Flash boursier N° 732
18 December 2023

Major central banks leave rates unchanged

Overview

Last week's much-anticipated meetings of the major central banks did not disappoint investors, with rates held steady across the board. The rate-setters reiterated the importance of not getting carried away with inflation expectations and, as a result, rate cuts for 2024 – even though much has been done to cool prices.

In the US, the FOMC brought to an end the highly repressive tightening cycle that began in 2022, leaving the Fed Funds rate at 5.25% to 5.5%. As this move was widely expected, interest shifted to what Powell would say. Powell was clearly keen to reassure the markets, so he was eager to point out that the projections were not a pre-determined roadmap.

Nevertheless, a look at the minutes reveals a change in tone, with Fed officials now monitoring the data to see if "any" further tightening would be appropriate. The challenge now is to decide when to start cutting rates. The consensus is currently pegged at 75 basis points, with the first quarter-point cut priced in for March 2024.

The 'when to cut rates' conundrum

In the immediate aftermath of the meeting, the 10-year Treasury yield fell below 4% for the first time in four months.

Here in Europe, the ECB also remained dovish at its last meeting of the year. It also left its three benchmark policy rates in a range of 4% to 4.75% and announced that it will no longer roll over bonds maturing under its Emergency Pandemic Purchasing Programme (EPPP) from July 2024. Christine Lagarde stated that rate cuts were not under discussion and that there would be an unspecified transition period before moving to an easing phase.

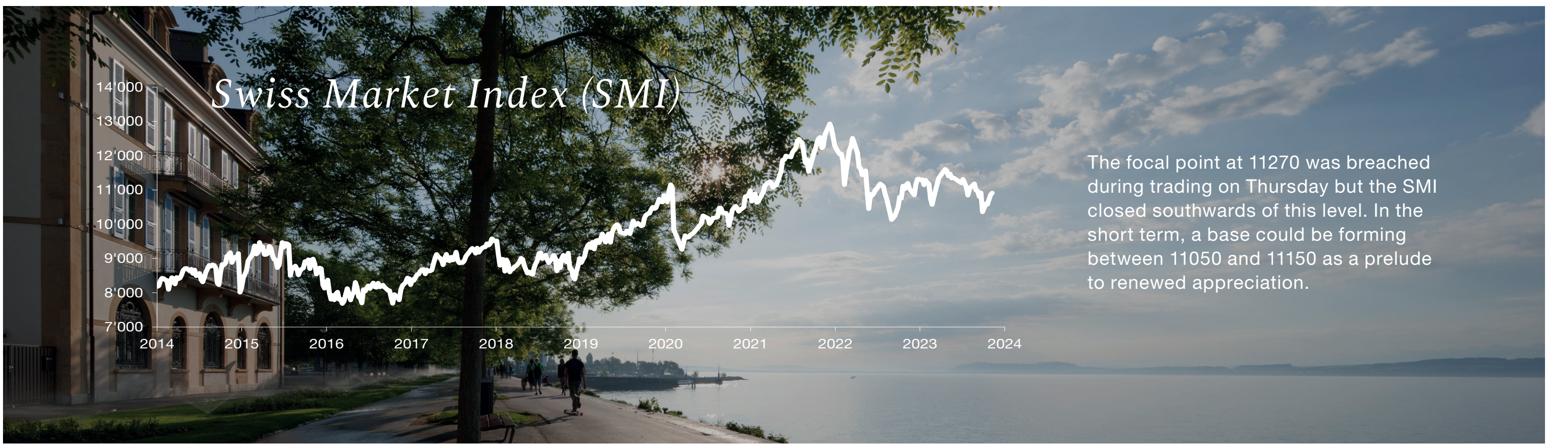
The Governing Council is unanimous in its view that rates will be cut later than markets expect. Some members were concerned about the extent of the easing priced in by investors. Despite Ms Lagarde's cautious remarks on rate cuts, investors are pricing in a 150bp cut in rates by 2024, compared with the start of the year.

In Switzerland, the SNB kept policy on hold, dropped talk of a possible future hike and put less emphasis on selling foreign exchange.

SNB on hold

The S&P 500 ended the week ahead by 2.49% while the tech-focused Nasdaq swung upwards by 2.85%. The Stoxx 600 Europe index edged up by 0.92%.

This week, the markets will be paying close attention to the PCE and GDP growth figures out of the US (Thursday) and, before that, November inflation figures for the Eurozone (Tuesday).



Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.87	0.95	11'191.89	4'549.44	16'751.44	7'596.91	7'576.36	4'719.19	14'813.92	32'970.55	1'000.89
Trend	→	→	↑	↑	↑	↑	→	↑	↑	→	↑
YTD	-5.89%	-4.22%	4.31%	19.92%	20.31%	17.35%	1.67%	22.91%	41.54%	26.35%	4.65%

(values from the Friday preceding publication)

Swiss National Bank (SNB)

As widely expected, the SNB left its key rate unchanged at 1.75% at last week's meeting. We do not expect any rate cuts before the second half of next year. The easing of inflation around the globe and the gloomier economic outlook for the planet have prompted central banks in the developed world to hit the pause button on monetary tightening.

Despite continued strong domestic demand, the Swiss economy is being dragged down by the weak global economy. Inflation in neighbouring countries has had a limited impact on prices in Switzerland, as the appreciation of the Swiss franc has largely offset the increases.

We expect consumer price inflation to remain below 2% next year, but secondary effects such as upward pressure on rents, rising electricity prices and new tax rates are likely to prevent it from decelerating as quickly as it could. For 2024, we expect below-average GDP growth of 1.2% in Switzerland.

Against this backdrop, we expect the SNB to keep its benchmark policy rate at 1.75% for the next few quarters in view of the current downturn, and then to lower it in the second half of the year once it has established that the economic slowdown is having a sustained dampening effect on core inflation.

We expect the benchmark policy rate in the range of 1.25-1.5% by end-2024 alongside weaker growth and inflation below 2%.

The real appreciation of the Swiss franc has reached the point where the SNB would normally become more cautious and try to pour cold water on the exchange rate. However, we do not forecast a sharp depreciation of the franc as the SNB wants to consolidate its balance sheet and put the money supply on a stable long-term trajectory, which limits its ability to weaken the currency.

Contact

Julien Stähli
Chief Investment Officer (CIO)
MBF Boston University

Pierre-François Donzé
M. Sc. in Economics

Karine Patron
MScF Université de Neuchâtel

David Zahnd
MScAPEC Université de Neuchâtel

Bertrand Lemattre
MScF Sciences Po Paris

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / contact@bonhote.ch

facebook.com/banquebonhote
linkedin.com/company/bonhote
twitter.com/alexnvincent
instagram.com/banquebonhote
youtube.com/banquebonhote1815