

March 13, 2024

## Jordan Prepares To Land Last SNB Flight

### SNB to keep policy unchanged; current rate-cut pricing excessive

- Franc remains strong but not yet disinflationary
- SNB to confirm inflation target met through forecast horizon
- Jordan's September departure marks end of an era

### Policy bias to reflect price stability being met

What was expected to be a relatively staid run-up to the Swiss National Bank's Monetary Policy Assessment this month was punctuated by a [press release](#) on Feb. 29 revealing that current Chairman Jordan would step down at the end of September. His career at the SNB spanned 27 years, 12 of those at the helm. His term as Chairman was to run to end-2027, so his decision marks, by our count, the fourth consecutive SNB Chairman to depart early.

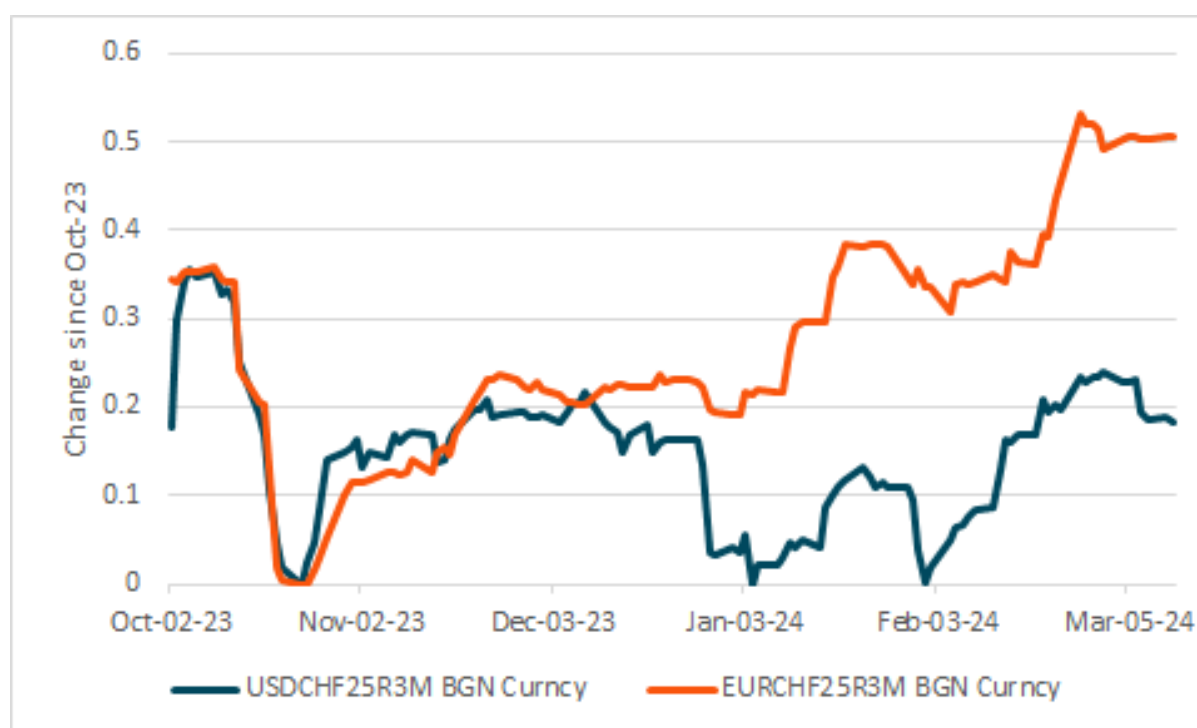
Jordan's remarks at the press conference announcing his decision may not have been intended to provide any form of monetary policy guidance, but there were some hints regarding the status quo. He commented that "monetary stability has been reached" and "Swiss price developments shows we did well". Assuming there were no translation issues, his use of the past tense here means that price stability in Switzerland has been achieved and inflation is expected to meet the operational target of "less than 2% per annum" through the forecast horizon. Given the SNB's December forecast round and CPI peaking at 2.0% in Q2 and Q3 of this year, below the 1.75% conditional forecast, Jordan's comments were valid. And considering that global price pressures and expectations were showing tentative signs of rebounding in early March, when he made the comments, it's also a sign that he and the SNB were not overly concerned about spillovers into Switzerland.

The challenge we see, therefore, is whether price stability under the SNB's definition can be maintained to the downside as well. For most of Jordan's tenure, it was disinflation and

deflation that were challenges before the pandemic radically shifted expectations. The sharp appreciation of the franc towards the end of the 2023 and uncertain global outlook over the medium terms means a shift in bias is likely necessary. The SNB was not ready to send such a signal in December but, with the latest ECB guidance and current Fed pricing, Switzerland faces very little prospect of imported inflation, and policymakers will now need to be mindful of domestic growth pressures arising from adverse external conditions.

Those concerns could explain FX and rates markets starting to change expectations on the franc's trajectory. Exhibit 1 shows changes in 3-month 25-delta USDCHF and EURCHF risk reversals since October. Since February, pricing has begun to shift in favour of a weaker CHF on crosses, even when two-months earlier these pairs were falling aggressively. Even after its recent pullback, the franc remains stronger on an annualised basis.

**Exhibit #1: Change In CHF Risk-Reversal Pricing**



Source: Bloomberg, BNY Mellon

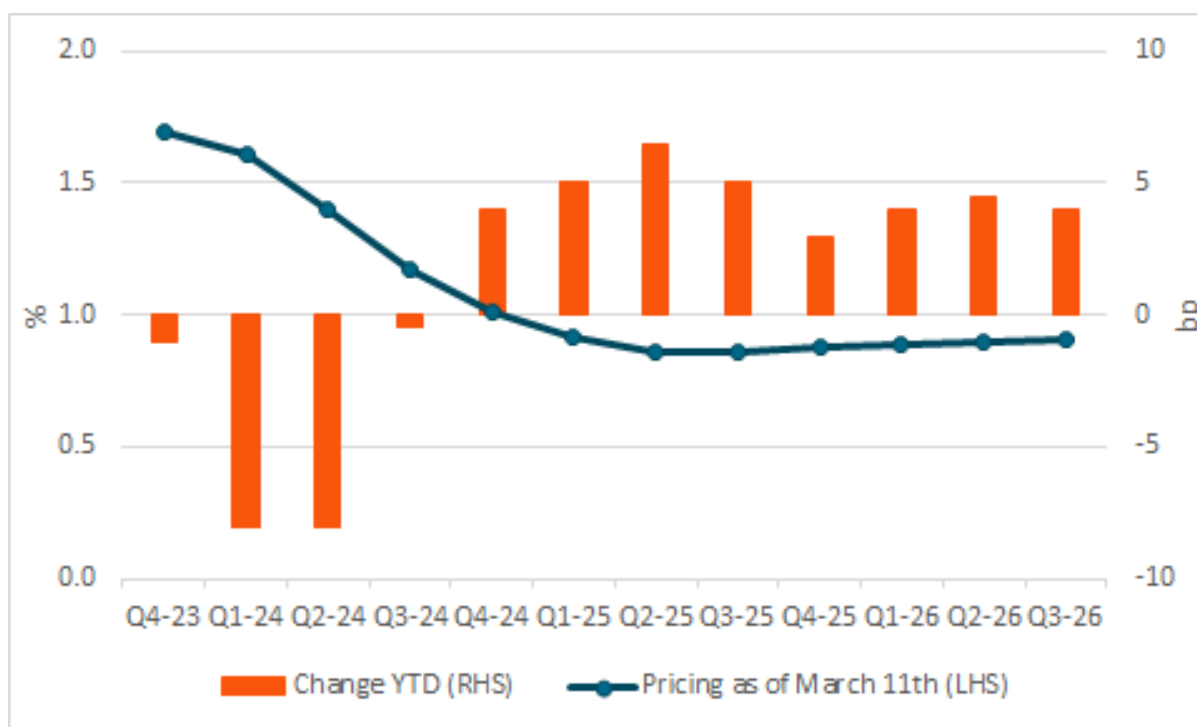
Being well-versed in the SNB's prior reaction function regarding excessive franc strength over the years, the market likely sees SNB intervention to sell the franc quite early on. This suggests that pricing-in strong downside in EURCHF and USDCHF offers unfavourable risk:reward when there is unlimited capacity on the other side. Even on an absolute basis, volatility will likely be capped due to the dampening effect of extreme balance-sheet easing.

However, as we highlighted in our review of the SNB's prior actions, the bar for using the balance sheet is very high – we doubt it will be deployed as a primary policy tool for the balance of Jordan's tenure. The policy rate will likely need to be cut to zero beforehand, and

at the SNB's pace of choice. If warranted, easing outside of the regular quarterly schedule is also possible. However, as exhibit 2 indicates, the market is not expecting policy rates to move to the zero lower bound through 2026, so re-engaging on the currency beyond smoothing operations appears out of the question.

There has, however, been a change in the shape of the SARON futures curve since the beginning of the year, whereby a higher chance of easing has been assigned for H1 2024 but future cuts priced out. The timing of the change can also explain the recent move in favour of downside risk for the franc in EURCHF and USDCHF (exhibit 1). Like in other G10 economies, on a cumulative basis the SNB is not expected to move as much, but the 'front-loading' of easing is incongruent with broader pricing of global inflation dynamics. This is most likely in response to near-term franc strength rather than domestic inflation. It appears overdone relative to fundamentals, in our view.

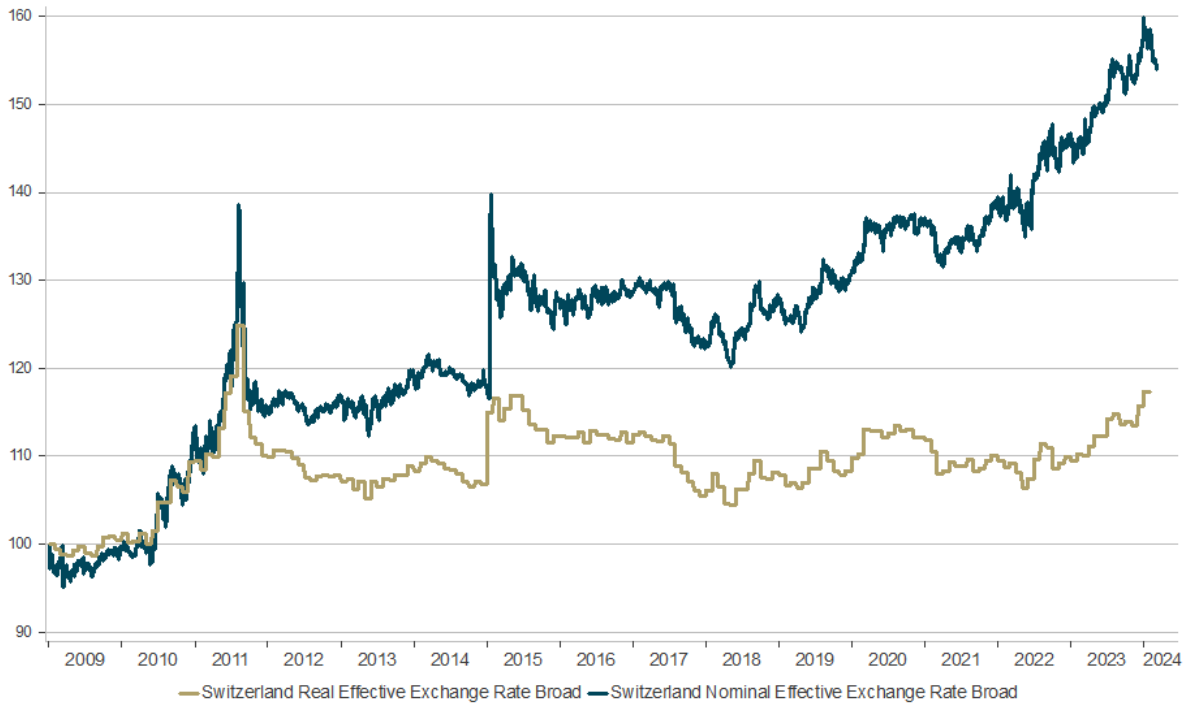
**Exhibit #2: Current SNB Expectations**



Source: Bloomberg, BNY Mellon

Exhibit 3 shows that the CHF Nominal Effective Exchange rate (NEER) has softened slightly in recent weeks but remains at historical highs. The CHF's Real Effective Exchange Rate (REER) has also continued to move higher, though the pace is being dampened by inflation differentials and levels remain below the extremes seen over a decade ago. While we do expect the SNB to react if needed were the franc to become disinflationary, the pace of the moves matter as much as the levels. By this criteria, even the NEER gain is not exceptional compared to the waves in 2010 and 2011.

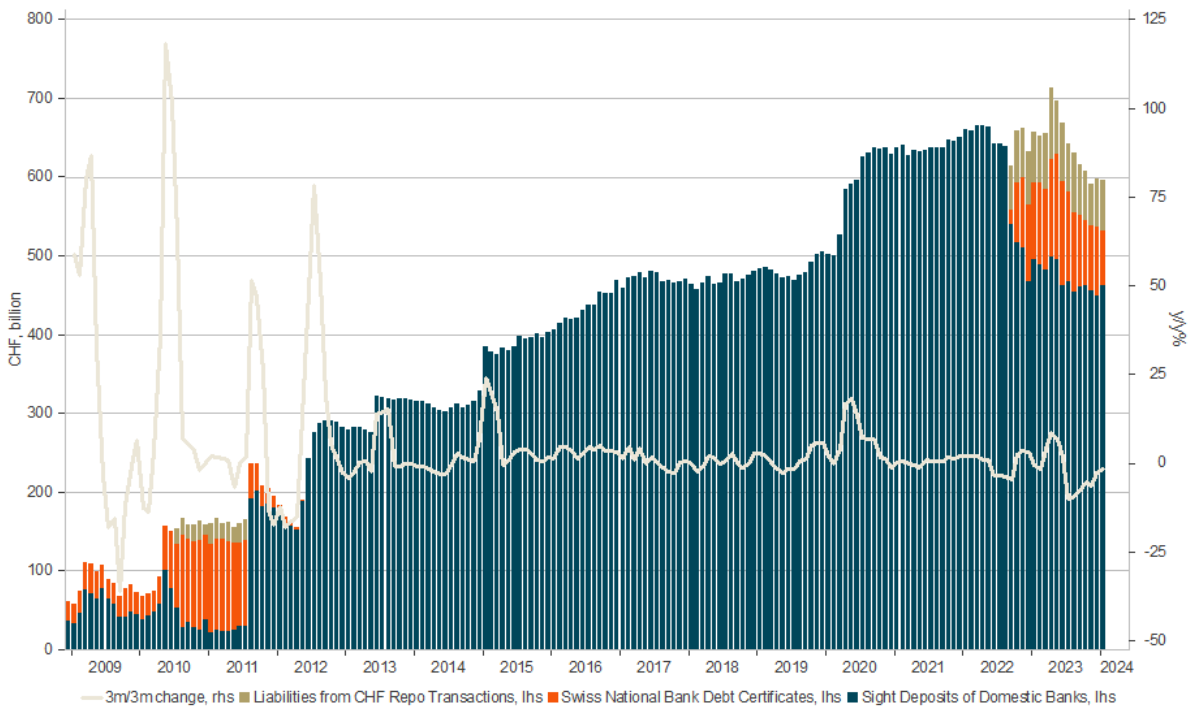
**Exhibit #3: CHF Nominal & Real Effective Exchange Rates**



Source: Macrobond, BNY Mellon

The pace of contraction of the SNB's balance sheet (exhibit 4) has started to slow and Sight Deposits have picked up gently, which normally would have been viewed as a sign of intervention. We stress that given the current ample level of SNB Bills and repurchase agreements which can revert to Sight Deposits upon maturity or open-market operations, there seems no urgency to use the exchange rate as a tool outright.

#### Exhibit #4: Composition And Change In SNB Balance Sheet



Source: Macrobond, BNY Mellon

Jordan's departure marks the end of an era. His tenure is already the longest since Gottlieb Bachmann, who presided as Chairman between July 1925 and March 1939. On the SNB's

own governance, Jordan offered no opinion on whether it would be right to bring in an external successor, as opposed to an appointment from within the SNB, which was his route and that of immediate predecessors. Nonetheless, an external candidate would not break precedent, as Edwin Stopper was appointed as SNB Chairman in 1966 after a career in the Federal Government. We take no view on the future chairman, but an external appointment could resurrect the notion that the SNB needs to retain what Jordan calls an “intelligent, but narrow” mandate under its next leader. Lessons are still being learned from developments last year, which briefly had Switzerland at the centre of global financial stability risk.

To quote Jordan’s parting speech one final time, “the global growth environment is not easy and the geopolitical environment is challenging”. All things considered, perhaps the future requires widening of that “narrow” mandate.

**Please direct questions or comments to: [iFlow@BNYMellon.com](mailto:iFlow@BNYMellon.com)**



**Geoff Yu**

**EMEA MACRO STRATEGIST**

**CONTACT GEOFF**



## **bnymellon.com**

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2020 The Bank of New York Mellon Corporation. All rights reserved.