Investments - Flash

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SNB BALANCE SHEET DOWN 20% IN ONE YEAR

Beware of a more restrictive monetary policy than you might think

The SNB still seems concerned about the level of inflation, despite the very sharp decline in price indices, which pushed the annual CPI (+1.6%) below its target (+2%). It is still considering further increases to ensure that the price level remains below 2%. Yet wage increases over the next twelve months should remain contained at around 2%, according to the latest KOF estimates. The recent rise in the value of the Swiss franc also continues to keep a lid on imported prices, which are down -0.6% year-on-year. The SNB is maintaining its upward bias, even though it now appears much more pessimistic about future inflation than Swiss economists as a whole. With a forecast of +2.2% for 2024, this is well above the consensus estimate of just +1.5%. With key rates (1.75%) above July's published inflation figure of +1.6%, the SNB could already consider its action a success without considering any further hikes in the immediate future, as the consensus expects a further rise of 0.25% to 2% in September. All the more so since, in a year of monetary tightening, the SNB has also been very active in reducing the size of its balance sheet. Foreign exchange reserves, which had reached CHF 946 bn in January 2022, have been drastically reduced by -26% in eighteen months, to CHF 697 bn. Total sight deposits have also fallen by -35%, from 754 to 474 billion. The SNB's monetary policy is also more restrictive than it appears, compared with that of the Federal Reserve, which reduced the size of its balance sheet by only -8%. The resilience of the Swiss economy to date has been remarkable, but the free-fall in the manufacturing PMI to just 38.5 in July suggests a return to difficulties that should not leave the SNB indifferent. We therefore believe that key rates should be cut well before the 4th quarter of 2024, as currently envisaged.