Interest rates

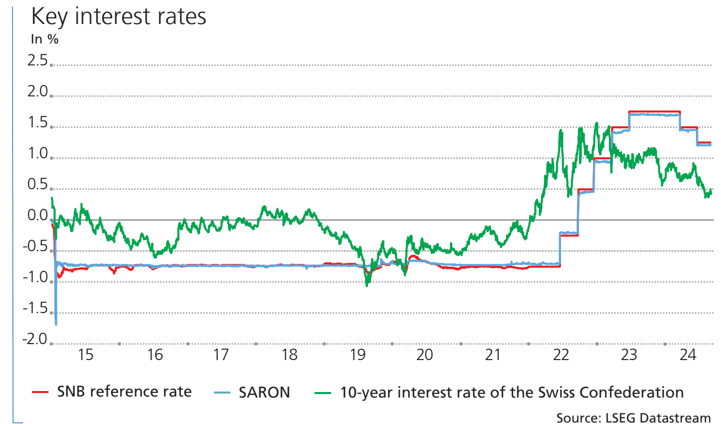
September 2024

Evolution & Outlook

Breaking through the wall of fear

During the summer, bond markets did not move in unison, particularly concerning cuts. In the United States, the rapid decline in inflation expectations and the return of volatility in early August accentuated the fall in rates. Unemployment figures and the lower number of jobs created in the US are at fault, indicating less dynamic growth (without however signalling a recession). A knee-jerk reaction on the markets quickly followed, reviving expectations of rate cuts by the Fed. Two-year yields went on to lose nearly 100 basis points in just a few weeks. The Jackson Hole forum signalled the end of the summer break for central bankers and academics. In his introduction, Fed Governor Jerome Powell sought to reassure financial markets about the short-term outlook for rate cuts. The symposium, on the other hand, focused on longer-term structural issues. Demographic and technological transitions were at the heart of the debate focused on the transmission of the monetary policy to the economy. From the Phillips and Beveridge curves to inflation expectations, the Forum participants agreed to distinguish the current inflationary context. The persistence of many vacancies despite the economic slowdown results from the demographic structure (baby boomers leaving the labour market) which influences the impact of a restrictive monetary policy on growth, and on the slow rise in unemployment. While the monetary context is reassuring for growth, it intensifies the effects of a supply shock (and the lengthening of delivery times) on inflation, as recorded after the Covid-19 crisis. Demographic, technological and energy transitions can quickly activate inflationary pressures resulting from the shortage of resources (labour and commodities). Faced with this risk, well-anchored inflation expectations, transparent communication on monetary intentions (forward guidance) and the debt market all make it possible to calibrate and specify the use of monetary tools necessary to reach a certain equilibrium interest rate; this rate must be able to promote growth without activating the new sensitivity of inflation to the structural environment. The concerns of the monetary authorities undoubtedly go far beyond the "short-term" horizon of economic momentum indicators.

In Switzerland, the economic markers are in the green. Growth in national wealth in Q2 proved to be dynamic, increasing by 0.7% over the period and bringing annual growth close to its potential of 1.7%; resilience of economic players and acceleration of exports make up this activity, aided by inflation of 1.1%, entirely within the acceptable range of the SNB. Business surveys are also improving, indicating that the inflection point in value added creation has been passed.



The context therefore lends itself to a rate cut in September, especially since the Swiss franc has regained all the value lost during the first half of 2024, against both the euro and the dollar (returning to the levels at the start of the year). By correcting the Swiss franc for domestic price inflation differentials, consumers are not harmed, but exporters, faced with producer price differentials, are experiencing a stronger appreciation, of almost 3% since the start of the year.

Faced with falling international yields and a stronger Swiss franc, the Confederation's benchmark yield curve has also flattened, breaking through the lows; limited supply and opportunistic demand once more underline Switzerland's solid financial situation. Swap market rates have also adjusted, setting fixed mortgage reference rates closer to 2%, after reaching 3% in 2023. September will again be marked by central bank meetings ready to start or continue easing their benchmark rates, leading the SNB further in this direction. However, despite the proven anchoring of inflation close to central bank targets, the excessively bearish inflation expectations of recent weeks should interrupt the flattened trend in long-term reference rates, particularly the 10-year rate; a return to the upper range of fluctuations is more likely, as evidenced by the reference rate targets below.

3-month interest rates	31.08.2024	3 months	12 months
Switzerland	1.22	1.00	1.00
Eurozone	3.49	3.50	3.00
USA	5.28	5.00	4.25
10-year interest rates			
Switzerland	0.46	0.60	1.20
Eurozone	2.23	2.40	2.50
USA	3.92	4.00	4.50

Source: Refinitiv Datastream & BCGE outlook

Banque Cantonale de Genève - Quai de l'Ile 17 - 1204 Geneva - Telephone: +41 58 211 21 00 - info@bcge.ch - bcge.ch
© Banque Cantonale de Genève. The information contained in this document is based on reliable data and statistics. This document does not constitute a contractual agreement. Banque Cantonale de Genève and the BCGE Group cannot be held liable.