Investments - Flash

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FALL IN SNB AND M3 FOREIGN EXCHANGE RESERVES

SNB will ease its policy well before Q4 of 2024

The SNB is perhaps no longer as concerned about the level of inflation now that it appears to have been contained at +0.1%/month for the past five months. This development should clearly allow the SNB to consider that its action has been effective, since core inflation is now +1.5% year-on-year and annual CPI has been around +1.6% for the past five months, below the target of 2%. The franc's recent rise to 0.94 against the euro is also continuing to keep a lid on import and producer prices, which have contracted by -1% year-on-year after peaking at +6.9% in June 2022. However, the SNB is still warning that further rate hikes are possible, given the risks of price rises due to contrary trends in rents and energy prices. Nevertheless, it has lowered its forecast for 2024 to +1.9%, bringing it closer to the consensus. With key rates (1.75%) above the CPI, the SNB has time to reflect. However, it is using this time to reduce its balance sheet by adjusting its foreign exchange reserves. Although it is now marking a pause in its rate hike cycle, it is nevertheless continuing to reduce its foreign exchange holdings at an average rate of 13 bn per month. Since reaching a peak of 946 bn in January 2022, it has gradually cut its reserves by 31%, leaving them at just 657 bn today. The growth in the money supply M3 (-2.7%) is negative for the 3rd consecutive month. In other words, it has managed to wipe out the money creation of the pandemic and return to the level prevailing in 2017. Against this very restrictive backdrop, the resilience of the Swiss economy is remarkable, although threatened by leading indicators pointing to a fall in industrial activity (PMI 40.6) and consumption (SECO household confidence -40). We therefore believe that it will ease policy well before the 4th quarter of 2024, as is currently envisaged.