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Investments - Flash

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SNB TO CUT RATES SOONER THAN EXPECTED

Pivotal point for the Swiss franc and positive outlook for Swiss equities

Inflation in Switzerland surprised observers with a much more moderate rise (+0.2%) than expected in January (+0.6%). Year-on-year, consumer prices rose by just +1.3%, well below the +1.7% expected by economists. Core inflation, excluding energy and food, showed an even more satisfactory trend, registering a lower rise of +1.2%. The month of January, traditionally marked by administered price rises, was not as marked by the increase in VAT from 7.7% to 8.1% or by the rise in electricity tariffs as the consensus had expected. Our own forecast of a fall in inflation to between 0.5% and 1% by the end of March is therefore reinforced more than ever by January's slight rise. We stand by our forecast and consider that consensus expectations for a first rate cut in September have now been far outstripped by present reality, which shows just how successful the SNB has been in its fight against inflation.

The SNB will certainly remain cautious, but if the trend continues, it could nonetheless decide, on March 21, to be the first central bank to lower its key rates, although a cut in June seems the most likely. In the meantime, the SNB could also, and above all, decide to stabilize its activity on the foreign exchange market by halting its sales of foreign currencies against the Swiss franc. The signal is not yet crystal-clear, but it could well be interpreted as a new pivot point for the franc. In our view, this context now favors the prospects of lower interest rates and a weaker franc. Swiss assets will benefit from this improved environment, particularly securitized real estate and equities, which have long been affected by a strong franc.