Berne, 16 June 2016
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Introductory remarks by Andréa M. Maechler

I will begin with a review of developments on the financial markets, before commenting on our experience of negative interest in Switzerland. I shall conclude with some remarks about important innovations affecting financial market infrastructure relevant to the SNB.

Situation on financial markets

Let me start with developments on the financial markets. Risk sentiment deteriorated markedly at the beginning of 2016 due to weak economic data worldwide and a sharp decline in oil prices. Volatility increased temporarily during this period, leading to significant losses on the equity markets (slide 1). In mid-February, investors' risk appetite returned for a time, thanks to a stabilisation of oil prices and, in particular, improved economic data in the US, China and the euro area. However, by the beginning of June, investor confidence had once again come under pressure due to concerns about a possible exit of the UK from the EU. With the exception of the US and the emerging markets, the major share indices are trading significantly lower than at the beginning of the year.

This turbulence caused many market participants to seek refuge in safe investments. Yields declined substantially on the major government bond markets. Very long-dated bonds were in particularly high demand – a fact which resulted in a flattening of the yield curves. Yields on ten-year government bonds in both the US and Germany have fallen by around 60 basis points since the beginning of the year, due in part to the monetary policy decisions of the major central banks. For instance, the Bank of Japan's decision in January to apply negative interest to central bank deposits took markets by surprise. In March, the ECB decided to further expand its asset purchase programme and took its deposit rate deeper into negative territory. In the same month, the US Federal Reserve signalled that interest rates were likely to rise less quickly than originally anticipated.

Yields on the ten-year government bonds of some highly rated countries like Switzerland and Germany touched new lows in June. In Switzerland, for example, the yield on ten-year Confederation bonds fell to –0.5%. Most recently, they have been trading around 40 basis points lower than at the beginning of the year. More than 90% of outstanding Confederation bonds are currently negative yielding (slide 2). However, Switzerland is certainly not the only country witnessing this scenario, which has now become a global phenomenon; some 17 states are currently reporting sub-zero yields on government bonds and, overall, more than a quarter of government bonds outstanding worldwide are trading at negative yields.

On the foreign exchange markets, the US dollar and pound sterling have depreciated on a trade-weighted basis since the beginning of the year (slide 3). The weakening of the pound is principally due to uncertainty surrounding next week's EU referendum in the UK. However, the Japanese yen – and, albeit to a lesser extent, the euro – have appreciated despite the monetary policy easing of the respective central banks. The Swiss franc has moved within a narrow range, appreciating only slightly since the beginning of the year. This is likely due in part to the SNB's monetary policy – that is, to the negative interest rate and our willingness to take an active role in the foreign exchange market, as necessary.

Experience of negative interest rates

This brings me to our experience of negative interest. For about one and a half years, we have been charging negative interest of –0.75% on sight deposits held by banks and other financial market participants at the SNB. As Thomas Jordan has already explained, negative interest helps to maintain the interest rate differential between the Swiss franc and other currencies. This differential is necessary in order to make investments in Swiss francs less attractive. If interest rates in Switzerland were the same as those abroad, Swiss franc investments would clearly be favoured in the current environment. Negative interest thus helps ease upward pressure on the Swiss franc.

The negative interest rate continues to have the desired effect on the money and capital markets. Money market rates have been tracking close to the SNB's negative interest rate for a number of months now. Money and capital market interest rates have fallen by over 60 basis points since the introduction of negative interest (slide 4). Interest rates on bank loans have reacted much less strongly to negative interest, however.

The SNB does not charge negative interest on all sight deposits, but grants banks and other financial market participants exemption thresholds, so that the banking system does not have to carry the full burden resulting from the high level of sight deposits. Due to the significant expansion of liquidity, most banks have now completely exhausted these exemption thresholds. If the SNB supplies the system with additional Swiss franc liquidity – notably, by selling Swiss francs in exchange for other currencies on the foreign exchange market – the banks' interest rate burden increases. This makes holding additional Swiss franc liquidity even less attractive.

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Innovations affecting financial market infrastructure

I now come to my final topic – innovations affecting financial market infrastructure that is relevant to the fulfilment of the SNB's mandate. The changes relate to the new trading platform for repo transactions and the next-generation Swiss Interbank Clearing (SIC) payment system – both key components of Switzerland's financial market infrastructure operated by SIX and its subsidiaries. Both Switzerland's finance industry and the SNB depend on a reliable, secure and efficient financial market infrastructure. It is an important prerequisite for the SNB to be able to fulfil its statutory duties – providing the money market with liquidity as well as facilitating and securing cashless payments.

New money market platform goes live

The new electronic money market trading platform for repo transactions began operating at the end of February and has completely replaced the old system. The new trading platform's name, CO:RE, is short for 'Collateral & Repo'. The technical changeover to the new system went smoothly for all parties involved.

The new trading platform gives more than 160 national and international participants a single access point for procuring and investing Swiss franc liquidity as well as managing collateral (i.e. pledged securities). It also enables the SNB to carry out its open market operations on the money market. After more than 15 years of service, the system which CO:RE has replaced was no longer able to meet the needs and technical requirements of market participants.

As you know, the SNB is currently implementing its monetary policy using exceptional measures – negative interest on sight deposits and foreign exchange market interventions. In these circumstances, standard money market instruments – repo transactions and SNB Bills – are not being deployed. It is nonetheless important that counterparties are in a position to carry out these transactions seamlessly. The SNB therefore conducts small-volume tests. When a series of tests conducted in autumn 2014 revealed that some market participants were no longer sufficiently familiar with operational implementation, a second round of tests was launched in May 2016. This exercise will be concluded at the end of July. These kinds of test operations, which help ensure counterparties' operational readiness, are greatly appreciated by market participants.

Next-generation SIC payment system

The thoroughly redesigned SIC payment system known as 'SIC4' came on stream in April 2016. Based on cutting-edge, forward-looking technology, this new system reinforces the principles of security, reliability and high performance that have proved their worth for more than 30 years. It is particularly crucial for Switzerland's finance industry that transactions can be effected with the highest possible levels of security. The SNB therefore welcomes the fact that the former security infrastructure for accessing the SIC system has been overhauled and that a tailor-made security solution will be used from now on.

A large proportion of cashless payment transactions in Swiss francs is settled via the SIC system. In 2015, SIC settled a daily average of approximately 1.7 million transactions worth CHF 154 billion, including both client and interbank payments in Swiss francs. Moreover, SIC is an important system through which the SNB implements its monetary policy. We therefore have a keen interest in the ongoing development of the SIC system to ensure that it is able to meet changing technical and professional requirements.

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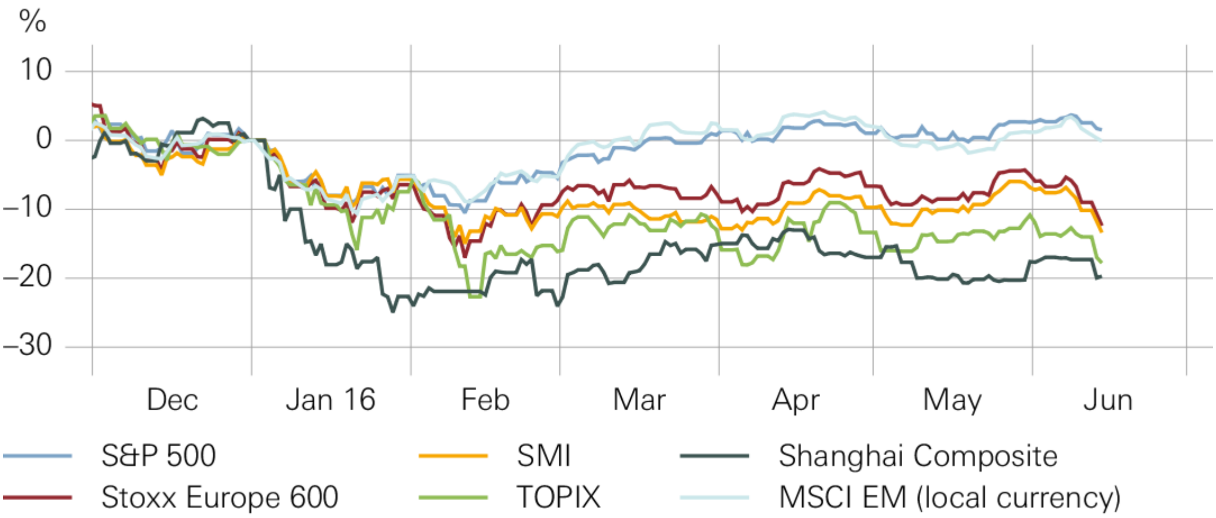
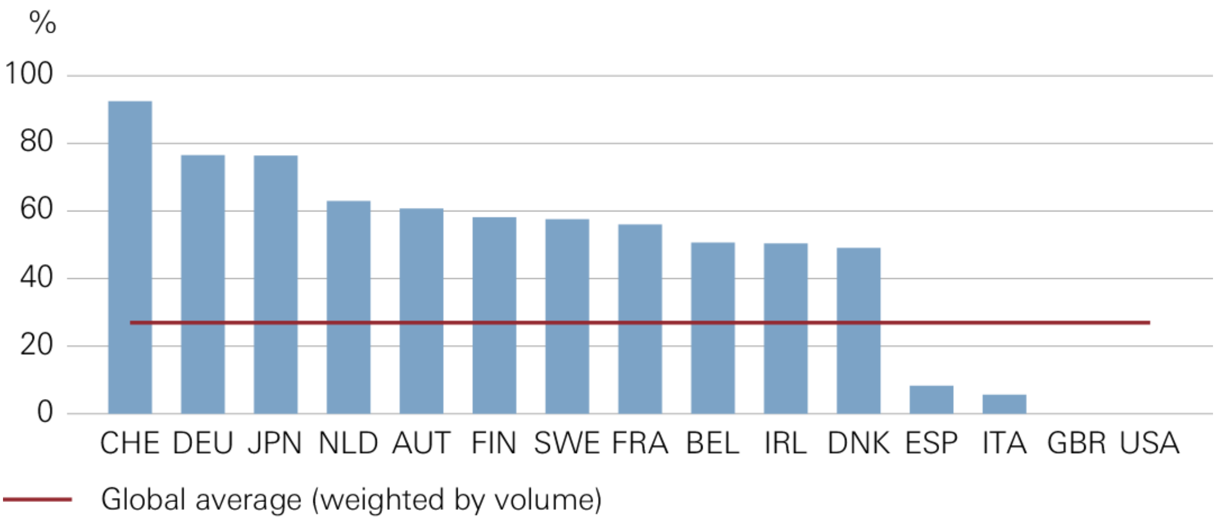
Slides

CHART 1: GLOBAL EQUITY MARKETS
Change in percent since beginning of year



Sources: Bloomberg, SNB

CHART 2: SHARE OF GOVERNMENT BONDS WITH NEGATIVE YIELDS
Based on bonds with residual maturities of at least one year (June 2016)



Sources: BAML, Bloomberg, SNB

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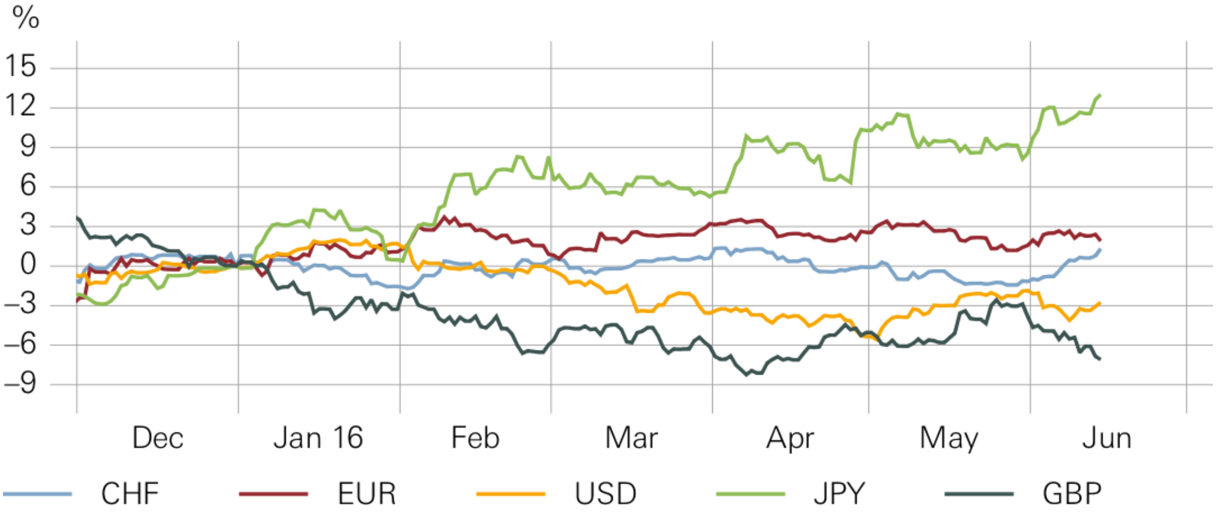
CHART 3: TRADE-WEIGHTED EXCHANGE RATES

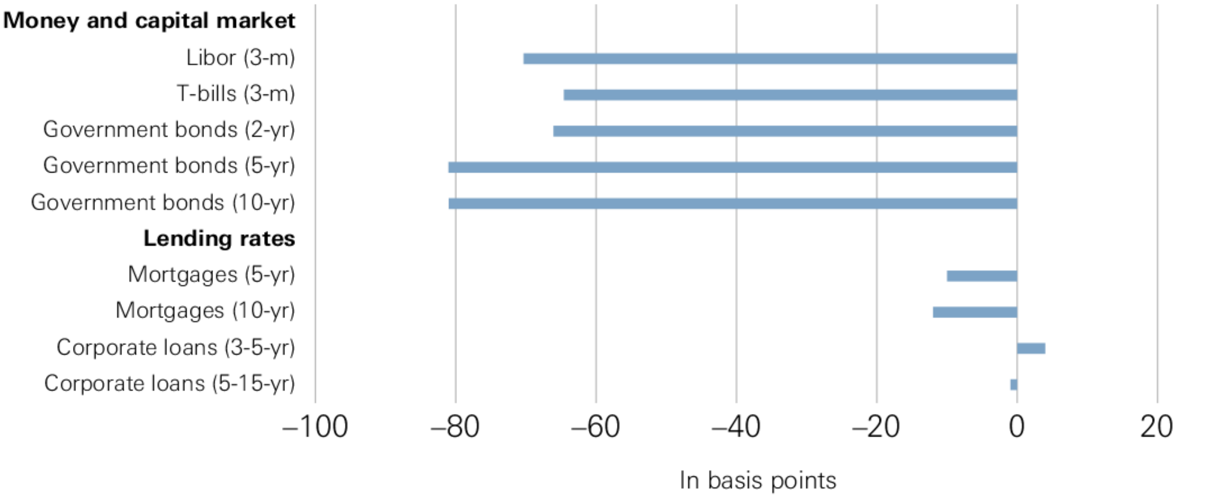
Change in percent since beginning of year



Sources: Bloomberg, SNB

CHART 4: CHANGE IN SWISS FRANC INTEREST RATES

Since December 2014



Sources: SNB, Bloomberg