Interest rates

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January 2022

Evolution & outlook

The reins are being tightened

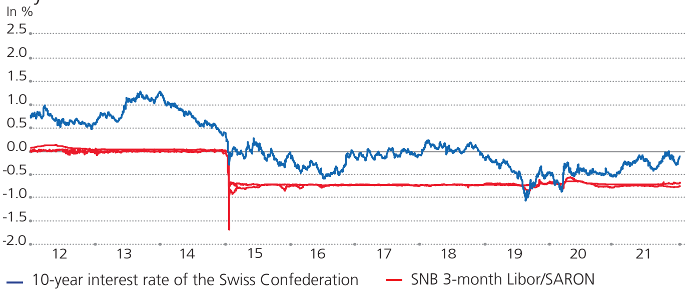
2021 was the year of the economic recovery. Interest rates remained stable in an environment of renewed volatility. They rose only slightly, despite robust growth and high inflation. Even in the US, the 10-year Treasury rate rose by less than 60 basis points. While this weakness is partly due to structural forces, central bank intervention has kept interest rates low. 2022 will be a year of transition with monetary policies becoming less tolerant. They will remain accommodative but will gradually move away from being unconventional. The Fed has been reducing the pace of its asset buybacks since November 2021. It reached USD 90 billion in December and will be reduced to USD 60 billion per month in January 2022, half the monthly programme of the beginning of 2021. At this pace, the process would be completed by mid-April and it could then proceed with two rate hikes in 2022. The ECB has also started to normalise its monetary policy. It will remain accommodative - to stabilise inflation around its 2% target in the medium term - but will also start reducing the volume of its interventions. Next year it will phase out the exceptional stimulus package introduced in 2020; the Pandemic Emergency Purchase Programme (PEPP) will end in April 2022 and the pre-existing Asset Purchase Programme (APP) will take over, but on a smaller scale of €40bn in Q2 and €20bn at the end of the year. Nevertheless, there are no policy rate hikes on the horizon in Europe. There is no change in sight for the SNB, which decided in December to continue its expansionary policy. It is maintaining its policy rate at -0.75% and will continue to intervene in the foreign exchange market if necessary.

2021 was marked by the return of inflation after more than a decade of disinflation, low inflation and even deflation. The guarantors of price stability have long been concerned about sluggish consumer prices. While too much inflation is a cause for alarm for central banks, too little inflation is not desirable either. In 2021, it is the lack of supply - hampered by the continuing pandemic, logistical disruptions and shortages of certain materials (e.g. semiconductors) - against the background of a strong recovery and pressure on energy prices that has led to an acceleration in prices. But wage growth remains moderate, with some exceptions. Without an inflation-wage spiral (second round effect), inflation should slow down, especially as companies are investing massively in production capacity and research and development, a source of innovation and productivity gains likely to compensate for any wage increases.

In Switzerland, the consumer price index fell by 0.1% in December compared to the previous month. In contrast, year-on-year inflation remained at 1.5%, driven by statistical effects and fluctuating energy prices. Core inflation did not exceed 0.8%. In 2021 average inflation was 0.6% and inflation expectations, both in the short and medium to long term, remain within a range of price stability.

On the foreign exchange front, the Swiss franc continued to appreciate in December, breaking through the EUR/CHF 1.04 barrier and approaching 1.03, a level not reached since 2015. The SNB's interventions in the foreign exchange market were limited in 2021 and the current trend reflects the fundamental forces driving the appreciation of the Swiss currency over the long term, in particular the excess savings accumulated by the Swiss economy.

Key interest rates



Source: Thomson Reuters Datastream

Outlook for the interest rate and mortgage yield curve

In 2021, long-term interest rates moved away from historical lows, but did not soar. Despite the start of tapering, the recovery and inflationary fears, interest rates ended the year with a moderate rise. Policy rates will be gradually tightened from 2022 in the United States, and later in the eurozone and Switzerland. Low interest rates and (still existing but less) abundant liquidity are still the order of the day. **US, European and Swiss interest rates will start to rise, but within a low band**. All these factors do not suggest any changes in the mortgage yield curve. At most, there could be adjustments to the lowest interest rates. None of this is likely to have any impact on the strong Swiss franc, even if the future development of trade and financial relations with Europe, the USA and China will not leave it unscathed. **The strong Swiss franc and low interest rates are here to stay at least for the foreseeable future**.

Interest rates 3 months	31.12.2021	3 months	12 months
Switzerland	-0.69	-0.75	-0.75
Eurozone	-0.57	-0.50	-0.40
USA	0.21	0.25	1.25
10-year interest rates			
Switzerland	-0.13	-0.20	0.00
Eurozone	-0.18	-0.20	0.10
USA	1.50	1.50	2.10

Source: Refinitiv Datatream & BCGE outlook

Banque Cantonale de Genève - Quai de l'Ile 17 - 1204 Geneva - Telephone: +41 58 211 21 00 - info@bcge.ch - bcge.ch