SCHWEIZERISCHE NATIONALBANK
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SWISS NATIONAL BANK

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Introductory remarks by Fritz Zurbrügg

I will begin today with the situation on the financial markets. Then I will address the management of our currency reserves, before moving on to trends in the money market, as well as the current discussion regarding reference interest rates. Finally, I will say a few words on the future of the repo market infrastructure in Switzerland.

Developments on the financial markets

In December, at the last news conference, I remarked on an easing of tensions on the financial markets. This easing largely continued in the first half of 2013. The government bonds of the European peripheral countries, in particular, benefited from the greater trust of investors, with Ireland and Portugal raising funds via long-term bonds on the capital market for the first time since 2010 and 2011, respectively.

The buoyant mood on the financial markets was also demonstrated on the advanced economies' stock markets. In May, there were new historical highs in the US, the UK and Switzerland. Investors' risk appetite was encouraged not least by the very expansionary monetary policy around the world. Various central banks, including the European Central Bank (ECB), again reduced their key interest rates early this year. The prospect of low yields on bond markets induced many investors to increase their equity investments. In Japan, monetary policy announcements resulted in significantly improved investor sentiment, with the Nikkei stock index climbing by 80% between November 2012 and May 2013 on the back of a strongly depreciated yen and the ensuing higher profit expectations of Japanese companies.

In the positive risk climate, investments perceived as secure have lost value. A prominent example is gold: The dollar price per fine ounce of gold had risen in 2011 to a high of USD 1,900. Currently, it is approximately a quarter lower. Government bonds perceived as secure have also fallen in value, even though their yields are still very low. This also applies to Confederation bonds. While the yield on ten-year Confederation bonds, for example, has significantly increased since the low point of last December, at around 0.8% it is still extremely low.

Movements in the Swiss franc exchange rate matched this risk-friendly market environment. Since January, the euro/Swiss franc exchange rate has moved further away from the minimum rate of CHF 1.20, and at times, values were recorded which were last seen in Spring 2011, in other words, before the introduction of the minimum exchange rate. On a trade-weighted basis, however, the Swiss franc has remained largely unchanged since the beginning of the year.

The favourable developments on the financial markets, which have persisted over a lengthy period, were the result of a reduction in extreme risks. This was due, on the one hand, to measures taken by the ECB, and on the other, to the fact that, in the US, the 'fiscal cliff' was averted. As recent weeks have shown, conditions on the financial markets can change again swiftly. In Japan, there has been a sharp correction on the stock market and the yen has again gained somewhat in value. Meanwhile, in the euro area, there is a discrepancy between the generally favourable trend on the financial markets and the disappointing economic data. Finally, in the US, a certain degree of uncertainty about the future monetary policy direction of the Federal Reserve (Fed) has gained ground. Overall, the market environment continues to be dominated by high levels of uncertainty, thereby remaining susceptible to sudden shifts in mood.

Management of currency reserves

The easing of tensions on the financial markets also affected the Swiss National Bank's (SNB) currency reserves. These are mainly composed of foreign currency investments and gold. At the end of May, the SNB held foreign currency investments of just over CHF 440 billion (cf. chart 1). Due to our liquidity and security requirements, a large portion of our foreign exchange holdings are in government bonds and deposits with other central banks. This portion amounted to 78% at the end of the first quarter of 2013. To further diversify investment risk and increase investment in real assets, we raised our proportion of equities from 12% to 15% in the first quarter. We currently hold equities worth around CHF 65 billion, which is three times more than at the end of 2011. In this regard, we have widened our scope to include shares of companies with relatively small market capitalisation, as well as those in advanced economies not previously considered, with the result that our equity portfolio now covers all advanced economies. Since we have invested relatively little in these new markets, our currency allocation has hardly changed in recent months.

The proportion of gold in the currency reserves amounted to 10% at the end of the first quarter of 2013. From an investment viewpoint, gold is important for a good diversification of the currency reserves. Historically, gold often moves in an opposite direction to other assets. In contrast to equities or bonds, however, gold does not yield interest or dividends. And as the recent months have shown, gold is also among the most volatile and therefore most risky investments, with a noteworthy example occurring in April, when the gold price fell by about 15% in less than a week.

Last December, the SNB announced it would be opening a branch office in Singapore. This will enable us to more efficiently manage our foreign currency investments, which have risen sharply, to expand our market coverage in Asia, and to position ourselves closer to key market participants. Singapore is one of the most significant trading centres for bonds in Asia. At the same time, the branch office in Singapore will facilitate the enforcement of the minimum exchange rate. It will open in July, with a staff of seven. The Singapore office will concern itself only with trading; settlement will continue to take place in Zurich. The branch office is completely subordinate to existing SNB oversight and control.

Swiss franc money market and reference interest rates

The continuing high level of Swiss franc liquidity has had the desired effect of keeping money market interest rates at close to zero. The three-month Libor has been at around two basis points since mid-January. Interest rate expectations, based on Libor future contracts, are also close to zero for the foreseeable future, but not negative, as was the case over much of last year.

As a result of the very low money market interest rates and high liquidity in the banking sector, money market turnover has dropped substantially in recent years. This is illustrated in chart 2, which shows the total of banks' sight deposits at the SNB, as well as turnover in the area of secured and unsecured call money. The small number of transactions on the money market is a problem for generating representative reference interest rates. In addition, the selection and setting of reference interest rates has come under the scrutiny of market participants and the public, as a consequence of the Libor manipulation.

As regards the problems surrounding the Libor, efforts at reform are underway on an international level. To ensure the continuation of the Libor, a raft of measures have already been initiated. These include both an improved regulatory framework for the Libor fixing, as well as enforced oversight by the relevant authorities. The aim is to make the Libor more representative and to restore the trust of market participants. Aside from these regulatory steps, what is also vital for the continued existence of the Libor is that an adequate number of banks participate in the Libor fixing, and that the money market upon which the Libor fixing is based recovers its importance.

Credible and representative reference interest rates are of major importance for the financial markets. They serve as benchmarks in the pricing of loans, financial products and derivatives. In Switzerland, approximately 80% of banks use the Libor as a benchmark for loans, especially for mortgages. The responsibility for the provision of reference interest rates therefore lies primarily with the market participants. They should be aware of this responsibility, and become involved, where necessary, in exploring alternative reference interest rates. The SNB is playing a supportive role in this regard, in that it is participating in discussions with market participants, as well as with Swiss and foreign authorities.

Future of the repo market infrastructure in Switzerland

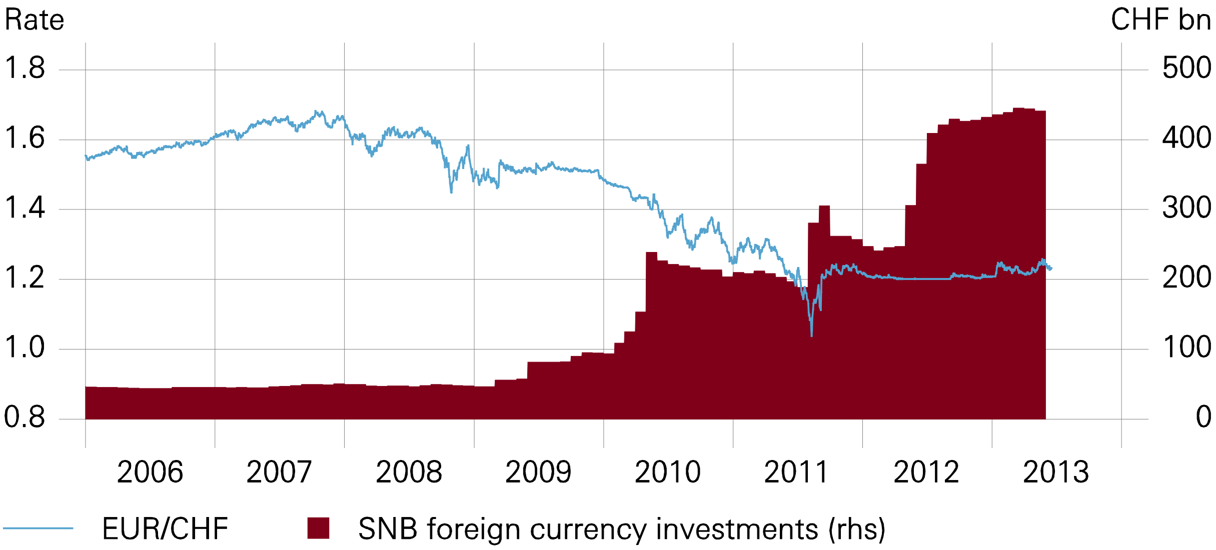
With regard to repo market infrastructure, it is important that we are well prepared for the future. A functioning, secure and efficient repo market is vital for the implementation of monetary policy, as well as for market participants' access to central bank liquidity. Switzerland has a long tradition of organising its core financial market infrastructure as a joint enterprise, according to the 'user-owned, user-governed' principle. In the case of the repo market, the current solution has proven its worth. Nonetheless, due to changes in the stock market and regulatory environment, the SNB has undertaken a reassessment of the situation.

In the light of this, the SNB has decided to conduct its monetary policy operations via a new trading platform, provided by SIX Group Ltd, as of May 2014. In this way, the repo market will be based on an integrated solution, in which the trading platform, securities settlement system and payment system are covered by a single source. Moreover, further developments will also be possible, for example the expansion of trading to incorporate further products. Since the new trading platform will resemble the existing Swiss franc repo system (Eurex Repo), access for market participants will entail only minimal adjustments. We are confident that an integrated solution is the best means of ensuring a robust repo market infrastructure.

Media News Conference

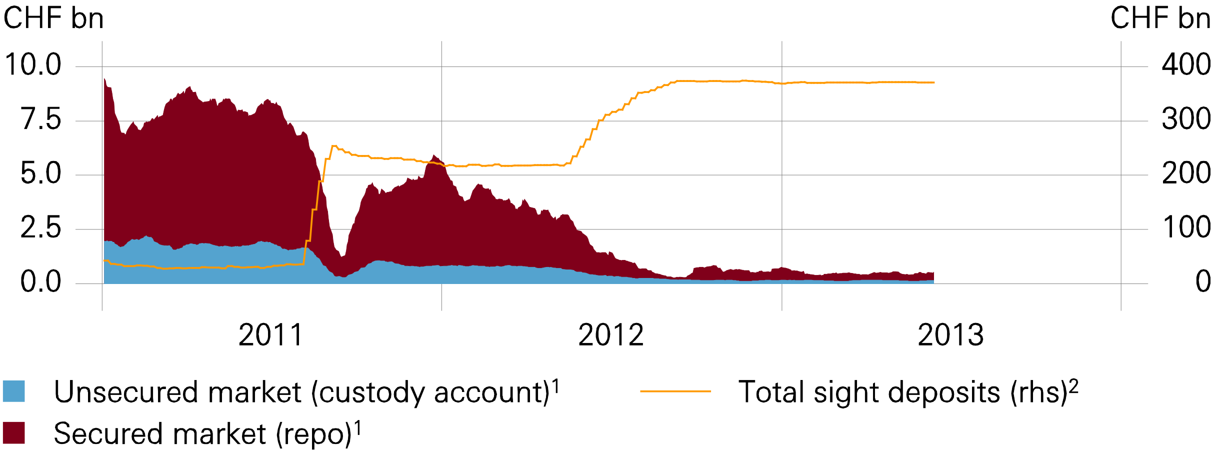
Charts

CHART 1: EUR/CHF AND SNB FOREIGN CURRENCY INVESTMENTS



Sources: SNB, Bloomberg

CHART 2: ACTIVITY AND LIQUIDITY ON MONEY MARKET



1 Call money turnover, moving average (2 weeks); unsecured market based on estimates
2 Weekly average of Swiss franc sight deposits at the SNB

Source: SNB

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