

FX Daily: Swiss National Bank faces limited options to weaken franc

The dollar is a little stronger as investors reassess the immediacy of a US slowdown and what it means for interest rates. One early highlight for Europe is the Swiss National Bank meeting. Hardly anyone expects the policy rate to be cut into negative territory, but the franc remains strong and the SNB could try tweaking rates on excess reserves



Swiss National Bank
Chairman Martin
Schlegel

➔ USD: Bears are getting hungry

We don't really buy into the story that geopolitics has driven the dollar stronger this week. If investors were substantially more worried about military conflict at NATO's eastern border, CEE currencies would be a lot weaker, as would German equity markets. Instead, this week's dollar strength is probably a function of not enough bearish news to justify what, after all, is quite an expensive proposition in being short dollars. For example, one week interest rates for G10 currencies see the dollar paying the highest at 4.14% per annum.

Instead, the US news has not been that bad. Yesterday saw the sales rate for US new homes spike back to levels last seen in early 2022. And year-end pricing for the Fed Funds rate is now 5bp above its low in mid-September.

For today, the focus will probably be on the weekly initial jobless claims data and the August existing home sales data. On the former, another low (dollar bullish) number is expected near 230k as this data continues to correct lower from 264k a fortnight ago. That spike was attributed to fraudulent claims in Texas. Regarding the home sales data, yesterday's spike in new homes could have been a function of dealer incentives – something not available to existing home sales. Consensus is for a softer existing homes sales figure today of 3.95 million annualised rate. Any upside surprise here could lift the dollar too.

We've also got eight Fed speakers today – starting with Stephen Miran at 1415CET. Presumably, he'll be keeping pressure on Chair Powell and the FOMC to take the policy rate lower more quickly. His views are well understood, however, and by themselves may not be enough to generate much of a move lower in the dollar today.

DXY looks stuck near 98 for the time being. Some softer US data is required to feed the dollar bears again – and it is not clear that this is on the menu today.

Chris Turner

➔ EUR: Optimism wanes a little

EUR/USD sold off yesterday morning and that looked to be a function of the [German Ifo release](#). Here, some doubts seem to be emerging as to how quickly fiscal stimulus can be employed and whether it is indeed just creative accounting. Our macro team are looking for a pick-up in eurozone activity in 2026, but clearly some patience is required. And if EUR/USD is to move higher later this year as we forecast, this will largely have to be on the back of a further rise in unemployment and Fed rate cuts.

In the absence of eurozone data or ECB speakers today, EUR/USD will be dragged around by US events today. A move under 1.1725 in EUR/USD could damage the short-term picture and see the correction extend towards the 1.1660 area.

Chris Turner

⬇ CHF: SNB could look at excess reserves

The SNB meets to set policy today, at a time when Switzerland faces a 39% tariff on exports to the US, when CPI is running at just 0.2% year-on-year and when its preferred, inflation-adjusted measure of the Swiss franc is close to the extreme highs of early 2024, which prompted a dovish shift in tone. Yet only one of 25 economists surveyed by *Bloomberg* expects the SNB to cut the policy rate from 0.00% into negative territory.

While the SNB has said that all options are open on monetary policy, such as taking rates negative again or more concerted FX intervention to sell the Swiss franc, we believe its [hands are quite tied](#).

What we would look out for today would be two things: 1) any change in rhetoric to express more concern over the franc, such as wording that the franc is 'highly valued' or that the SNB is prepared to intervene 'more strongly'. 2) Any tweaks to the rate the SNB charges on excess reserves.

Currently, the SNB operates a system whereby a negative charge of 25bp, i.e. 25bp lower than the 0.00% policy rate, is applied on excess reserves. Excess reserves are defined as anything the banks hold over 18 times their minimum reserves. If the SNB wanted to do something about Swiss franc

strength, it could either cut that 18x factor on minimum reserves – exposing more bank reserves to that 25bp charge. Or it could extend that 25bp charge to 50bp. Either of those moves on excess reserves could see the SNB accused of 'stealth' easing, which could briefly hit the franc.

Barring a surprise cut in the policy rate, however, we doubt any bounce in EUR/CHF lasts long. And we see EUR/CHF continuing to trade near 0.92/93 over the coming months. Next year, however, more bullish upward momentum in eurozone growth and eurozone yields should carry EUR/CHF higher.

Chris Turner

➔ CEE: CNB waiting for more data

As expected, the Czech National Bank (CNB) left rates unchanged at 3.50% yesterday. Forward guidance remained largely unchanged, with the governor repeating his August statement that all options remain open – both a rate cut and a rate hike. At the same time, however, the discussion focused mainly on inflationary risks, with the labour market and real estate prices now appearing to be the most pressing issues for the central bank. Nevertheless, the CNB's communication has not changed much overall, and the central bank is likely waiting for further data to show the direction of inflation. We believe that inflationary pressures will push headline and core inflation up once again and that the central bank will step up its hawkish rhetoric. Although our baseline remains unchanged for the time being, we believe that the risks are clearly pointing upwards.

The CZK, like other currencies in the region, came under pressure yesterday, and the CNB did not provide much support to FX. Given that the entire CEE region has enjoyed market support in recent months, positioning remains heavy, and the global story may put CEE currencies under slight pressure, which was probably the case yesterday.

Yesterday's headlines suggest that the Ukrainian-Russian conflict will not end anytime soon, which was one of the reasons why the market bought CEE currencies in the summer. Although the current headlines should not be a game-changer for CEE, some pressure on FX is understandable. However, the local story in the Czech Republic remains positive for the CZK, and we remain bullish with EUR/CZK heading to 24.000.

Frantisek Taborsky

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

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