

# Investments - Flash

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## DEFLATION, LOW INTEREST RATES AND A STRONG SWISS FRANC?

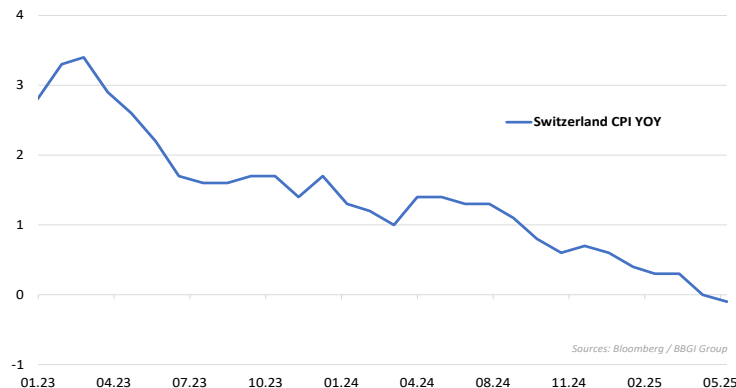
Deflation worries the SNB, which will lower rates to weaken the Swiss franc

The publication of the Swiss consumer price index (CPI) for May has brought the SNB face to face with the growing risk of deflation in our country. On a year-on-year basis, the Swiss CPI was negative (-0.1%) at the end of May. The strength of the Swiss franc is certainly one of the main factors behind this particular situation, causing imported deflation. Switzerland experienced several periods of deflation, notably between 2014 and 2016, and again between 2020 and 2021. The SNB still considers that price contraction threatens economic stability, notably by potentially discouraging consumption and investment. It has already stated that it is prepared to use the means at its disposal to counter these forces, including intervention in the foreign exchange markets to affect the franc's trajectory and control the influence of an overly strong currency on prices. With the inflation target zone defined as

a fluctuation band between 0 and 2%, it is becoming increasingly likely that the SNB will intervene more decisively on the exchange rate or on its key rates. The current level of 0.25% could quickly be lowered to 0%, opening the door to a return to negative key rates in Switzerland if the franc continues to strengthen. SNB President Schlegel has acknowledged that this remains an option. In our view, it is likely that the SNB will cut rates by 0.25% on June 19th in the hope of reversing the franc's appreciation. The Swiss Confederation's long rates (0.3%) are practically in line with short rates, but they could still slip to 0% in this deflationary environment. In our view, this environment is not conducive to further franc appreciation. After the appreciation phase of recent months, the SNB's policy should contribute to a phase of weakness in the coming months.



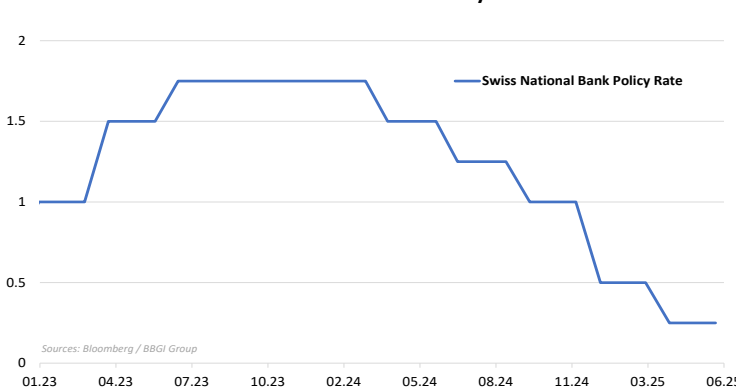
CPI YoY - Switzerland



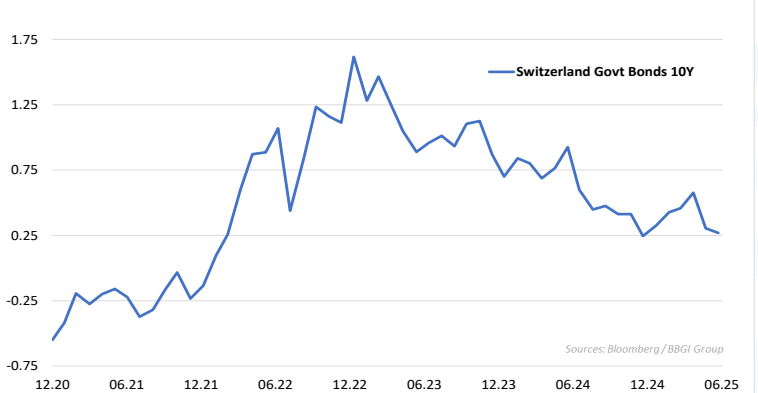
Swiss Francs Trade Weighted Index



Swiss National Bank Policy Rate



Switzerland Government Bonds 10Y Yield



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