
## Switzerland

The global stage is currently characterised by increasing geopolitical confrontations and growing uncertainties, which are increasingly impacting the financial markets, triggering inflation concerns and jeopardising the monetary policy course. Under these circumstances, however, Swiss market interest rates remain stable for the time being.

The inflation rate in March was 1.04% higher year-on-year and remained unchanged compared to the previous month (Figure 1). The downward trend is thus continuing. As a result, the inflation rate in the first quarter is once again below the SNB's expectations, which had formulated a conditional inflation forecast of 1.20%.

Despite the continued inflation trend and the interest rate cut in March, market interest rates in the medium and long-term segment remain at the same level as last month and are even significantly higher than at the start of the year (Figure 2). The expectation of a decline in fixed market interest rates has not yet materialised after the first key interest rate cut, although the reasons for this can be interpreted in different ways.

Market participants have left their expectation that the SARON rate will be close to 1.00% by the end of the year unchanged since the last monetary policy decision (Figure 3). In addition, the short-term expected one-year interest rate volatility shows a sustained downward trend, reflecting the unified conviction on monetary policy in the market. As a result, the current level of the yield curve does not signal any change in expectations regarding monetary policy in the short term. In fact, almost a full interest rate hike for June has already been priced in (Figure 4), which is also reflected in the short segment of the yield curve. The curve is lower in the one to two-year range than in the previous month (Figure 2).

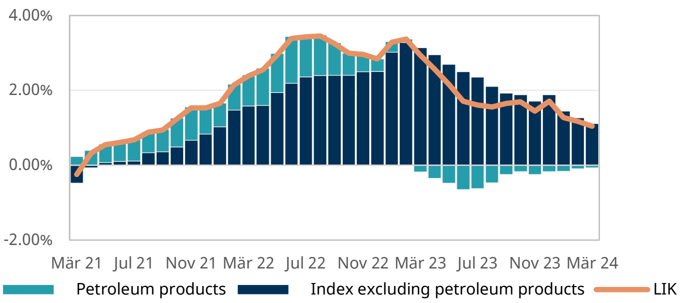
The rise or persistence in the longer-term segment of the yield curve is primarily due to increased uncertainty for short-term shocks with lasting negative effects. This can be seen in the increased implied interest rate volatility for longer maturities (Figure 3). These risk premiums can be attributed to a number of factors, including the decreasing probability of interest rate cuts by the Fed this year, rising oil prices and increased inflation risks due to geopolitical tensions as well as the general uncertainty regarding economic development.

In view of the complex geopolitical, monetary and economic situation, the effects of which are difficult to predict, it may make sense to opt for financing with short fixed terms in view of individual circumstances. This strategy makes it possible to benefit from the interest rate hikes that have already been priced in and to bridge the period of uncertainty without exposing oneself to risks that are difficult to calculate.

## Our expectation

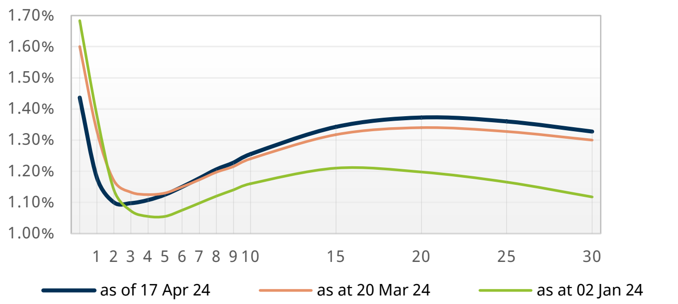
We continue to expect the SNB to cut the key interest rate again by 25 bps in June. Depending on inflation trends and the real development of the Swiss franc, a cut of 50 bps cannot be ruled out. We consider a key interest rate of 1.00% to be realistic by the end of the year.

### Figure 1: The national consumer price index (CPI)



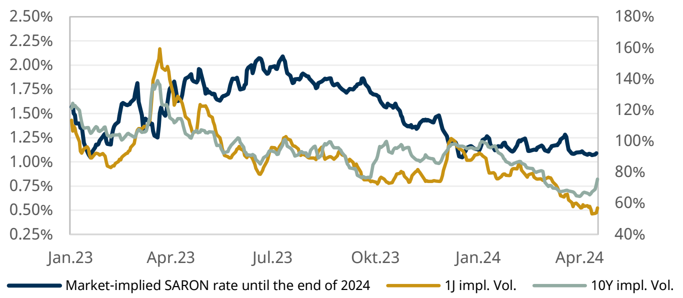

**Note:** Contributions to the previous year's change in consumer prices in Switzerland with the exclusion of petroleum products.
**Source:** Data from BfS, as at 18/04/2024

### Figure 2: Interest rate swap curve



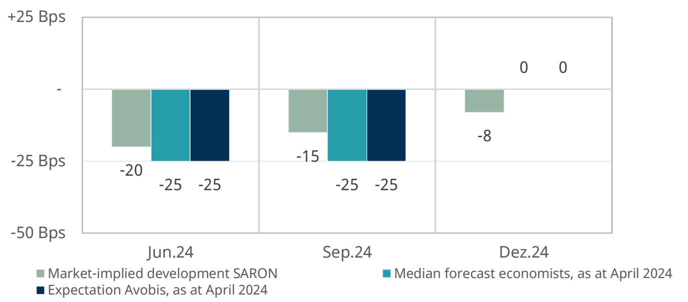

**Note:** The swap curves serve as a graphical representation of the underlying interest rate structure on the Swiss swap market. The respective swap rates as at the reporting date for the different maturities (in years) together form the swap curve.
**Source:** Data from Refinitiv Eikon, 18.04.2024

### Figure 3: Market expectation SARON and interest rate volatility




**Note:** The chart illustrates the historical development of the market-implied SARON interest rate, which is priced in until the end of 2024 (left axis). This is derived from the interest rate swaps. It also shows the market-implied interest rate volatility for 1-year and 10-year swap rates (right axis), which are determined from the corresponding OTC swaptions that expire within the next three months.
**Source:** Data from Bloomberg, Refinitiv Eikon, as at 18/04/2024

### Figure 4: Market expectations & forecasts for the SARON rate and SNB key interest rate




**Note:** The market-implied forecast for the SARON rate is derived from the interest rate swaps. The economists' forecast is based on regular surveys by Bloomberg.
**Source:** Data from Bloomberg, Refinitiv Eikon, Avobis, as at 18 April 2024


## Abroad

The monetary policies of the ECB and the Fed are increasingly diverging. While the extent to which the ECB will lower its interest rates is being discussed, the debate at the Fed is increasingly focussing on whether interest rates will be lowered at all this year.

In the US, inflation has gained momentum again in recent months, indicating a possible trend reversal (Figure 5). The data collected in recent months, which exceeded expectations, is largely attributable to rising rental prices. There has also been an increase in producer prices. These developments indicate that inflation rates in the coming months are likely to be higher than currently assumed.

Expectations for interest rate cuts by the Fed this year have therefore once again weakened noticeably (Figure 6). At the beginning of the year, the forecast of six interest rate cuts was still considered the most likely. Currently, however, the market is only expecting around two rate cuts, which would correspond to a total reduction of 50 bps by the end of the year. The "higher for longer" premise remains in place and there is a substantial probability that there will be no cuts at all this year.

This is contributing to a rise in market interest rates along the yield curve. The recent rise in yields on ten-year government bonds is particularly noteworthy (Figure 7). As long-term inflation expectations remain unchanged, real yields are also remaining at a high level. This corresponds with a surprisingly resilient US economy. However, whether the current strong growth can be extrapolated into the future - especially in an environment of high and persistent interest rates - remains uncertain.

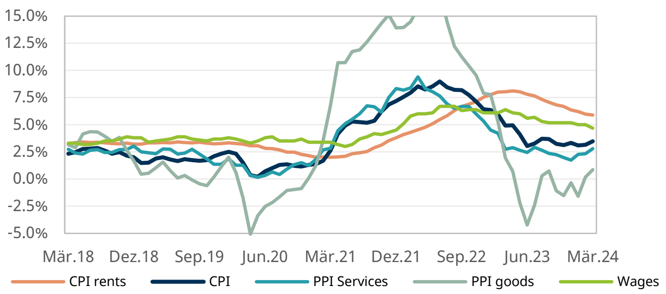
Inflation in the eurozone is slowly approaching the target value of 2.0%, strengthening expectations of an interest rate cut in June. Particular attention is being paid to the data on wage trends for the first quarter, which will be published in May (Figure 8). If the downward trend in wage growth rates proves to be consistent, the ECB could see this as a suitable time to cut interest rates and initiate appropriate measures. The latest wage data from the online job market Indeed confirms the continuation of this downward trend.

Interest rate derivatives are currently pricing in at least a 25 bps cut in the two central bank meetings before the summer break.

## Our expectations

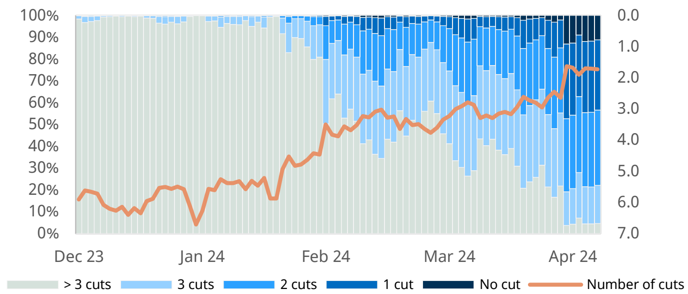
We continue to assume that the data situation will give the ECB sufficient reason to initiate an initial rate cut of 25 bps by June. We now expect the Fed to very probably refrain from cutting interest rates until the summer break, until the inflation risks subside.

### Figure 5: Inflation trend in the USA



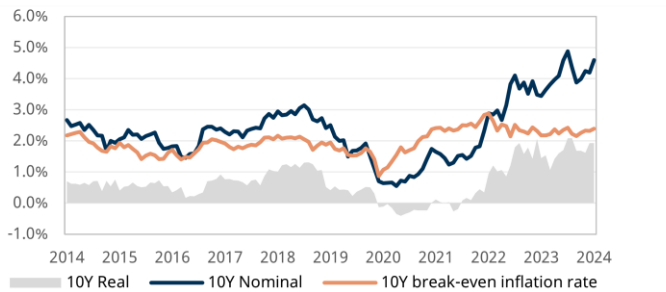

**Note:** The chart shows the historical development of the annual rates of change of various US consumer and producer price indices. The CPI rental price index is based on owner-equivalent rents. The wage price development shown corresponds to the 3-month moving average of the weighted median hourly wage.
**Source:** Data from Fred, as at 18/04/2024

### Figure 6: Historical development of the probabilities of Fed rate cuts until the end of 2024



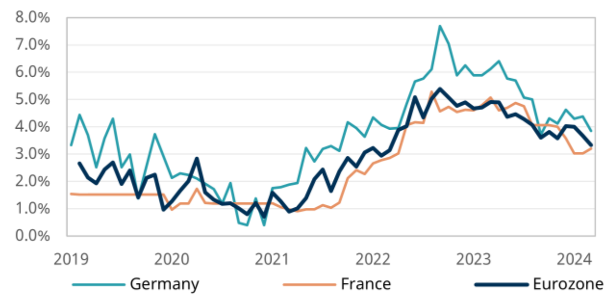

**Note:** The chart shows the market-implied probabilities of Fed rate cuts up to 18 December 2024, the date of the last annual meeting (left axis). It also illustrates the historical development of the number of interest rate hikes priced in (in quarter percentage points, right axis).
**Source:** Data from CME Group, as at 18/04/2024

### Figure 7: Development of the 10-year US bond yield




**Note:** The chart shows the development of the 10-year US bond yield in nominal and real terms as well as the 10-year break-even inflation rate, which can be interpreted as a market-implied long-term inflation expectation.
**Source:** Data from FRED, as at 18/04/2024

### Figure 8: Wage trends in the eurozone




**Note:** The chart shows wage trends compared to the same month of the previous year for various regions.
**Source:** Data from GitHub, Indeed, as at 18/04/2024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