

## The Swiss National Bank appears slightly more dovish

The SNB kept its key rate unchanged at 1.75%, as expected. Its message is slightly more dovish, but it doesn't mean rate cuts are imminent



### A slightly more dovish message

As expected, the Swiss national bank decided to keep its key rate unchanged at 1.75% at its December meeting, its level since June 2023. The SNB's communication is more dovish, indicating that they are clearly not considering any further rate hikes. Against a backdrop where consumer price inflation stood at 1.4% in Switzerland in November, the 6th consecutive month below 2%, this is not surprising.

But the SNB is going a little further than that. First, it has revised its inflation forecasts downwards. It is now forecasting average inflation of 2.1% in 2023, 1.9% in 2024 and 1.6% in 2025, compared with 2.2%, 2.2% and 1.9%, respectively, at its previous meeting. The SNB is still expecting inflation to rebound in the coming months on the back of higher energy prices, rents and VAT. Nevertheless, it acknowledges that inflation has been weaker than expected in recent months and that "In the medium term, reduced inflationary pressure from abroad and somewhat weaker second-round effects are resulting in a downward revision". The inflation forecasts for the entire period are, therefore, within the price stability range, defined by the SNB as being between 0 and 2% inflation. According to the SNB, the balance of risks for inflation forecasts is also well balanced, with the risks of an upside surprise being as great as those of a downside surprise.

In addition, although it still states that it is "willing to be active in the foreign exchange market as necessary", it no longer explains how. In recent quarters, the SNB has been buying Swiss francs to reinforce its appreciation, which has had the effect of reducing imported inflation but has also worsened the competitiveness of domestic exporters. The SNB no longer seems to favour the idea of an even stronger Swiss franc and could now start selling the currency again, which would support exports and, therefore, economic growth in Switzerland. This is a major change for the SNB.

## But rate cuts are not just around the corner

The message is, therefore, slightly more dovish. However, there is nothing to suggest that rate cuts will be forthcoming soon. Firstly, the SNB's target is asymmetrical, as it wants to achieve inflation of between 0 and 2%. Today's inflation forecasts fall squarely within this target, and the SNB expects inflation to be at 2% in the second and third quarters of 2024. These inflation forecasts offer little argument for an imminent rate cut. In addition, the SNB has a tool to steer monetary policy other than its policy rate: its interventions on the foreign exchange markets. It is likely to use this instrument first and start selling Swiss francs before considering rate cuts. It confirmed this between the lines during the press conference. Finally, the SNB's key rate is at 1.75%, a fairly unrestrictive level close to the level of expected inflation. Past interest rate rises are, therefore, much less damaging to the economy than they are in the United States and the Eurozone.

Against this backdrop, the SNB is likely to take a much longer pause than the Fed and the ECB. Rate cuts will probably come, but much later than the other central banks. At this stage, we are expecting the first rate cut to come in December 2024, compared with the first rate cuts expected in the first half of the year for the Fed and the ECB. Moreover, the scale of the rate cuts is likely to be much smaller than elsewhere. Total rate cuts in 2024 and 2025 could be in the region of 50bp or even a maximum of 75bp in Switzerland.

## FX: SNB no longer focusing on FX sales

The SNB confirmed today that it is no longer focusing on FX sales. This is consistent with our EUR/CHF update in our [2024 FX Outlook](#) published last month and supports our view that EUR/CHF can remain stable near 0.95/0.96 next year.

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