intervene in the foreign exchange market if it proves necessary



Swiss National Bank's
Chairman of the
Governing Board
Thomas Jordan

Source: Shutterstock

No change in monetary policy

The monetary policy assessment was not fundamentally different from that of March. In its text, the central bank was not really more "dovish" than the last meeting, unlike other big central banks like the Federal Reserve and the European Central bank. It still considers that the Swiss franc is "highly valued" and has not really changed its analysis of the macroeconomic situation. The Swiss central bank considers that downside risks are greater than at the March meeting but it did not change its forecast for GDP growth. It has slightly changed its inflation forecast for 2020 (upwards) and for 2021 (downward), but not enough to signal a change of course.

We will probably have to wait for the next economic cycle to see the Swiss central bank raising rates, which means not before 2023

The only change in monetary policy is more a technical change: the SNB has changed the reference rate for its monetary policy. If it was basing itself on the 3-month Libor, it stopped that because the future of the 3-month Libor is not guaranteed after 2021. So it set a new benchmark rate, called "the SNB policy rate". The SNB is still aiming to keep short-term interest rates on the money market pledged in francs at a level close to that of its key rate. The short-term interest rate of the most representative money market for short-term loans in francs is currently SARON, which it now uses as a reference when assessing the actual conditions in the money market. SARON being a day-to-day money rate, the SNB announces there will be no fluctuation band anymore. At the moment, the three-month Libor and the SARON are at the same level, which means that monetary policy has not been changed.

Base scenario: Rates unchanged for a very long time

Given today's decision, we think the SNB will keep rates at their current level for a long time. We will probably have to wait for the next economic cycle to see the Swiss central bank raise rates, which means not before 2023.

Will the SNB follow the "dovish" movement?

Given the global context and the probable monetary easing by other major central banks, the most interesting question now is what the SNB will do if the Fed or the ECB reduced their key interest rate. The SNB was reluctant to answer this question at the press conference.

We believe the first thing the SNB will do if the Fed and the ECB cut rates is to intervene in the foreign exchange market in order to offset the appreciation of the Swiss franc

We believe the first thing the SNB will do if the Fed and the ECB cut rates is to intervene in the foreign exchange market in order to offset the appreciation of the Swiss franc. If it's not enough and we were to see a big effect on the EUR/CHF exchange rate and a strong appreciation of the Swiss franc, the SNB would then consider loosening monetary policy further.

After all, members of the SNB's governing board have said many times that there is still some room to cut rates further. In that case, it could increase the exemption threshold from the negative interest applied to sight deposits in order to lower the burden on banks. However, this would not solve the side effects linked to negative interest rates on the mortgage sector (bubble risk) and that's why we think they'll first try to avoid cutting rates.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.