J. Safra Sarasin
Cross-Asset Weekly

23 August 2024

All eyes on Jackson Hole

Investors are eagerly waiting for Jay Powell's speech at Jackson Hole where he is expected to give his nod to a first Fed rate cut in September. While he will probably confirm that the FOMC has gained enough confidence that inflation is on track to 2%, he is unlikely to commit to a rate path. In a soft-landing scenario, cuts will come only gradually, which is what the market is broadly pricing. Chair Powell will probably flag that they remain confident about the labour market, but that they also stand ready to act more aggressively if needed. The start of the Fed cutting cycle will come as a big relief for Emerging markets. Due to low (or negative) interest rate differentials and concomitant pressure on their currencies, Asian central banks have been holding on to their tight monetary policy stance even though downside risks to growth have increased. Lower Fed Funds rates will give them wiggle room to ease policy this year as well.

Finally, over in Switzerland, we note that inflation, the exchange rate, policy rates, bond yields and GDP per capita fluctuate less than in the euro area and the US. This comes as a surprise as small open economies like Switzerland are known to be subject to external shocks that can lead to large swings in economic conditions. By increasing and lowering policy rates earlier than other central banks, the Swiss National Bank (SNB) has contributed to lowering macroeconomic volatility in this business cycle. This high degree of stability will continue to be supportive for the Swiss franc over the medium to longer-term.

This week's highlights

US macro 2
Gradual rate-cutting cycle to start in September

Emerging Asia macro 4
Central banks open the door to rate cuts

Switzerland Macro 6
The low volatility country

FX markets 9
Swiss franc to remain strong

Economic Calendar 12
Week of 26/08 – 30/08/2024

Market Performance 13
Global Markets in Local Currencies

Contacts

Dr. Karsten Junius, CFA
Chief Economist
karsten.junius@jsafrasarasin.com
+41 58 317 32 79

Raphael Olszyna-Marzys
International Economist
raphael.olszyna-marzys@jsafrasarasin.com
+41 58 317 32 69

Mali Chivakul
Emerging Markets Economist
mali.chivakul@jsafrasarasin.com
+41 58 317 33 01

Alex Rohner
Fixed Income Strategist
alex.rohner@jsafrasarasin.com
+41 58 317 32 24

Dr. Claudio Wewel
FX Strategist
claudio.wewel@jsafrasarasin.com
+41 58 317 32 26

Wolf von Rotberg
Equity Strategist
wolf.vonrotberg@jsafrasarasin.com
+41 58 317 30 20

US macro

Gradual rate-cutting cycle to start in September

Raphael Olszyna-Marzys
International Economist
raphael.olszyna-marzys@jsafrasarasin.com
+41 58 317 32 69

The Fed is widely expected to start its rate-cutting cycle in September. While Jay Powell will most likely cement this expectation when he speaks on Friday at Jackson Hole, he is unlikely to commit to a rate path. In a soft-landing scenario, which the market is broadly pricing, cuts will come only gradually. Investors will also look for clues whether Powell and his colleagues on the FOMC have grown more wary about the state of the labour market. He will probably flag that they remain confident about its health but that they stand ready to act more aggressively if needed.

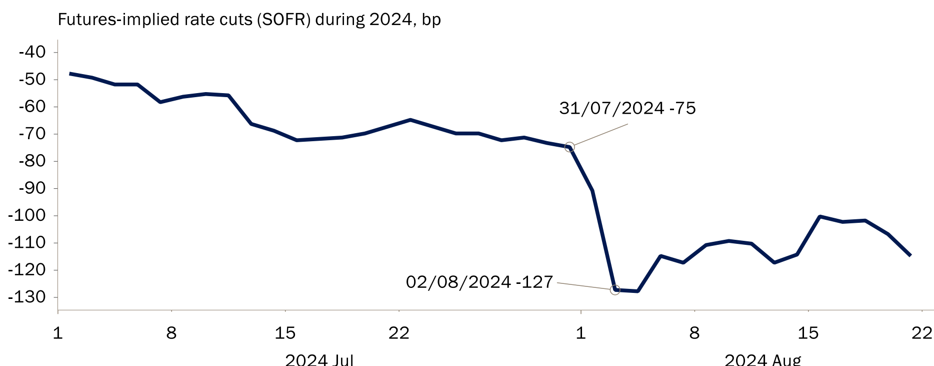
Weak data in early August led investors to price five Fed rate cuts until year-end

The last few weeks have seen large swings in policy rate expectations and asset prices. After a disappointing jobs report in July, investors grew concerned that the US economy might be on the brink of a recession, pushing equity prices and bond yields lower. The rise in the unemployment rate to 4.3% triggering the 'Sahm rule', a historically reliable coincident indicator of recession, added to the gloom. Investors quickly priced in a more aggressive response from the Fed, anticipating an additional 50 basis points (bp) of rate cuts by year-end (Exhibit 1).

Stronger data last week alleviated fears of an imminent recession. Markets still expect four cuts this year. We expect three

However, data released last week have eased some of these fears. Initial claims were lower than expected, retail sales rebounded strongly in July and the University of Michigan improved in August. As a result, financial markets have scaled back their expectations for monetary easing. They are now predicting the Fed to lower its policy rate by 100bp over the final three meetings of the year, with about 33bp worth of cuts at each meeting. This likely reflects an implied probability that some weak data points between now and December could force the Fed to ease policy by 50bp at one point. We expect three 25bp cuts this year, followed by quarterly cuts next year. This trajectory would leave the Fed Funds rate between 3.50-3.75% by the end of 2025, likely close to the neutral rate.

Exhibit 1: Recent data releases have led to large swings in rate cuts expectations for 2024



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Powell's Jackson Hole speech will likely cement expectations that the Fed will start its rate-cutting cycle in September ...

... but he will not commit to a specific path

In his upcoming speech at Jackson Hole speech on Friday(23 Aug), Chair Jerome Powell is expected to outline the Fed's next steps, though his message will likely align with previous statements. With the latest benign CPI report and core inflation running at 1.6% on a 3-month and 2.8% on a 6-month annualised basis, Powell should suggest that the Fed has gained enough confidence that inflation is heading back to the 2% target, paving the way for a 25bp rate cut when the FOMC meets on September 17-18 (Exhibit 2).

With broad inflationary pressures coming down – wage growth is falling on the back of a looser labour market and more price-sensitive consumers have reduced corporate pricing power – the pace of future rate cuts will depend largely on labour market data. Powell is unlikely to commit to a specific path at Jackson Hole, but he will should signal that the economy is gradually slowing, not crashing, and the labour market is rebalancing, not cracking.

The rise in the unemployment rate partly reflects more people entering the labour force

As we explain here, the rise in the unemployment rate in recent months partly reflects an increase in labour supply, driven by a surge in immigration in recent years, alongside a slower pace of hiring. Over time, new labour market entrants should find employment, potentially stabilising or slightly lowering the unemployment rate. In addition, with corporate profit margins near cyclical highs, the risk for significant layoffs appears limited.

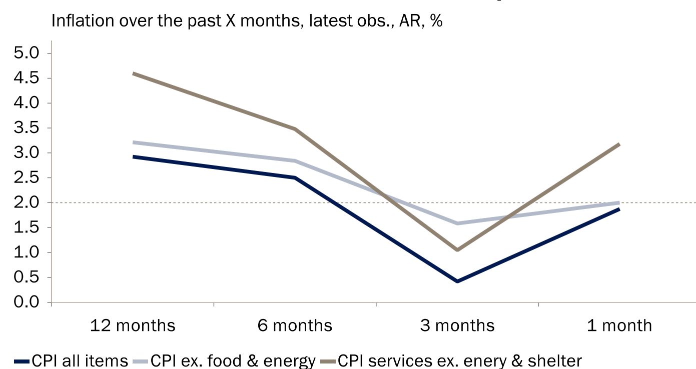
There is a risk that a cooling labour market turns into a weak one

Nonetheless, some indicators suggest further cooling ahead, and we are entering a stage of the business cycle where non-linear effects could kick in. A further drop in demand could snowball into a sharper rise in unemployment (Exhibit 3). The 818,000 downward revision to payrolls in the 12 months to March is likely to heighten concerns that the labour market might not be as strong as previously believed. Jay Powell will probably flag that the Fed remains vigilant to these downside risks.

If the economy is on a soft-landing path, as we expect, the Fed will ease policy gradually

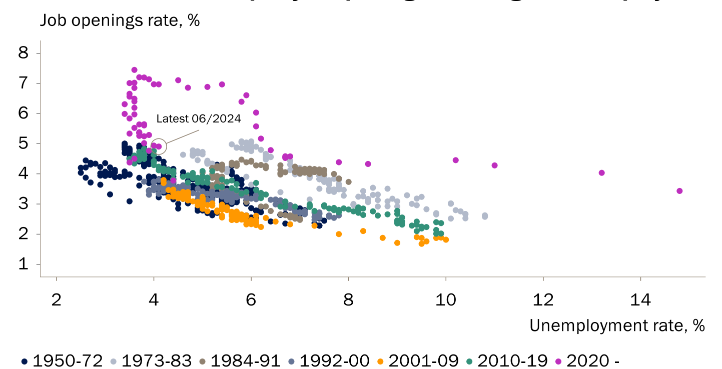
Given the uncertainty surrounding the neutral interest rate and the degree of monetary tightening, a gradual rate-cutting cycle seems the most probable outcome. Indeed, different Taylor rules, which the Fed uses to guide setting interest rates based on economic conditions, suggest that the policy rate should fall by around 150bp by the end of 2025 if inflation gradually falls to 2% and the unemployment rate remains stable (Exhibit 4).

Exhibit 2: A broad-based decline in inflation in past months



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 3: A further drop in job openings risks higher unemployment



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 4: Taylor rules suggest the Fed should ease policy gradually

Taylor rule			*Using our forecasts for inflation and the u/r*					
	2024.1	2024.2	2024.3	2024.4	2025.1	2025.2	2025.3	2025.4
Taylor (1993) rule	5.3	3.7	3.3	3.4	3.1	3.1	3.5	3.7
Core inflation in Taylor (1999) rule	5.3	4.3	3.8	4.0	3.6	3.6	3.7	3.8
Inertial rule	5.3	5.1	4.9	4.7	4.5	4.3	4.2	4.1
Alternative r* rule	5.3	5.2	5.0	4.9	4.7	4.5	4.5	4.4
Forward-looking rule	5.3	3.2	3.1	3.5	3.7	3.7	3.5	3.4
Low weight on output gap rule	5.3	5.1	4.9	4.8	4.7	4.6	4.6	4.4
First-difference rule	5.3	5.5	5.4	5.0	4.6	4.1	3.6	3.2
Median Taylor rule	**5.3**	**5.1**	**4.9**	**4.7**	**4.5**	**4.1**	**3.7**	**3.8**

Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Emerging Asia macro

Central banks open the door to rate cuts

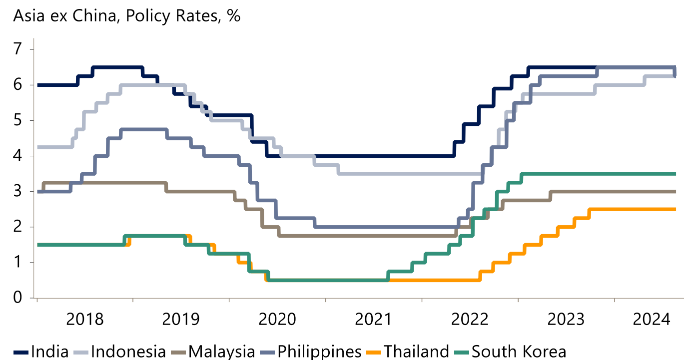
Mali Chivakul
Emerging Markets Economist
mali.chivakul@jsafrasarasin.com
+41 58 317 33 01

Emerging Asian central banks are now seeing more wiggle room to use their monetary policy after the Fed signalled its intention to ease policy in September. Due to low (or negative) interest rate differentials and concomitant pressure on their currencies, Asian central banks have been holding on to their tight monetary policy stance even though inflation dynamics are under control and downside risks to growth have increased. Only the People's Bank of China and the central bank of the Philippines have cut their policy rates so far. We expect all the others to follow suit in Q4 this year.

Emerging Asian central banks have not been able to use monetary policy to address domestic economic needs

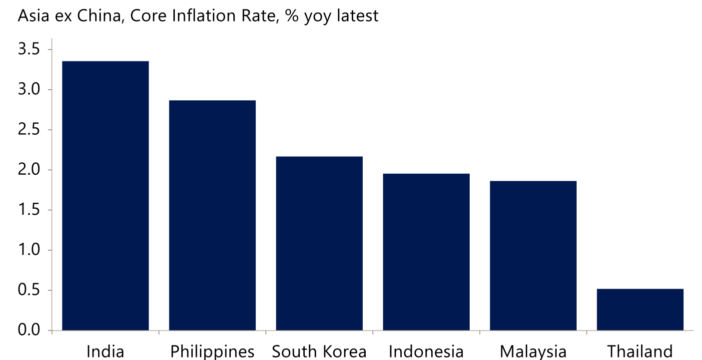
Unlike emerging markets central banks in Latin America and Central and Eastern Europe, their counterparts in emerging Asia have been holding on to their tight monetary policy stance for more than 18 months now (Exhibit 1). Inflation rates in many countries have already reached their targets for quite some time and core inflationary pressures are low (Exhibit 2). While economic dynamics have recently slowed in most parts of the region, emerging Asian central banks have not reacted to their domestic economic needs as they have been constrained by high US interest rates and a strong US dollar. Interest rate differentials with the US have been negative for China, Korea, Malaysia and Thailand and are historically low for India, Indonesia and the Philippines. This has translated into significant pressure on the currencies until recently, preventing currency-sensitive central banks from lowering their policy rates.

Exhibit 1: Asian central banks have kept rates unchanged so far...



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 2: ...despite much lower inflationary pressures than in DMs



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

The Fed's recent signals for a September rate cut have led to a weaker US dollar

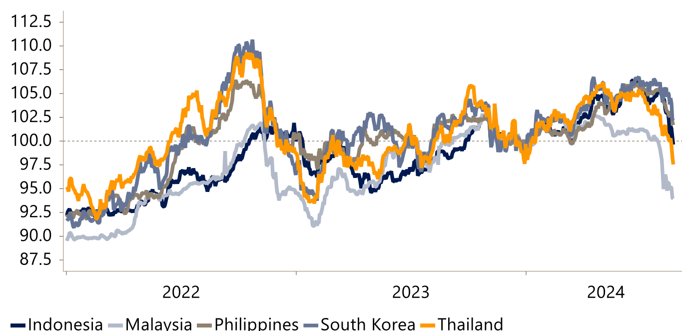
The Fed's recent signals to lower the Fed Funds rate in September have finally opened the door for emerging Asian central banks to direct their policy to domestic needs. A weaker US dollar has driven Asian currencies up, including the Chinese yuan (Exhibit 3). The Indian rupee seems to be the exception as it has been very tightly managed (Exhibit 4). Less currency pressure should give Asian central banks more wiggle room to start loosening their monetary policy.

Emerging Asian central banks to start their rate-cutting cycle this year

We now expect all emerging Asian central banks to start cutting their policy rates this year. The People's Bank of China (PBoC) was the only one to start cutting its policy rate in mid-July (20bp) in order to address weak domestic demand. Improved external conditions should give the PBoC more room to cut its policy rate further, but we only see a possibility for another 10bp cut. The Chinese authorities will likely use other policy avenues, such as an acceleration in bond issuance, to support the economy and to fend of deflationary

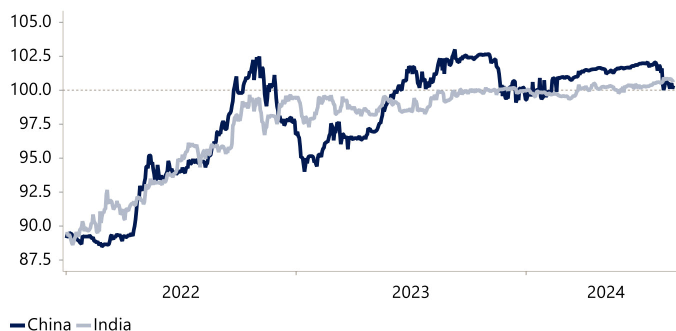
pressures. Beyond China, the Central Bank of the Philippines (BSP) was the first one to cut its policy rate by 25bp last week. We expect the BSP to continue lowering its policy rate by 25bp each in the next two meetings in Q4 2024.

Exhibit 3: Asian currencies have turned around



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 4: CNY and INR have been more closely managed



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

While the rupiah has strengthened, we expect Bank Indonesia to start easing policy only in Q4

Indonesia continues to be most sensitive to changing external conditions due to its dependence on external funding and its dual central bank mandate for price and currency stability. The Indonesian rupiah has so far strengthened by 6%, erasing the year-to-date depreciation. Still, given that its current account position this year is slightly weaker and its growth momentum is only slightly slowing, Bank Indonesia is leaning towards waiting for clear signs of a sustained strength of the rupiah. Bank Indonesia's Governor suggested in his press conference this week that room for rate cuts will likely open up towards the end of the year. We expect one rate cut in Q4.

The RBI will likely wait until Q4 before lowering rates

In our view, the Reserve Bank of India (RBI) has many reasons to start its rate cut cycle soon. While food inflation has recently spiked, core inflation at 3.4% is the lowest in the past 10 years, suggesting soft demand. Recently improved monsoon rainfalls should alleviate food inflation. Economic indicators such as industrial production also suggest that the economy is slowing down. Still, the RBI seems to be more concerned about food inflation and will likely wait until Q4 before it starts cutting.

Growth risks have now trumped financial stability concerns in Korea and Thailand

In Korea and Thailand, the central banks have cited financial stability concerns as important reasons to keep a tight monetary stance for quite some time (due to high household debt in both countries). Now that the currency pressure has lessened, growth concerns seem to slowly outstrip financial stability concerns. Both central banks held their rates this week, as widely expected. However, the Bank of Korea (BOK)'s communication suggests that it is now open to a rate cut within the next three months as growth risks have risen following a GDP contraction in Q2. The Bank of Thailand (BOT) has also turned more dovish as it expects slower growth momentum going forward. We expect both the BOK and the BOT to cut their policy rates by 25bp in Q4.

Switzerland Macro

The low volatility country

Dr. Karsten Junius, CFA
Chief Economist
karsten.junius@jsafrasarasin.com
+41 58 317 32 79

We find that inflation, the exchange rate, policy rates, bond yields and GDP per capita fluctuate less in Switzerland than in the euro area and the US. This is surprising as small open economies like Switzerland are known to be subject to external shocks that can lead to huge swings in their economic conditions. It is therefore crucial for them to react flexibly and swiftly to a changing economic environment. By increasing and lowering policy rates earlier than other central banks the Swiss National Bank (SNB) has contributed to lower macroeconomic volatility in this business cycle.

The surprising stability of Switzerland

Small open economies like Switzerland are usually less diversified than bigger countries and therefore potentially subject to larger sectoral or regional external shocks. As a result, one could expect that Swiss economic and financial data are more volatile than those of the euro area where a negative shock in say Finland could be averaged out by a positive development in Portugal. Similarly, a fluctuating exchange rate should have less of an influence on domestic prices in larger countries where the share of imported goods is lower than in smaller ones. Surprisingly, we find that the opposite has been the case.

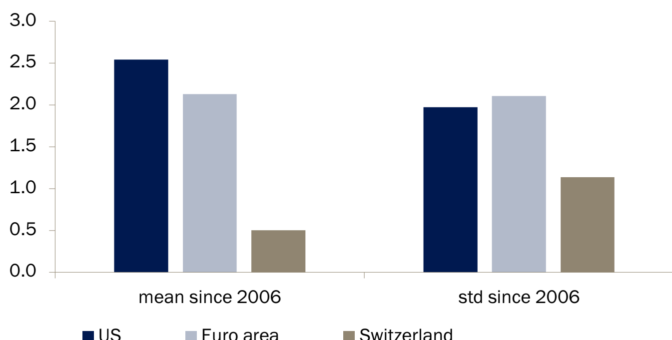
Swiss data fluctuate less than US and European data

We looked at a number of Swiss economic data for the period from 2006 until now and compared their mean and standard deviation (std) with those of the US and the euro area. Our findings are clear and robust to (i) using monthly instead of quarterly averages, (ii) interest rates in absolute changes instead of levels, and (iii) different subperiods: Swiss data fluctuate less than US and European data.

Stronger per capita growth with lower volatility

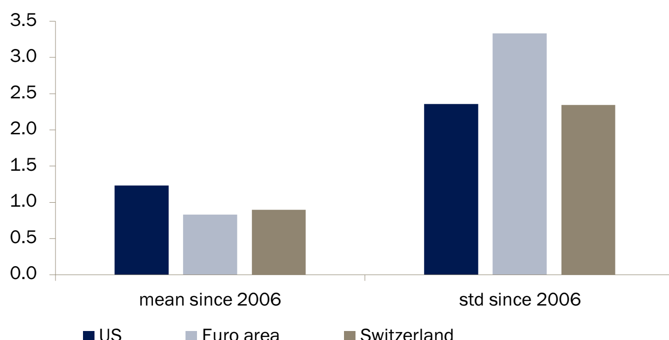
As expected, given the lower inflation target of the SNB, inflation and core inflation are on average lower than the in the US and the euro area. However, it could not necessarly be expected that their standard deviation is also lower (Exhibits 1 and 5). Interestingly, that goes together with a higher growth rate and again a lower standard deviation of GDP per capita than in the euro area (Exhibits 2 and 5).

Exhibit 1: Headline inflation in % yoy



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 2: GDP per capita in % yoy

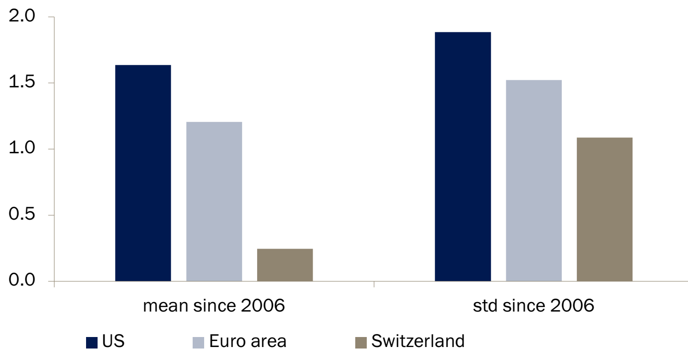


Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

The exchange rate and the policy rate are less volatile in Switzerland as well

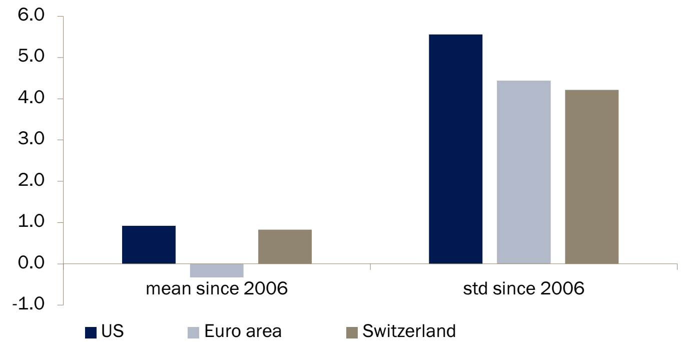
One could imagine that a more volatile exchange rate or a more active central bank would have dampened external shocks and smoothed Swiss output. But again, the contrary is the case. The volatilities of both the nominal and real exchange rate as well as of the policy rate are all lower in Switzerland than in the US and the euro area (Exhibits 3, 4 and 5). Given lower and less volatile inflation and policy rates, it is finally not surprising that 10-year government bond yields are also less volatile (Exhibit 5).

Exhibit 3: Policy rate in levels



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 4: Real effective exchange rate in % yoy



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

The higher flexibility and faster reaction of policy makers, companies and households might explain the pronounced resilience of the Swiss economy

What explains our results? For small countries, it is crucial to react swiftly and firmly to counter external shocks. Switzerland might just do exactly that. Its labour market is more liberal than that of most other European countries such that shocks are absorbed faster than in other countries. It is telling, for example, that the country only experienced one quarter of falling GDP when the SNB suddenly abandoned the exchange rate floor in 2015 and the Swiss franc appreciated massively. The lower volatility of GDP should also be a reminder that heavy government interventions are not always helpful. The Swiss government is clearly less interventionist than those of its European neighbours – apparently without negative consequences for its business cycle. One could also imagine that more affluent countries are less volatile than others. That would explain why the euro area is more volatile than the US and Switzerland. But it would not explain the differences between the US and Switzerland.

Higher share of administered prices also might have contributed to lower and more stable inflation rates

In the case of inflation, one could also argue that the high share of administered products in the inflation basket might have a mitigating effect on inflation volatility. It is also possible that external shocks to imported goods prices matter less as relatively stable but high labour costs matter most for Swiss inflation.

Early moves by the SNB helped to prevent larger changes of key macro and financial variables

Finally, we have to mention monetary policy as a factor that helped mitigate macroeconomic volatility. Some market participants were surprised when the SNB increased its policy rate in June 2022, held it constant in September 2023 and lowered it in March 2024, all well ahead of the ECB. Yet acting early on allowed the SNB to do less than other central banks to counter macroeconomic swings. By increasing its policy rate in 2022 already and letting the Swiss franc appreciate until the end of last year, the SNB was able to hike less than other central banks. By letting the Swiss franc depreciate since then and lowering the policy rate again before everyone else, they have been laying the ground for stronger and more stable growth in the coming quarters compared to what some market participants fear in some bigger countries. Let's hope that this virtuous cycle and skilful timing of policy changes never ends.

Exhibit 5: Mean and standard deviation of quarterly variables – in % yoy unless specified otherwise

	last	mean since 2021	mean 2016 -2020	mean 2011 -2015	mean 2006 -2010	std since 2021	std 2016 -2020	std 2011 -2015	std 2006 -2010	mean since 2006	std since 2006
US CPI	3.2	5.3	1.8	1.7	2.3	2.2	0.6	1.1	1.8	2.5	2.0
Euro Area HICP	2.5	5.1	1.0	1.4	1.9	2.9	0.7	1.1	1.1	2.1	2.1
Switzerland, HICP	1.4	1.7	0.1	-0.3	0.8	1.1	0.8	0.5	1.1	0.5	1.1
US Core CPI (ex food&energy)	3.4	4.7	2.0	1.8	2.0	1.4	0.3	0.3	0.6	2.5	1.3
Euro Area, Core HICP (ex Food, Alc, Tob., Energy)	2.8	3.4	0.9	1.2	1.5	1.6	0.2	0.3	0.3	1.6	1.1
Switzerland, Core CPI (ex Food, Bev., Tob., Seas. Products, Eng/Fuel)	1.1	1.2	0.1	-0.4	0.7	0.8	0.4	0.5	0.5	0.4	0.8
US, GDP per capita	2.6	3.0	0.8	1.5	0.1	2.7	2.5	0.7	2.3	1.2	2.4
Euro Area , GDP per capita	-0.2	2.8	0.1	0.6	0.5	4.4	3.9	1.4	3.1	0.8	3.3
Switzerland, GDP per capita	-0.6	1.8	0.2	0.6	1.3	3.2	2.2	0.5	2.8	0.9	2.3
USD Nominal Effective Exchange Rate	2.8	1.0	1.8	3.2	-1.3	5.0	3.8	6.3	7.3	1.2	5.9
Euro Nominal Effective Exchange Rate	2.2	1.1	2.4	-1.0	0.7	4.3	3.1	5.3	5.1	0.8	4.6
Swiss Franc Nominal Effective Exchange Rate	2.2	4.0	1.5	4.8	2.7	3.3	3.2	5.9	4.4	3.2	4.5
USD Real Effective Exchange Rate	2.5	1.8	1.5	2.4	-1.7	5.2	3.7	5.9	6.5	0.9	5.6
Euro Real Effective Exchange Rate	0.6	0.5	1.2	-2.1	-0.6	3.9	3.0	5.1	4.9	-0.3	4.4
Swiss Franc Real Effective Exchange Rate	-0.3	0.4	-0.2	2.0	1.0	3.0	3.0	5.7	4.3	0.8	4.2
US Federal Funds Target Rate (level)	5.5	2.9	1.3	0.3	2.5	2.4	0.8	0.0	2.2	1.6	1.9
Euro Area, Main Refi Rate (level)	4.5	1.9	0.0	0.6	2.6	2.0	0.0	0.5	1.3	1.2	1.5
Switzerland Policy Rate (level)	1.5	0.4	-0.8	0.0	1.4	1.1	0.0	0.4	1.0	0.2	1.1
US 10 Year Yield (level)	4.4	3.0	2.0	2.3	3.9	1.2	0.7	0.5	0.8	2.8	1.1
Euro Area 10 Year Yield (level)	3.1	1.9	0.7	2.8	4.0	1.4	0.5	1.2	0.3	2.4	1.5
Switzerland 10 Year Yield (level)	0.7	0.6	-0.3	0.7	2.4	0.6	0.2	0.6	0.5	0.9	1.1

Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

J. Safra Sarasin
Cross-Asset Weekly

23 August 2024

FX markets

Swiss franc to remain strong

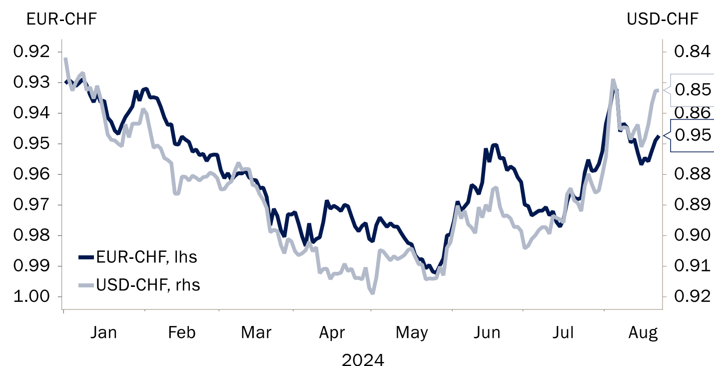
Dr. Claudio Wewel
FX Strategist
claudio.wewel@jsafrasarasin.com
+41 58 317 32 26

The Swiss franc's recent dynamics largely resemble a roller coaster ride. In essence, the year-to-date moves reflect relative bond yield dynamics that mimic alternating market narratives with regard to the Fed's rate-cutting cycle. Going forward, we expect interest rate dynamics to remain key for the Swiss franc. While an unexpectedly dovish SNB could push the currency lower temporarily, it should recover into 2025 as the persistence of lower Swiss inflation remains a tailwind. Lastly, the Swiss franc appears to be fairly valued, suggesting that the SNB is unlikely to be active in the FX market in the foreseeable future.

This year, the Swiss franc has been relatively volatile

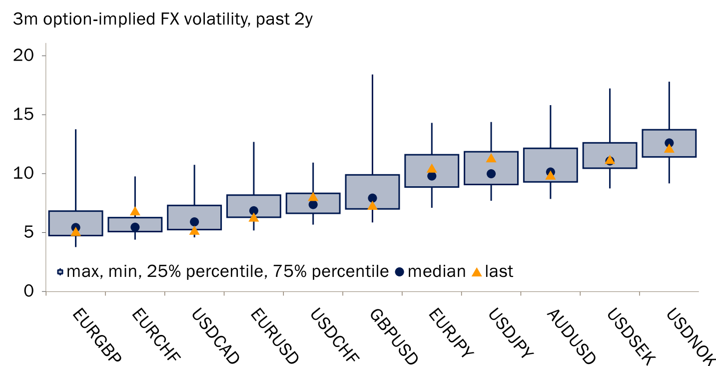
The Swiss franc's year-to-date dynamics have largely resembled a roller coaster ride, although they have steadied somewhat in recent days (Exhibit 1). This is similarly reflected in option-implied volatilities, which have traded considerably higher compared to its 2-year average (Exhibit 2).

Exhibit 1: Swiss franc's ytd dynamics resemble a roller coaster



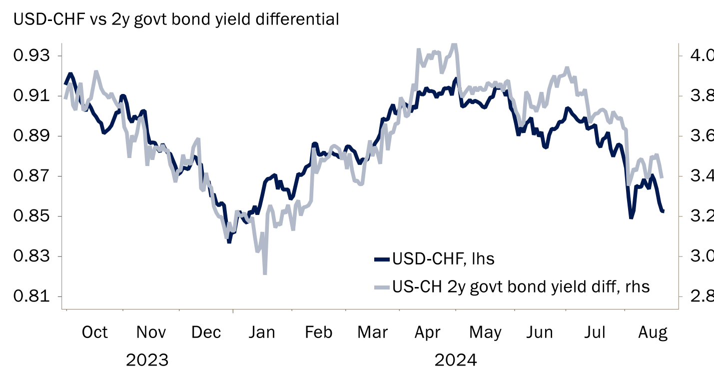
Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 2: EUR-CHF option-implied volatility is relatively high



Source: Bloomberg, Bank J. Safra Sarasin, 22.08.2024

Exhibit 3: USD-CHF closely correlates with its 2y yield differential...



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 4: ...while EUR-CHF shows a weaker link with yields

Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

FX moves have largely mimicked alternating market narratives

As we opined recently (see «The euro's challenges have risen again»), FX dynamics have largely been driven by the alternation between the «higher for longer» market narrative and the contrarian narrative of an imminent series of policy rate cuts. Clearly, these dynamics have not left the Swiss currency unaffected.

The Swiss franc's ytd dynamics largely reflect relative moves in bond yields

In recent months, the Swiss franc has moved with interest rate levels. This particularly applies to the USD-CHF pair, which shows a strong correlation with the US-Swiss 2y government bond yield differential (Exhibit 3). Moreover, it is notable that also EUR-CHF has shown a relatively good correlation with its 2y yield differential (Exhibit 4). This is rather unusual as the pair reacts most sensitively to safe-haven dynamics, as proxied by surging government bond yield spreads of the euro area periphery (during the French snap election in June) or more broadly when bond market volatility rises (see «What's driving the Swiss franc?»).

Expect Swiss franc to dip on the back of a likely SNB rate cut in September...

Going forward, interest rate dynamics should remain key for the Swiss franc. In the near term, the Swiss franc could dip in case the SNB sounds more dovish at its September meeting than markets currently expect. With PMIs remaining in contractionary territory, inflation risks appear to be tilted to the downside and there is a real risk that the SNB delivers another rate cut in December, should inflation in fact surprise to the downside.

...but it should recover into 2025

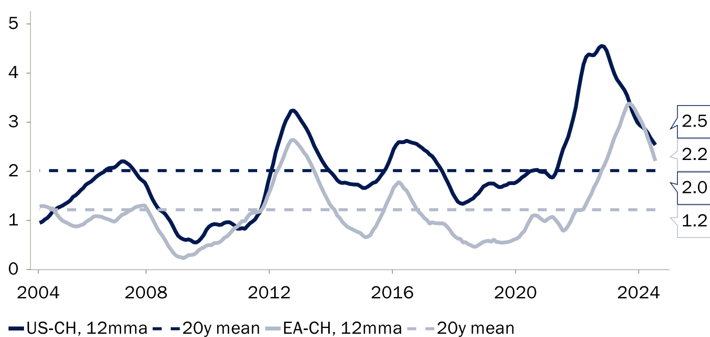
We do not expect much of a change in yield differentials over the coming months, given that the market has already repriced to a considerable extent on the back of the recent recession scares. While US and euro area yields should remain at around their current levels towards year-end, we would expect them to grind even somewhat lower over the coming year as policy rates continue to come down. The continued narrowing of the Swiss yield disadvantage should support further Swiss franc appreciation throughout 2025.

In particular, persistently lower inflation will remain a tailwind

A medium-term appreciation of the Swiss franc is also warranted from an inflation perspective, even though inflation rates have been converging over the past year. But with 2.0% and 1.2%, respectively, Switzerland's average inflation advantage versus both the US and the euro area remains considerable (Exhibit 5).

Exhibit 5: Switzerland's inflation advantage remains considerable

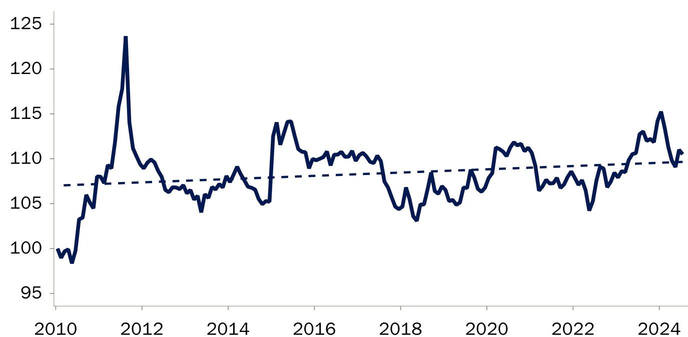
Core inflation differentials, p.p.



Source: Macrobond, Bank J. Safra Sarasin, 22.08.2024

Exhibit 6: Currently, the Swiss franc appears fairly valued

SNB CHF REER index, CPI-based vs linear trend



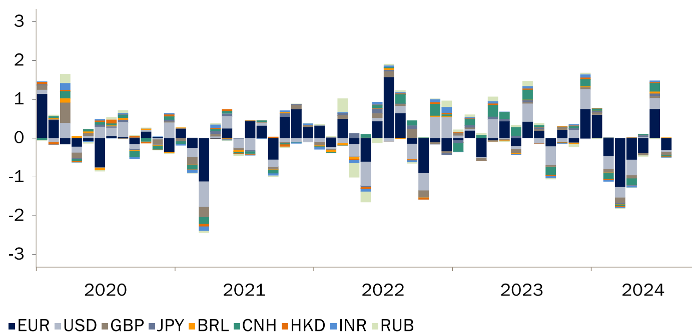
Source: Macrobond, SNB, Bank J. Safra Sarasin, 22.08.2024

In real terms, the Swiss franc looks fairly valued...

While the Swiss franc appears strong in nominal terms, it does look less so in real (inflation-adjusted) terms. In essence, the Swiss franc's trade-weighted real exchange has come down from its 10-year high that it hit at the beginning of this year. Given that it is now at around its long-term trend, we are inclined to think that the Swiss franc is fairly valued (Exhibit 6). By construction, the largest part of the Swiss franc's appreciation can be attributed to the euro (Exhibit 7). Yet the large swings of the Japanese yen also had a role to play, though it represents only a small share within the SNB's real effective exchange rate index (Exhibit 8). This also means that the continuation of the yen's rebound will likely diminish the future gains of the trade-weighted Swiss franc.

Exhibit 7: The yen's large swings also mattered for the Swiss franc...

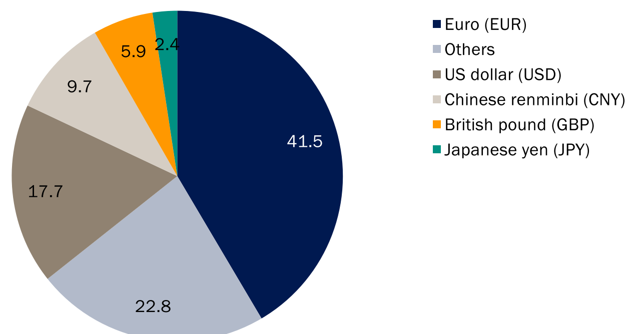
SNB CHF REER index, CCY contributions, % mom



Source: Macrobond, SNB, Bank J. Safra Sarasin, 22.08.2024

Exhibit 8: ...despite its small weight in the SNB's index

SNB CHF index weightings, %



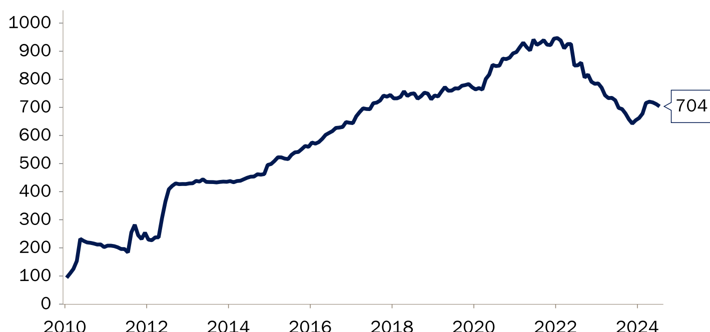
Source: Macrobond, SNB, Bank J. Safra Sarasin, 22.08.2024

...suggesting that the SNB probably won't be active in the FX market in the foreseeable future

Given that the Swiss franc's real exchange rate is near its long-term average, we think that the SNB will not intervene in the FX market, unless the Swiss franc experiences sudden and excessive moves. Notably, the SNB has been able to reduce its balance sheet considerably over the past two years. Currency reserves are now back at pre-Covid levels, after they had risen substantially throughout the first two years of the pandemic (Exhibit 9). Q1 2024 data on FX interventions, published by the SNB with a lag of several months, show that the SNB has refrained from supporting the Swiss franc since the beginning of this year, suggesting that the SNB is fairly comfortable with its currency's current valuation (Exhibit 10). In the absence of an SNB intervention, we think there is further upside for the Swiss franc into the coming year.

Exhibit 9: Swiss FX reserves are back at pre-Covid levels

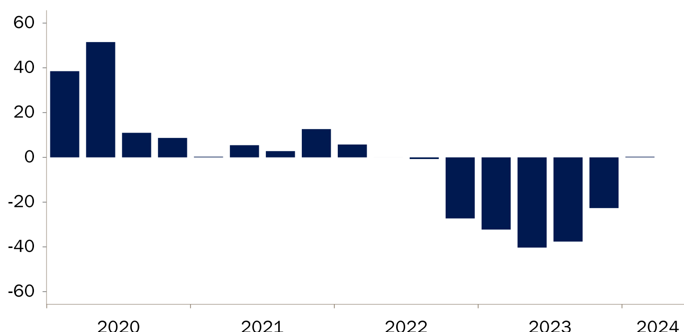
SNB, FX reserves, in CHF bn



Source: Macrobond, SNB, Bank J. Safra Sarasin, 22.08.2024

Exhibit 10: This year, the SNB has hardly been active in the FX market

Switzerland, FX Interventions in CHF bn



Source: Macrobond, SNB, Bank J. Safra Sarasin, 22.08.2024

Economic Calendar

Week of 26/08 – 30/08/2024

Country	Time	Item	Date	Unit	Consensus Forecast	Prev.
Monday, 26.08.2024						
GE	10:00	IFO Expectations Index	Aug	Index	--	86.90
US	14:30	Durable Goods Ex Transportation	Jul	mom	-0.10%	0.40%
	14:30	Cap Goods Orders Nondef Ex Air	Jul	mom	0.10%	0.90%
	16:30	Dallas Fed Manf. Activity	Aug	Index	--	-17.50
Tuesday, 27.08.2024						
UK	12:00	CBI Total Dist. Reported Sales	Aug	Index	--	-30.00
	12:00	CBI Retailing Reported Sales	Aug	Index	--	-43.00
US	15:00	FHFA House Price Index MoM	Jun	mom	--	0.00%
	16:00	Conf. Board Expectations	Aug	Index	--	78.20
	16:00	Richmond Fed Manufact. Index	Aug	Index	--	-17.00
	16:00	Richmond Fed Business Cond.	Aug	Index	--	-9.00%
	16:30	Dallas Fed Services Activity	Aug	Index	--	-0.10
Wednesday, 28.08.2024						
GE	08:00	GfK Consumer Confidence	Sep	Index	--	-18.40
US	13:00	MBA Mortgage Applications	Aug23	wow	--	--
Thursday, 29.08.2024						
GE	14:00	CPI EU Harmonized MoM	Aug	mom	--	0.50%
	14:00	CPI EU Harmonized YoY	Aug	yoy	--	2.60%
US	14:30	Initial Jobless Claims	Aug24	1'000		--
	14:30	Continuing Claims	Aug17	1'000	--	--
	16:00	Pending Home Sales MoM	Jul	mom	--	4.80%
Friday, 30.08.2024						
GE	09:55	Unemployment Change (000's)	Aug	1'000	--	18k
EU	11:00	CPI MoM	Aug	%	--	0.00%
	11:00	CPI Estimate YoY	Aug	%	--	2.60%
	11:00	CPI Core YoY	Aug	1'000	--	2.90%
US	14:30	Personal Income MoM	Jul	mom	0.20%	0.20%
	14:30	Personal Spending MoM	Jul	mom	0.50%	0.30%
	14:30	Core PCE Price Index MoM	Jul	mom	0.20%	0.20%
	14:30	Core PCE Price Index YoY	Jul	yoy	2.70%	2.60%
	15:45	MNI Chicago PMI	Aug	Index	--	45.30

Source: Bloomberg, J. Safra Sarasin as of 22.08.2024

J. Safra Sarasin

Cross-Asset Weekly

23 August 2024

Market Performance

Global Markets in Local Currencies

Government Bonds	Current value	Δ 1W (bp)	Δ YTD (bp)	TR YTD in %
Swiss Eidgenosse 10 year (%)	0.44	0	-27	2.6
German Bund 10 year (%)	2.24	0	22	0.0
UK Gilt 10 year (%)	3.96	14	42	-0.4
US Treasury 10 year (%)	3.84	-4	-3	3.1
French OAT - Bund, spread (bp)	72	-2	18	
Italian BTP - Bund, spread (bp)	137	-1	-30	

Stock Markets	Level	P/E ratio	1W TR in %	TR YTD in %
SMI - Switzerland	12'305	18.9	1.3	13.9
DAX - Germany	18'493	13.6	1.7	10.4
MSCI Italy	1'074	9.2	3.1	12.0
IBEX - Spain	11'156	10.7	2.5	14.1
DJ Euro Stoxx 50 - Eurozone	4'885	13.7	1.6	11.2
MSCI UK	2'370	12.3	-0.7	10.3
S&P 500 - USA	5'571	23.3	0.5	17.8
Nasdaq 100 - USA	19'492	30.1	0.0	16.5
MSCI Emerging Markets	1'101	13.1	2.4	9.9

Forex - Crossrates	Level	3M implied volatility	1W in %	YTD in %
USD-CHF	0.85	8.2	-1.7	1.2
EUR-CHF	0.95	6.5	-0.8	2.0
GBP-CHF	1.12	7.6	-0.4	4.2
EUR-USD	1.11	6.4	0.9	0.8
GBP-USD	1.31	7.2	1.3	3.0
USD-JPY	145.6	11.4	-1.4	3.2
EUR-GBP	0.85	4.7	-0.4	-2.1
EUR-SEK	11.38	6.8	-1.2	2.2
EUR-NOK	11.77	8.6	-0.1	4.8

Commodities	Level	3M realised volatility	1W in %	YTD in %
Bloomberg Commodity Index	96	10.9	0.1	-3.2
Brent crude oil - USD / barrel	80	29.2	-5.4	2.6
Gold bullion - USD / Troy ounce	2'495	16.6	1.6	21.0

Source: J. Safra Sarasin, Bloomberg as of 22.08.2024

Important Information

This publication has been prepared by Bank J. Safra Sarasin Ltd (the "Bank") for information purposes only. It is not the result of financial research conducted. Therefore, the "Directives on the Independence of Financial Research" of the Swiss Bankers Association do not apply to this publication.

This publication is based on publicly available information and data ("the Information") believed to be correct, accurate and complete. The Bank has not verified and is unable to guarantee the accuracy and completeness of the Information contained herein. Possible errors or incompleteness of the Information do not constitute legal grounds (contractual or tacit) for liability, either with regard to direct, indirect or consequential damages. In particular, neither the Bank nor its shareholders and employees shall be liable for the views contained in this publication. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data provided and shall have no liability for any damages of any kind relating to such data.

This publication does not constitute a request or offer, solicitation or recommendation to buy or sell investment instruments or services. It should not be considered as a substitute for individual advice and risk disclosure by a qualified financial, legal or tax advisor. You are reminded to read all relevant documentation before making any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass on this publication on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

Past performance is no indication of current or future performance. Investments in foreign currencies are subject to exchange rate fluctuations. Exchange rate risk will apply if the investor's reference currency is not the same as the investment currency. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual performance. The views and opinions contained in this publication, along with the quoted figures, data and forecasts, may be subject to change without notice. There is no obligation on the part of the Bank or any other person to update the content of this publication. The Bank does not accept any liability whatsoever for losses arising from the use of the Information (or parts thereof) contained in this document.

Neither this publication nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person. This publication is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such distribution is prohibited and may only be distributed in countries where its distribution is legally permitted.

This publication constitutes marketing material. If it refers to a financial instrument for which a prospectus and/or a key investor/information document exists, these are available free of charge from Bank J. Safra Sarasin Ltd, Elisabethenstrasse 62, P.O. Box, CH-4002 Basel, Switzerland.

Bloomberg

"Bloomberg®" and the referenced Bloomberg Index/Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Bank J. Safra Sarasin Ltd. Bloomberg is not affiliated with Bank J. Safra Sarasin Ltd, and Bloomberg does not approve, endorse, review, or recommend the financial instrument(s) mentioned in this publication. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the financial instrument(s) mentioned in this publication.

ICE Data Indices

Source ICE Data Indices, LLC ("ICE DATA"), is used with permission. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates or their respective third party providers shall not be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend Bank J. Safra Sarasin Ltd, or any of its products or services.

J.P. Morgan

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2020, J.P. Morgan Chase & Co. All rights reserved.

MSCI Indices

MSCI Disclaimer: https://www.msci.com/notice-and-disclaimer-for-reporting-licenses

SMI

SIX Swiss Exchange AG ("SIX Swiss Exchange") is the source of SMI Indices® and the data comprised therein. SIX Swiss Exchange has not been involved in any way in the creation of any reported information and does not give any warranty and excludes any liability whatsoever (whether in negligence or otherwise) – including without limitation for the accuracy, adequateness, correctness, completeness, timeliness, and

fitness for any purpose – with respect to any reported information or in relation to any errors, omissions or interruptions in the SMI Indices® or its data. Any dissemination or further distribution of any such information pertaining to SIX Swiss Exchange is prohibited.

Distribution Information

Unless stated otherwise this publication is distributed by Bank J. Safra Sarasin Ltd (Switzerland).

The Bahamas: This publication is circulated to private clients of Bank J. Safra Sarasin (Bahamas) Ltd, and is not intended for circulation to nationals or citizens of The Bahamas or a person deemed 'resident' in The Bahamas for the purposes of exchange control by the Central Bank of The Bahamas.

Dubai International Financial Centre (DIFC): This material is intended to be distributed by J. Safra Sarasin (Middle East) Ltd ("JSSME") in DIFC to professional clients as defined by the Dubai Financial Services Authority (DFSA). JSSME is duly authorised and regulated by DFSA. If you do not understand the contents of this document, you should consult an authorised financial adviser. This material may also include Funds which are not subject to any form of regulation or approval by the Dubai Financial Services Authority ("DFSA"). The DFSA has no responsibility for reviewing or verifying any Issuing Document or other documents in connection with these Funds. Accordingly, the DFSA has not approved the Issuing Document or any other associated documents nor taken any steps to verify the information set out in the Issuing Document, and has no responsibility for it. The Units to which the Issuing Document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Units.

Germany: This marketing publication/information is being distributed in Germany by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main, for information purposes only and does not lodge claim to completeness of product characteristics. Insofar as information on investment funds is contained in this publication, any product documents are available on request free of charge from J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main in English and German language. To the extent that indicative investment options or portfolio structures are included, the following applies: The indicative investment options or portfolio structures presented in these documents and the underlying model calculations are based on the information and data provided to us in the context of the asset advisory discussion, and we have not checked them for accuracy or completeness. The indicative investment option/portfolio structure described here is thus intended as a guide and does not make any claim to comprehensive suitability but aims to inform you about the general possibilities that an investment entails. In order to provide you with a final investment recommendation that is tailored to your specific situation, we need further information, in particular on your investment goals, risk tolerance, experience and knowledge of financial services and products and your financial situation. This publication is intended to be distributed by J. Safra Sarasin (Deutschland) GmbH, Kirchnerstraße 6-8, 60311 Frankfurt am Main to clients domiciled or having their registered office in Germany and is directed exclusively at institutional clients who intend to conclude investment business exclusively as entrepreneurs for commercial purposes. This clientele is limited to credit and financial services institutions, capital management companies and insurance companies, provided that they have the necessary permission for the business operation and are subject to supervision, as well as medium and large corporations within the meaning of the German Commercial Code (section 267 (2) and (3) HGB).

Gibraltar: This marketing document is distributed from Gibraltar by Bank J. Safra Sarasin (Gibraltar) Ltd, First Floor Neptune House, Marina Bay, Gibraltar to its clients and prospects. Bank J. Safra Sarasin (Gibraltar) Ltd whose Registered Office is 57/63 Line Wall Road, Gibraltar offers wealth and investment management products and services to its clients and prospects. Incorporated in Gibraltar with registration number 82334. Bank J. Safra Sarasin (Gibraltar) Ltd is authorised and regulated by the Gibraltar Financial Services Commission. Telephone calls may be recorded. Your personal data will be handled in accordance with our Data and Privacy Statement. Where this publication is provided to you by Bank J. Safra Sarasin (Gibraltar) Limited: This document is approved as a marketing communication for the purposes of the Financial Services Act 2019. Nothing in this document is intended to exclude or restrict any liability that we owe to you under the regulatory system that applies to us, and in the event of conflict, any contrary indication is overridden. You are reminded to read all relevant documentation before making any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.

Hong Kong: This document is disseminated by Bank J. Safra Sarasin Ltd, Hong Kong Branch in Hong Kong. Bank J. Safra Sarasin Ltd, Hong Kong Branch is a licensed bank under the Hong Kong Banking Ordinance (Cap. 155 of the laws of Hong Kong) and a registered institution under the Securities and Futures Ordinance (cap. 571 of the laws of Hong Kong).

Luxemburg: This publication is distributed in Luxembourg by Banque J. Safra Sarasin (Luxembourg) SA (the "Luxembourg Bank"), having its registered office at 17-21, Boulevard Joseph II, L-1840 Luxembourg, and being subject to the supervision of the Commission de Surveillance du Secteur financier – CSSF. The Luxembourg Bank merely agrees to make this document available to its clients in Luxembourg and is not the author of this document. This document shall not be construed as a personal recommendation as regards the financial instruments or products or the investment strategies mentioned therein, nor shall it be construed as and does not constitute an invitation to enter into a portfolio management agreement with the Luxembourg Bank or an offer to subscribe for or purchase any of the products or instruments mentioned therein. The information provided in this document is not intended to provide a basis on which to make an investment decision. Nothing in this document constitutes an investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate for individual circumstances. Each client shall make its own appraisal. The liability of the Luxembourg Bank may not be engaged with

regards to any investment, divestment or retention decision taken by the client on the basis of the information contained in the present document. The client shall bear all risks of losses potentially incurred as a result of such decision. In particular, neither the Luxembourg Bank nor their shareholders or employees shall be liable for the opinions, estimations and strategies contained in this document.
Monaco: In Monaco this document is distributed by Banque J. Safra Sarasin (Monaco) SA, a bank registered in "Principauté de Monaco" and regulated by the French Autorité de Contrôle Prudentiel et de Résolution (ACPR) and Monegasque Government and Commission de Contrôle des Activités Financières («CCAF»).
Panama: This publication is distributed, based solely on public information openly available to the general public, by J. Safra Sarasin Asset Management S.A., Panama, regulated by the Securities Commission of Panama.
Qatar Financial Centre (QFC): This material is intended to be distributed by Bank J. Safra Sarasin (QFC) LLC, Qatar ["BJSSQ"] from QFC to Business Customers as defined by the Qatar Financial Centre Regulatory Authority (QFCRA) Rules. Bank J. Safra Sarasin (QFC) LLC is authorised by QFCRA. This material may also include collective investment scheme/s (Fund/s) that are not registered in the QFC or regulated by the Regulatory Authority. Any issuing document / prospectus for the Fund, and any related documents, have not been reviewed or approved by the Regulatory Authority. Investors in the Fund may not have the same access to information about the Fund that they would have to information of a fund registered in the QFC; and recourse against the Fund, and those involved with it, may be limited or difficult and may have to be pursued in a jurisdiction outside the QFC.
Singapore: This document is disseminated by Bank J. Safra Sarasin Ltd., Singapore Branch in Singapore. Bank J. Safra Sarasin, Singapore Branch is an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110), a wholesale bank licensed under the Singapore Banking Act (Cap. 19) and regulated by the Monetary Authority of Singapore.
United Kingdom: This document is distributed from the UK by Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch, 47 Berkeley Square, London, W1J 5AU, to its clients, prospects and other contacts. Bank J. Safra Sarasin (Gibraltar) Ltd offers wealth and investment management products and services to its clients and prospects through Bank J. Safra Sarasin (Gibraltar) Ltd, London Branch. Registered as a foreign company in the UK number FC027699. Authorised by the Gibraltar Financial Services Commission and subject to limited regulation in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority. Registration number 466838. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. Registered office 57 - 63 Line Wall Road, Gibraltar. Telephone calls may be recorded. Your personal data will be handled in accordance with our Data and Privacy Statement. Where this publication is provided to you by Bank J. Safra Sarasin (Gibraltar) Limited, London Branch: Nothing in this document is intended to exclude or restrict any liability that we owe to you under the regulatory system that applies to us, and in the event of conflict, any contrary indication is overridden. You are reminded to read all relevant documentation relating to any investment, including risk warnings, and to seek any specialist financial or tax advice that you need. You are not permitted to pass this document on to others, apart from your professional advisers. If you have received it in error please return or destroy it.
© Copyright Bank J. Safra Sarasin Ltd. All rights reserved.