News conference

Berne, 17 June 2021
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Introductory remarks by Andréa M. Maechler

I will begin my remarks with a review of developments on the financial markets in the first half of the year. After that, I will speak about the changeover from Swiss franc Libor to SARON at the end of this year. Finally, I would like to tell you about some important developments in the field of cashless payments.

Situation on the financial markets

Risk sentiment on the financial markets has improved considerably since our last news conference in December. In addition to the economic recovery in large parts of the world, various fiscal programmes and ongoing expansionary monetary policy, progress in vaccination campaigns and the prospect of an easing of coronavirus-related restrictions have played a particularly important role here. Prices rose in a range of commodity segments due to the rapid resumption of economic activity.

In this environment, inflation expectations and long-term US government bond yields have risen significantly. In the slipstream of US interest rates, rates in Europe and Switzerland also rose – albeit not quite as strongly as in the US. The yield on 10-year Swiss Confederation bonds recently reached approximately –0.2%, exceeding the level recorded at the beginning of the pandemic (cf. chart 1). As interest rates have stabilised in the US since April but have continued to rise in Europe, the differential between US and European rates has narrowed (cf. chart 2). Short-term interest rates remain at a low level. Market participants still do not expect central banks to begin raising interest rates until 2023.

Global equity markets reached new highs thanks to a more positive economic outlook and expansionary monetary and fiscal policy. Furthermore, many companies posted good earnings and sales figures in the first quarter, which also supported share prices. According to the latest readings, the leading indices in the US (S&P 500) and Europe (STOXX 600) were up to 15%

higher than at the beginning of the year. Switzerland's SMI has gained more than 10% over the same period (cf. chart 3).

Price movements on the foreign exchange markets were significantly influenced by interest rate developments. At the beginning of the year, higher US interest rates supported the dollar, which appreciated by almost 3% on a trade-weighted basis in the period to March. However, the dollar has depreciated again given the stabilisation of US interest rates since April. Mirroring this, the euro depreciated slightly on a trade-weighted basis at the beginning of the year and has firmed again since April given the interest rate rise in the euro area. Overall, the US dollar and the euro have changed little on a trade-weighted basis since the beginning of the year.

Against a backdrop of positive risk sentiment, the Swiss franc was less sought after as a safe-haven currency. In the first quarter, for instance, we observed a significant depreciation, especially against the dollar but also against the euro. This continued until the beginning of April. Due to the weaker dollar, however, the franc appreciated again in the second quarter. Overall, the franc has depreciated by somewhat more than 1% on a trade-weighted basis since the beginning of the year (cf. chart 4). The Swiss franc remains highly valued.

Transitioning from Libor to SARON

Let me now say a few words about the changeover from Swiss franc Libor to SARON. The Libor administrator, ICE Benchmark Administration, announced in March that all Swiss franc Libor reference rates will be permanently discontinued from 31 December 2021. Unlike Libor reference rates in other currency areas, there will be neither a synthetic Swiss franc Libor nor a lengthy transition period. Swiss franc Libor will be replaced by SARON.

The changeover to SARON is well on track – especially in the cash market. We see good progress in mortgages in particular. Most newly issued mortgages with a reference rate are now based on SARON (cf. chart 5). FINMA estimates that half of all outstanding variable-rate mortgages will be using SARON as a reference rate by May 2021.

Progress is also being made on the changeover to SARON in the derivatives market, but much still remains to be done here. Supported by the growing volume of SARON-based cash products, liquidity in SARON swaps has increased recently (cf. chart 6). However, in May 2021, Libor swaps still accounted for around 40% of the interest rate swap volume in Swiss francs. Moreover, the Libor-based swap curve still serves as the primary price reference in the capital market.

The period until the end of the year must be used to systematically complete the remaining transition work. Existing Libor contracts must be replaced by SARON contracts or furnished with robust fallback clauses before the end of 2021. According to FINMA, from mid-year, new contracts may no longer reference Libor, but only SARON. This applies to cash products as well as derivatives. Market participants must therefore quickly switch to using the SARON swap curve instead of the Libor curve as a price reference in the capital market and the entire cash market.

Instant payments – the future

This brings me to my last topic, developments in cashless payments. One of the SNB's statutory tasks is to facilitate and secure the operation of cashless payment systems. In order to perform this task, the SNB makes Swiss Interbank Clearing (SIC) – the central payment system in Swiss francs – available and entrusts SIX Interbank Clearing Ltd (SIC Ltd) with its operation. The SIC system makes it possible to settle payments in sight deposits at the SNB on a final and irrevocable basis. By designing the SIC system appropriately, the SNB creates the framework conditions for secure, efficient, sustainable and account-based cashless payments.

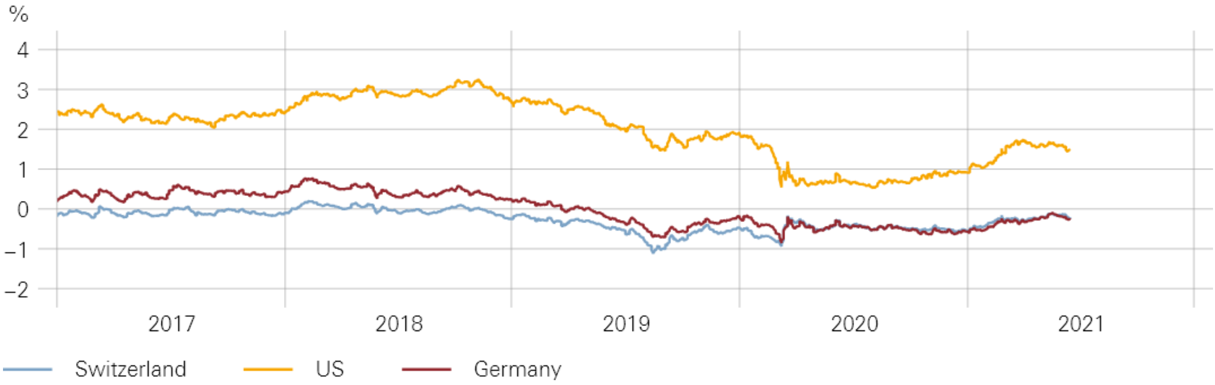
To ensure that this remains the case, the associated infrastructure must be developed continuously. This is particularly important at the moment, because cashless payments worldwide are undergoing a transformation. New players, operating with new business models and technologies, are entering the payment services market. It is becoming increasingly clear that so-called 'instant payment' solutions – that is to say, real-time payments – will be critical in the future. In contrast to conventional bank transfers, with instant payments, the originator's account is debited immediately and the beneficiary is definitively credited with the payment amount within seconds. This reduces credit risk and allows bank customers – whether the originator or the beneficiary – to have up-to-date account balances at all times.

The task now is to lay the foundations for instant payments at the infrastructure level so that these advantages can be harnessed for Switzerland in the future. The SNB, together with SIC Ltd, is therefore developing the SIC system to ensure that it will be technically possible to settle payments instantly from the end of 2023. In order for instant payments to become the 'new normal', the SNB has decided to make the acceptance of such payments compulsory. This had also been a concern of SIC Ltd's Board of Directors and was welcomed by SIC participants in a consultation. The requirement will initially be introduced from August 2024 for the largest financial institutions handling retail payments.

However, if the potential of instant payments is to be fully realised, private-sector payment solutions will be needed. These have yet to be developed. I am confident that this will happen as, for financial institutions, payments are the most frequent touchpoint with clients and are thus becoming increasingly important.

Charts

CHART 1: 10-YEAR GOVERNMENT BOND YIELDS



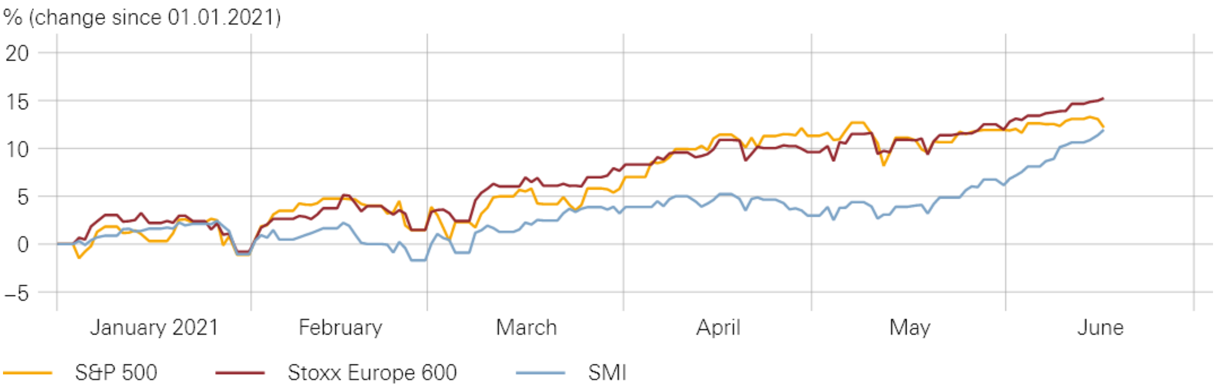
Source(s): SNB, Bloomberg

CHART 2: US-GERMANY INTEREST RATE DIFFERENTIAL

10-year government bonds

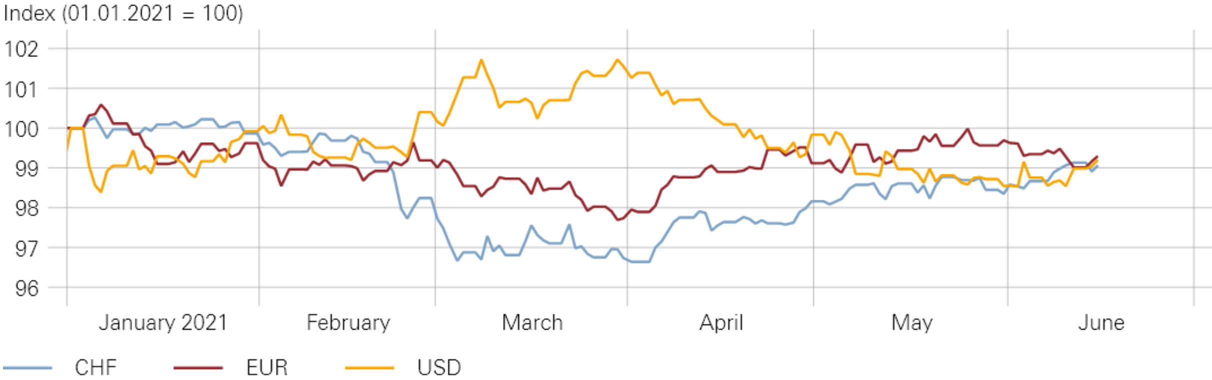
Source(s): SNB, Bloomberg

CHART 3: GLOBAL EQUITY MARKETS



Source(s): SNB, Bloomberg

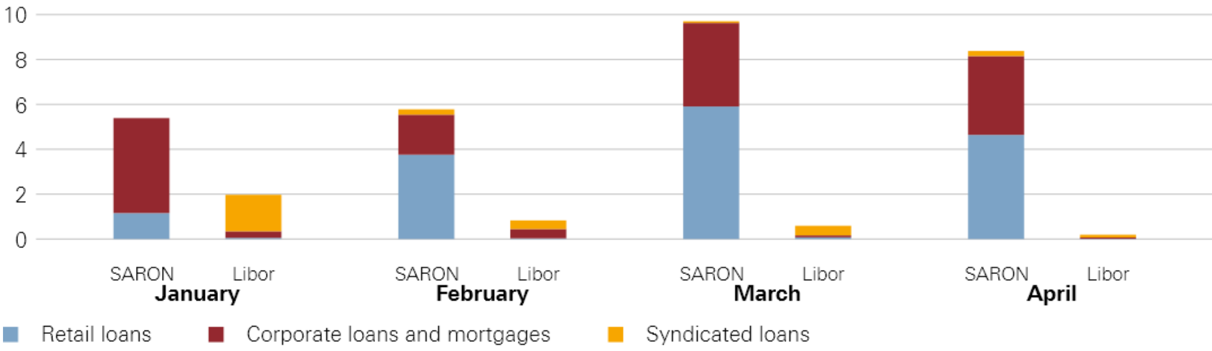
CHART 4: TRADE-WEIGHTED EXCHANGE RATES (NOMINAL)



Source(s): SNB, Bloomberg

CHART 5: SARON AND LIBOR-BASED NEW LOANS

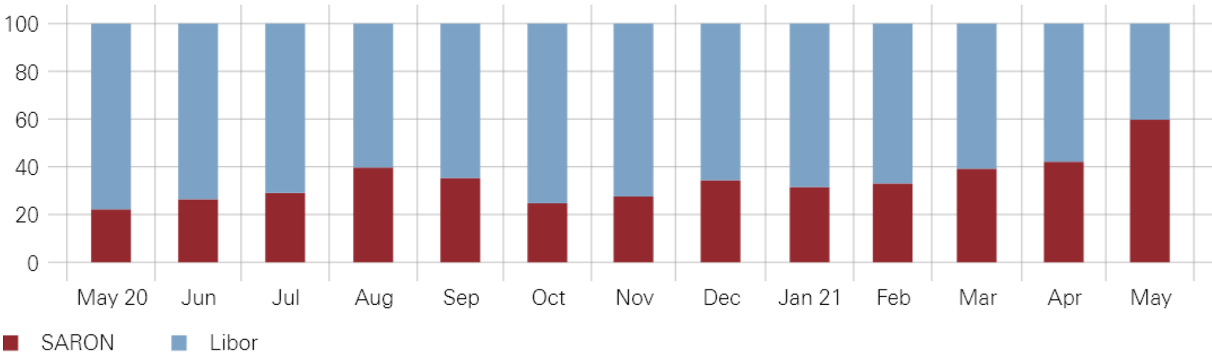
Monthly volume in 2021 in CHF billions; Libor loans due after 2021 and with robust fallback clauses



Source(s): Swiss Financial Market Supervisory Authority (FINMA)

CHART 6: SARON AND CHF LIBOR-BASED INTEREST RATE SWAPS

Relative share of total turnover per month in percent



Source(s): SNB, Trade Repository data in accordance with Financial Market Infrastructure Act (FinMIA)