

Swiss National Bank

# SNB keeps policy rate unchanged

**Economics Alert** | Investment horizon: 3-6 months | 24/09/2020, 09:19, UTC

**As expected, the Swiss National Bank (SNB) has maintained its policy rate unchanged at  $-0.75\%$ .**

**We are however skeptical whether the SNB will indeed intervene “more strongly” in the foreign exchange market, as mentioned in the press release.**

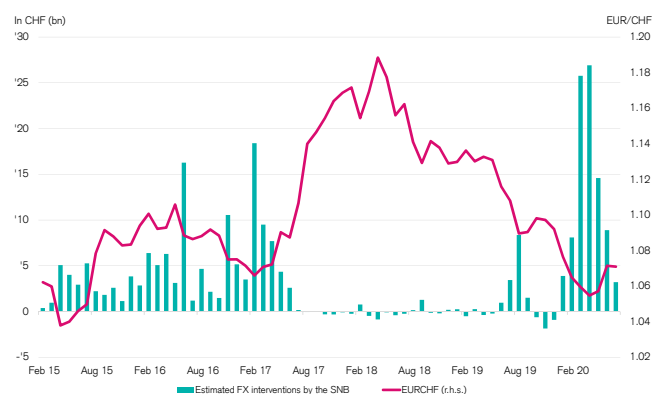
**Maxime Botteron**

Economist - Swiss Macro &amp; Strategy

## Willingness to intervene “more strongly” in the foreign exchange market

As widely expected, the SNB has maintained its policy rate unchanged at  $-0.75\%$  following its quarterly monetary policy assessment. The SNB continues to assess the Swiss franc as “highly valued” and reiterated its willingness to “intervene more strongly in the foreign exchange market, while taking the overall exchange rate situation into consideration.” We are surprised that the SNB expresses its willingness to intervene “more strongly” in the foreign exchange market, as it has reduced its interventions over the summer, according to our estimates. It remains to be seen whether the SNB will indeed translate words into action over the coming weeks and step up its foreign exchange interventions. Unless the Swiss franc appreciates again, we are not yet convinced that the SNB will indeed intervene “more strongly.”

## Estimated FX interventions by the SNB vs EURCHF



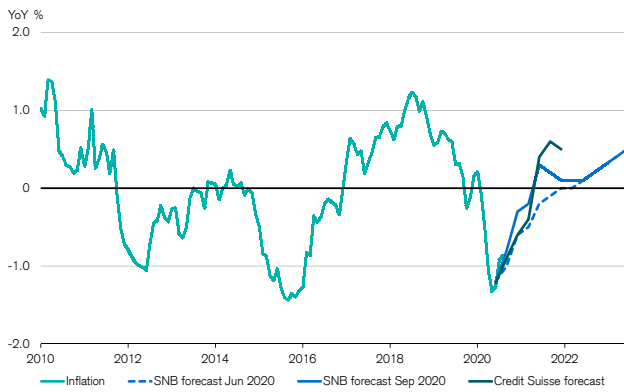
Last data point: July 2020. Source: Thomson Reuters, Credit Suisse/IDC

## Anecdotal forecast revisions

The SNB raised both its (short-term) inflation and GDP growth forecasts. The revision of the inflation forecast (see chart) is related to the rise in oil prices. The longer-term inflation forecast was left unchanged and remains on the lower half of the price stability definition of the SNB, thereby signaling that the SNB will maintain an accommodative monetary policy stance over its forecast horizon. As we expected, the SNB also raised its GDP forecast from “around”  $-6\%$  to “around”  $-5\%$  for 2020. This revision reflects the smaller-than-feared drop in GDP in the first half of the year. As usual, the SNB has not published GDP growth forecast for the next year. In our view, these revisions do not impact the monetary policy outlook. We continue to expect the SNB to maintain its policy rate unchanged over our forecast horizon, i.e. at least until the end of 2021.

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## Inflation forecast



Last data point: August 2020 (inflation rate). Source: Datastream, SNB, Credit Suisse

### SNB to show some goodwill to the US Treasury

In a separate statement, the SNB announced that it will publish additional data on money market operations and more frequent data on volume of foreign exchange

market interventions. Since November 2019, the SNB has been conducting open market operations more frequently (repos). From 30 September, the SNB will publish monthly data on the conditions and volume of individual monetary policy-related transactions, including the repos. In addition, the SNB will publish quarterly data on the volume of foreign exchange interventions for the previous quarter. In our view, this decision should be seen as a step to show some goodwill to the US Treasury, which has frequently “encouraged” the SNB to publish its interventions on a higher frequency basis in its report on “Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States.” Switzerland is indeed at risk of being labelled as “currency manipulator” by the US Treasury.

(24/09/2020)

## Risk warnings

Emerging markets	Emerging markets are located in countries that possess one or more of the following characteristics: a certain degree of political instability, relatively unpredictable financial markets and economic growth patterns, a financial market that is still at the development stage or a weak economy. Emerging market investments usually result in higher risks as a result of political, economic, credit, exchange rate, market liquidity, legal, settlement, market, shareholder and creditor risks.
Hedge funds	Regardless of structure, hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivative instruments and speculative investment strategies that may increase the risk of investment loss.
Commodity investments	Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss.
Real estate	Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.
Currency risks	Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency.
Equity risk	Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable.
Market risk	Financial markets rise and fall based on economic conditions, inflationary pressures, world news and business-specific reports. While trends may be detected over time, it can be difficult to predict the direction of the market and individual stocks. This variability puts stock investments at risk of losing value.
High Yield bond risk	High Yield Bonds are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default.
Perpetual Bond risk	Perpetual Bonds have no maturity date and therefore the Interest pay-out depends on the viability of the issuer in the very long term.
Subordinated Bond risk	In case of liquidation of the issuer, investors can only get back the principal after other senior creditors are paid.
Risk of Bonds with variable/ deferral of interest terms	Investors would face uncertainty over the amount and time of the interest payments to be received.
Callable bond risk	Investors face reinvestment risk when the issuer exercises its right to redeem the bond before it matures.
Risk of Bonds with extendable maturity date	Investors would not have a definite schedule of principal repayment.
Convertible or exchangeable bond risk	Investors are subject to both equity and bond investment risk.
Cocos risk	The bond may be written-off fully or partially or converted to common stock on the occurrence of a trigger event.

## Explanation of indices frequently used in reports

Index	Comment
Australia S&P/ASX 200	S&P/ASX 200 is an Australian market-capitalization-weighted and float-adjusted stock index calculated by Standard and Poor's.
BC High Yield Corp USD	The US Corporate High Yield Index measures USD-denominated, non-investment grade, fixed-rate and taxable corporate bonds. The index is calculated by Barclays.
BC High Yield Pan EUR	The Euro Corporate Index tracks the fixed-rate, investment-grade, euro-denominated corporate bond market. The index includes issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate EUR	The US Corporate Index tracks the fixed-rate, investment-grade, dollar-denominated corporate bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate USD	The IG Financials Index tracks the fixed-rate, investment-grade, dollar-denominated financials bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
Canada S&P/TSX comp	The S&P/TSX composite index is the Canadian equivalent of the S&P 500 Index in the USA. The index contains the largest stocks traded on the Toronto Stock Exchange.
Consumer Confidence Indices	Consumer Confidence Indices (CCIs) are based on surveys of consumers' spending intentions and economic situations, as well as their concerns and expectations for the immediate future.
CS Hedge Fund Index	The Credit Suisse Hedge Fund Index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index reflects performance net of all hedge fund component performance fees and expenses.
CS LSI ex govt CHF	The Liquid Swiss Index ex govt CHF is a market-capitalized bond index representing the most liquid and tradable portion of the Swiss bond market excluding Swiss government bonds. The index is calculated by Credit Suisse.
DAX	The German Stock Index stock represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange.
DXY	A measure of the value of the US dollar relative to the majority of its most important trading partners. The US Dollar Index is similar to other trade-weighted indices, which also use the exchange rates from the same major currencies.
Eurostoxx 50	Eurostoxx 50 is a market-capitalization-weighted stock index of 50 leading blue-chip companies in the Eurozone.
FTSE EPRA/NAREIT Global Real Estate Index Series	The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide.
Hedge Fund Barometer	The Hedge Fund Barometer is a proprietary Credit Suisse scoring tool that measures market conditions for hedge fund strategies. It comprises four components: liquidity, volatility; systemic risks and business cycle.
Japan Topix	TOPIX, also known as the Tokyo Stock Price Index, tracks all large Japanese companies listed in the stock exchange's "first section." The index calculation excludes temporary issues and preferred stocks.
JPM EM hard curr. USD	The Emerging Market Bond Index Plus tracks the total return of hard-currency sovereign bonds across the most liquid emerging markets. The index encompasses US-denominated Brady bonds (dollar-denominated bonds issued by Latin American countries), loans and Eurobonds.
JPM EM local curr. hedg. USD	The JPMorgan Government Bond Index tracks local currency bonds issued by emerging market governments across the most accessible markets for international investors.

MSCI AC Asia/Pacific	The MSCI All Country Asia Pacific Index captures large and mid cap representation across 5 developed market countries and 8 emerging markets countries in the Asia Pacific region. With 1,000 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
MSCI AC World	The MSCI All Country World Index captures large and mid cap representation across 23 developed markets and 23 emerging market countries. With roughly 2480 constituents, the index covers around 85% of the global investable equity opportunity set.
MSCI Emerging Markets	MSCI Emerging Markets is a free-float-weighted Index designed to measure equity market performance in global emerging markets. The index is developed and calculated by Morgan Stanley Capital International.
MSCI EMU	The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. With 237 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.
MSCI Europe	The MSCI Europe Index captures large and mid cap representation across 15 developed markets countries in Europe. With 442 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe.
MSCI UK	The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 111 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.
MSCI World	MSCI World is an index of global equity markets developed and calculated by Morgan Stanley Capital International. Calculations are based on closing prices with dividends reinvested.
OECD Composite Leading Indicators	OECD Composite Leading Indicators (CLIs) are designed to provide early signals of turning points in business cycles with components that measure early stages of production, respond to changes in economic activity, and are sensitive to expectations of future activity.
Purchasing Managers' Indices	Purchasing Managers' Indices (PMIs) are economic indicators derived from monthly surveys of private-sector companies. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the United States. The indices include additional sub-indices for manufacturing surveys such as new orders, employment, exports, stocks of raw materials and finished goods, prices of inputs and finished goods, and services.
Russell 1000 Growth Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe based on 1000 large-cap companies with higher price-to-book ratios and higher forecast growth values.
Russell 1000 Index	The Russell 1000 Index is a stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index (encompassing the 3,000 largest US-traded stocks, with the underlying companies all incorporated in the USA), and representing about 90% of the total market capitalization of that index. The Russell 1000 Index has a weighted average market capitalization of USD 81 billion and the median market capitalization is approximately USD 4.6 billion.
Russell 1000 Value Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe based on 1000 large-cap companies with lower price-to-book ratios and lower expected growth values.
Switzerland SMI	The Swiss Market Index is made up of 20 of the largest companies listed of the Swiss Performance Index universe. It represents 85% of the free-float capitalization of the Swiss equity market. As a price index, the SMI is not adjusted for dividends.
UK FTSE 100	FTSE 100 is a market-capitalization-weighted stock index that represents 100 of the most highly capitalized companies traded on the London Stock exchange. The equities have an investibility weighting in the index calculation.
US S&P 500	Standard and Poor's 500 is a capitalization-weighted stock index representing all major industries in the USA, which measures the performance of the domestic economy through changes in the aggregate market value.

## Abbreviations frequently used in reports

Abb.	Description	Abb.	Description
3/6/12 MMA	3/6/12 month moving average	IMF	International Monetary Fund
AI	Alternative investments	LatAm	Latin America
APAC	Asia Pacific	Libor	London interbank offered rate
bbl	barrel	m b/d	Million barrels per day
BI	Bank Indonesia	M1	A measure of the money supply that includes all physical money, such as coins and currency, as well as demand deposits, checking accounts and negotiable order of withdrawal accounts.
BoC	Bank of Canada	M2	A measure of money supply that includes cash and checking deposits (M1) as well as savings deposits, money market mutual funds and other time deposits.
BoE	Bank of England	M3	A measure of money supply that includes M2 as well as large time deposits, institutional money market funds, short-term repurchase agreements and other larger liquid assets.
BoJ	Bank of Japan	M&A	Mergers and acquisitions
bp	Basis points	MAS	Monetary Authority of Singapore
BRIC	Brazil, Russia, China, India	MLP	Master Limited Partnership
CAGR	Compound annual growth rate	MoM	Month-on-month
CBOE	Chicago Board Options Exchange	MPC	Monetary Policy Committee
CFO	Cash from operations	OAS	Option-adjusted spread
CFROI	Cash flow return on investment	OECD	Organisation for Economic Co-operation and Development
DCF	Discounted cash flow	OIS	Overnight indexed swap
DM	Developed Market	OPEC	Organization of Petroleum Exporting Countries
DMs	Developed Markets	P/B	Price-to-book value
EBITDA	Earnings before interest, taxes, depreciation and amortization	P/E	Price-earnings ratio
ECB	European Central Bank	PBoC	People's Bank of China
EEMEA	Eastern Europe, Middle East and Africa	PEG	P/E ratio divided by growth in EPS
EM	Emerging Market	PMI	Purchasing Managers' Index
EMEA	Europe, Middle East and Africa	PPP	Purchasing power parity

EMs	Emerging Markets	QE	Quantitative easing
EMU	European Monetary Union	QoQ	Quarter-on-quarter
EPS	Earnings per share	r.h.s.	right-hand side (for charts)
ETF	Exchange traded funds	RBA	Reserve Bank of Australia
EV	Enterprise value	RBI	Reserve Bank of India
FCF	Free cash flow	RBNZ	Reserve Bank of New Zealand
Fed	US Federal Reserve	REIT	Real estate investment trust
FFO	Funds from operations	ROE	Return on equity
FOMC	Federal Open Market Committee	ROIC	Return on invested capital
FX	Foreign exchange	RRR	Reserve requirement ratio
G10	Group of Ten	SAA	Strategic asset allocation
G3	Group of Three	SDR	Special drawing rights
GDP	Gross domestic product	SNB	Swiss National Bank
GPIF	Government Pension Investment Fund	TAA	Tactical asset allocation
HC	Hard currency	TWI	Trade-Weighted Index
HY	High yield	VIX	Volatility Index
IBD	Interest-bearing debt	WTI	West Texas Intermediate
IC	Credit Suisse Investment Committee	YoY	Year-on-year
IG	Investment grade	YTD	Year-to-date
ILB	Inflation-linked bond	Personal Consumption Expenditure (PCE deflator)	An indicator of the average increase in prices for all domestic personal consumption.

## Currency codes frequently used in reports

Code	Currency	Code	Currency
ARS	Argentine peso	KRW	South Korean won
AUD	Australian dollar	MXN	Mexican peso
BRL	Brazilian real	MYR	Malaysian ringgit
CAD	Canadian dollar	NOK	Norwegian krone
CHF	Swiss franc	NZD	New Zealand dollar
CLP	Chilean peso	PEN	Peruvian nuevo sol
CNY	Chinese yuan	PHP	Philippine peso
COP	Colombian peso	PLN	Polish zloty
CZK	Czech koruna	RUB	Russian ruble
EUR	Euro	SEK	Swedish krona/kronor
GBP	Pound sterling	SGD	Singapore dollar
HKD	Hong Kong dollar	THB	Thai baht
HUF	Hungarian forint	TRY	Turkish lira
IDR	Indonesian rupiah	TWD	New Taiwan dollar
ILS	Israeli new shekel	USD	United States dollar
INR	Indian rupee	ZAR	South African rand
JPY	Japanese yen		

## Important information on derivatives

Pricing	Option premiums and prices mentioned are indicative only. Option premiums and prices can be subject to very rapid changes: The prices and premiums mentioned are as of the time indicated in the text and might have changed substantially in the meantime.
Risks	Derivatives are complex instruments and are intended for sale only to investors who are capable of understanding and assuming all the risks involved. Investors must be aware that adding option positions to an existing portfolio may change the characteristics and behavior of that portfolio substantially. A portfolio's sensitivity to certain market moves can be heavily impacted by the leverage effect of options.
Buying calls	Investors who buy call options risk the loss of the entire premium paid if the underlying security trades below the strike price at expiration.
Buying puts	Investors who buy put options risk loss of the entire premium paid if the underlying security finishes above the strike price at expiration.
Selling calls	Investors who sell calls commit themselves to sell the underlying for the strike price, even if the market price of the underlying is substantially higher. Investors who sell covered calls (own the underlying security and sell a call) risk limiting their upside to the strike price plus the upfront premium received and may have their security called away if the security price exceeds the strike price of the short call. Additionally, the investor has full downside participation that is only partially offset by the premium received upfront. If investors are forced to sell the underlying they might be subject to taxing. Investors shorting naked calls (i.e. selling calls but without holding the underlying security) risk unlimited losses of security price less strike price.
Selling puts	Put sellers commit to buying the underlying security at the strike price in the event the security falls below the strike price. The maximum loss is the full strike price less the premium received for selling the put.
Buying call spreads	Investors who buy call spreads (buy a call and sell a call with a higher strike) risk the loss of the entire premium paid if the underlying trades below the lower strike price at expiration. The maximum gain from buying call spreads is the difference between the strike prices, less the upfront premium paid.

Selling naked call spreads	Selling naked call spreads (sell a call and buy a farther out-of-the-money call with no underlying security position): Investors risk a maximum loss of the difference between the long call strike and the short call strike, less the upfront premium taken in, if the underlying security finishes above the long call strike at expiration. The maximum gain is the upfront premium taken in, if the security finishes below the short call strike at expiration.
Buying put spreads	Investors who buy put spreads (buy a put and sell a put with a lower strike price) also have a maximum loss of the upfront premium paid. The maximum gain from buying put spreads is the difference between the strike prices, less the upfront premium paid.
Buying strangles	Buying strangles (buy put and buy call): The maximum loss is the entire premium paid for both options, if the underlying trades between the put strike and the call strike at expiration.
Selling strangles or straddles	Investors who are long a security and short a strangle or straddle risk capping their upside in the security to the strike price of the call that is sold plus the upfront premium received. Additionally, if the security trades below the strike price of the short put, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short put and will also experience losses in the security position if they own shares. The maximum potential loss is the full value of the strike price (less the value of the premium received) plus losses on the long security position. Investors who are short naked strangles or straddles have unlimited potential loss since, if the security trades above the call strike price, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short call. In addition, they are obligated to buy the security at the put strike price (less upfront premium received) if the security finishes below the put strike price at expiration.

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Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

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