

# Flash Note

## Switzerland: SNB preview

### All eyes on the SNB's assessment of the Swiss franc

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The SNB's 14 September meeting could be one of the most interesting in a while, as it comes just after a period where the Swiss franc has witnessed significant depreciation, mainly against the euro.

The key focus of the SNB's September meeting will be its assessment of exchange rate moves. We do not expect the SNB to remove previous references to the "overvalued" currency or to its commitment to intervene in the foreign exchange market if needed. However, the SNB could also note its satisfaction with the direction the exchange rate has taken. We expect the SNB to keep the interest rate on sight deposits at a record low of -0.75%.

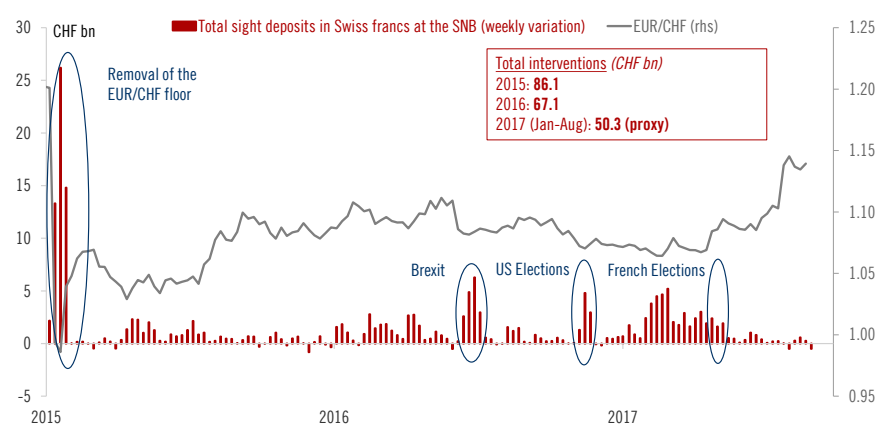
Looking ahead, our baseline scenario remains unchanged. We expect the interest on sight deposits at the SNB to stay at its current level (-0.75%) for the remainder of 2017. We also continue to believe that the SNB is unlikely to pre-empt the ECB in normalising monetary policy.

The Swiss National Bank (SNB)'s 14 September meeting could be one of the most interesting in a while. It comes just after a period of significant depreciation of the Swiss franc (mainly against the euro) not triggered by an SNB intervention in the currency market (proxy using weekly variation of total sight deposits, see *Chart 1*).

Since the removal of the currency floor in January 2015, the SNB monetary policy strategy has been pretty clear: to fight Swiss franc appreciation verbally, by calling it "significantly overvalued", and physically, by using its two-pillar strategy (negative interest rates and interventions in the FX market when needed). With the question as to whether or not the Swiss franc can still be considered "significantly overvalued", **the key focus of the SNB's September meeting will be its assessment of exchange rate moves.** We do not expect the SNB to remove previous references to the "overvalued" currency or to its commitment to intervene in the foreign exchange market if needed, taking into account the overall currency situation. However, the SNB could also note its satisfaction with the direction the exchange rate has taken.

We expect the SNB to keep unchanged its target range for the three-month Libor at between -1.25% and -0.25% and the interest rate on sight deposits at a record low of -0.75% in September.

**Chart 1: Total sight deposits in Swiss francs at the SNB (weekly variation)**



Source: Pictet WM – AA&MR, SNB.

#### AUTHOR

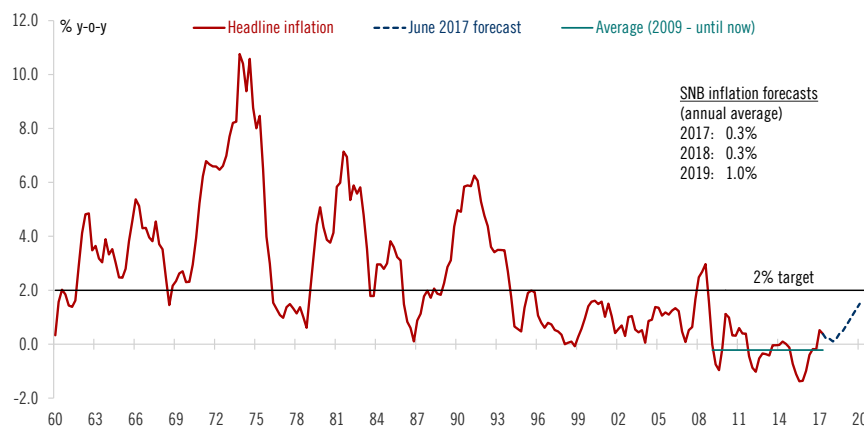
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As regards the economic outlook, the SNB will probably increase marginally its inflation forecasts (currently at 0.3% in 2017, 0.3% in 2018 and 1.0% in

2019, see Chart 2)), while maintaining its assessment of Swiss GDP growth unchanged at roughly 1.5% in 2017. If anything, caution will be warranted based on today's slightly disappointing GDP numbers, up by 0.3% q-o-q in Q2 (below consensus expectations of a 0.5% rise), following a downwardly revised 0.1% q-o-q expansion in Q1. Meanwhile CPI inflation rose to 0.5% y-o-y in August, from 0.3% in July.

**Chart 2: Swiss headline inflation and SNB's forecasts**



Source: Pictet WM – AA&MR, SNB, FSO.

Looking ahead, our baseline scenario remains unchanged. **We expect the interest on sight deposits at the SNB to stay at its current level (-0.75%) for the remainder of 2017.** We also continue to believe that the SNB is unlikely to pre-empt the ECB in normalising monetary policy. As a result, the latter remains the key variable to watch. Based on our expectations of a gradual ECB exit, including a slow tapering of asset purchases starting in Q1 2018 and a first hike in the ECB's deposit rate in 2018, the SNB could indeed deliver a first rate hike around the middle of 2018. Until then, the SNB will likely adopt a wait-and-see approach.

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