Interest rates

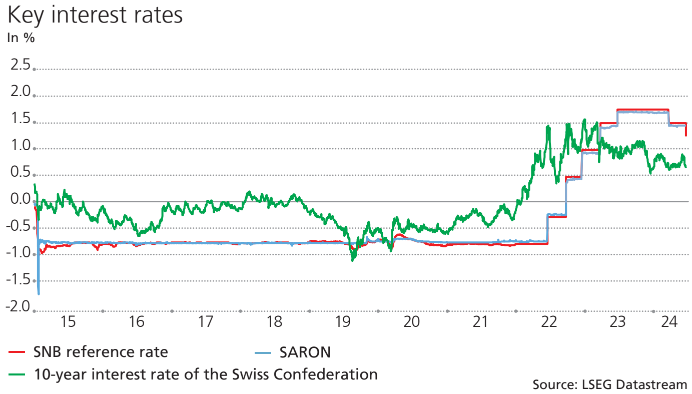
June 2024

Evolution & Outlook

More than just political sensitivities

Yield curves for government bonds have barely moved following the latest meetings of various central banks. Despite the announcement of monetary policy stabilisation, US government bonds fell by around 20 basis points, with the exception of two-year bonds, which stand at just under 4%. But the anchoring of expectations has allayed fears about inflation; although it has been falling only slightly, this anchoring is helping limit swings, just like in Europe and Switzerland. The key interest rate cuts by the European Central Bank (ECB) and the Swiss National Bank (SNB) have been well received by the markets and quietly priced in. The SNB's decision to cut its key interest rate in June by 0.25% was fuelled by controlled inflation, moderate economic activity, a slowdown in mortgage lending, the recent appreciation of the Swiss Franc and the ECB's cautious stance. Does this mean that investors remain unimpressed by the political situation in Europe and the international geopolitical environment? Let's take a closer look at the economic and financial variables that transmit these risks; currencies and commodity prices are the main markers. Since the European elections and Emmanuel Macron's move to dissolve the National Assembly, the euro has barely reacted. The expected entry of far-right parties into the European parliament of more than 25% is not being considered a major change of course. Investors are mainly questioning and penalising national sovereign debt rather than the common currency. As an example, there is of course the rise in risk premiums on French debt by 20 basis points. But similar rises can be seen in Italian, Greek, Spanish and Portuguese debt, though in no way to the extent seen in the sovereign debt crisis of 2011. Let's hope that the lessons learned from the last decade and the recent agreement to re-establish European budgetary regulations, and to better respect them this time, will help avoid political acrobatics.

Key interest rates



Source: LSEG Datastream

In Switzerland, negotiations with Europe are being relaunched after a breakdown in talks concerning bilateral agreements. Although the United States now tops the list of trading partners for goods exports, the eurozone remains a partner of choice and proximity. The exchange of talent and expertise, participation in and the coordination of research programmes (Horizon, Iter, Erasmus) are proving crucial for Swiss businesses and their competitiveness, as well as for raising Swiss university research centres in international rankings. If recent immigration statistics (showing a majority of new immigrants coming from within Europe) can be trusted, the attractiveness of Switzerland and its globalised urban centres does not seem to have diminished; employment figures rose rapidly in the first quarter of the year (+1.8%), as did the rankings of ETH Zurich and EPFL (the Swiss Federal Institutes of Technology in Zurich and Lausanne). There has also been a 1.5% annual increase in residential prices (with greater increases in urban centres). The nature of the jobs created in personal services, healthcare, education and accommodation reflects the attractiveness and growth of the resident population in filling new positions. The +0.3% in value creation in the first quarter confirms this assessment. Such added value has been bolstered in particular by the hospitality industry and corporate investments, given companies' visibility has improved and the risk of recession has eased significantly. The 0.3% rise in consumer prices over the month of May and the 1.4% rise over the year have mainly been due, as in the recent past, to higher rents for housing and higher prices for international package holidays, with the rise concentrated in services and imported goods down.

But are the attractiveness, the robust economy, controlled inflation and the special case of Switzerland really the reasons for the recent appreciation of the Swiss franc? After a rather weak May, the franc strengthened again in June against both the euro and the dollar, even before the European elections. This rise in the value of the currency has more than offset Switzerland's price advantage over its trading partners, leaving the real effective exchange rates (measured in terms of consumer and producer price inflation) to return to the levels seen at the end of 2023, burdening export-oriented manufacturers. However, it is a little hard to see such appreciation as a move to a safe haven of political stability. Especially since the dollar and euro have hardly moved against each other. Is this moreso a case of balance sheet management on the part of the SNB, which is looking to take some profits from its foreign assets? The forthcoming publication of SNB statistics will test the reality of these hypotheses. In the meantime, Switzerland's resilience, underlined by its stability in bonds and mortgages, is helping to keep fixed rates close to the levels seen since their rise, while variable rates, which depend on the SARON and the key interest rate, have a margin of decline limited to 0.50%.

3-month interest rates	31.05.2024	3 months	12 months
Switzerland	1.45	1.00	1.00
Eurozone	3.79	4.00	3.00
USA	5.60	5.25	4.50
10-year interest rates			
Switzerland	0.89	0.80	1.20
Eurozone	2.63	2.50	2.50
USA	4.49	4.30	4.50

Source: Refinitiv Datastream & BCGE outlook

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