Source: UBS

SNB lowers key interest rate again

24 June 2024, 1:27 pm CEST, written by Daniel Kalt

After the Swiss National Bank (SNB) lowered the key interest rate again in June, the Swiss franc may weaken slightly in the short term. In the medium to long term, political uncertainties and the anticipated interest rate cuts in the US suggest a stronger franc.

The die is cast. After the Swiss National Bank (SNB) adjusted the interest rate in March, it is now lowering its key interest rate again in June by 25 basis points to 1.25 percent. Market observers were divided over the past weeks regarding their assessment of whether an interest rate cut would come in June or not. In March, the inflation rate in Switzerland was a reassuring 1.0 percent and then unexpectedly rose to 1.4 percent by May.

In the Eurozone, the European Central Bank (ECB) lowered the deposit rate for the first time from 4.0 to 3.75 percent at the beginning of June. However, the ECB made it clear that further interest rate cuts are by no means guaranteed and depend on future data. Recently, the Federal Reserve (Fed) also surprised us. Not so much by keeping the key interest rate unchanged at its latest meeting two weeks ago, but by signaling through its "dot plot" that it plans to cut the fed funds rate only once this year. Given the clearly slowed pace in the interest rate cut cycle of the most important foreign central banks for the SNB, it is somewhat surprising that the SNB intends to continue its cadence of interest rate cuts.

The SNB's interest rate decision is now expected to cause movement in the currency markets. After the franc had gained some ground in recent weeks, it is likely to show some weakness in the short term. Investors can use such periods of weakness to hedge their US dollar positions. In the medium to long term, the USDCHF trend will likely depend on when and how aggressively the Fed will lower its key interest rate and how much uncertainty the US elections will bring. The same applies to EURCHF for the ECB and the upcoming elections in Europe. Overall, we see the franc continuing to appreciate into next year.

In our base scenario, we expect the interest rate cut cycle of the major central banks to continue cautiously throughout the year. Therefore, investors should consider how to invest their increasingly less interest-bearing, excess cash reserves. In addition to the classic equity or bond segments, we also see interesting investment opportunities in a broad range of commodities. We expect the price of a barrel of Brent crude oil to rise to about USD 87 by the end of the year (from just under USD 84 at the time of writing) due to solid demand and OPEC+'s efforts to balance the market. Risk-tolerant investors should consider selling the downside risks of Brent to generate returns.

For copper, we expect the market to remain in a deficit from a fundamental perspective and forecast that the metal will reach USD 11,500 per metric ton by the end of the year (from just under USD 9,500 per metric ton currently). Additionally, we see upside potential for gold and silver. In our base scenario, we forecast that the gold price will rise to USD 2,600 by the end of the year and to USD 2,700 per ounce by mid-2025. In recent years, gold purchases by central banks in emerging markets have increased, partly due to concerns about the risks of potential US sanctions on US dollar reserves. Furthermore, we see the yellow metal as an effective hedge against heightened fears of geopolitical polarization, the US deficit, and/or higher inflation ahead of the US elections.

We also expect the silver price to rise to USD 38 per ounce by mid-2025, with industrial demand benefiting from increased use in renewable energy and electronics.

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