Swiss National Bank preview: Renewed focus on foreign exchange intervention

In Switzerland, inflation continues to surprise on the downside, and the strong Swiss franc is weighing on exporting companies. A 25bp rate cut is expected on Thursday, and the SNB could be more explicit about intervention on the currency markets

Source: Shutterstock

Inflation is no longer a problem

Inflation in Switzerland continues to surprise on the downside. Headline inflation was 1.1% in August, after 1.3% in July. This is much lower than in other developed countries, and well within the SNB's target range of 0-2%. In its new forecasts in September, the government is now predicting average inflation of 1.2% in 2024 and 0.7% in 2025. Given the developments of recent months, the SNB is expected to lower its inflation forecasts at Thursday's meeting, most likely the forecasts for 2024 and 2025. At the June meeting, it was still expecting 1.3% in 2024, 1.1% in 2025 and 1% in 2026, figures that had already been revised downwards compared with the March meeting.

Inflation is therefore no longer a real problem in Switzerland, which should allow the SNB to continue cutting its key rate this week, after the cuts in March and June. We are expecting a cut of 25 basis points to bring the key rate to 1%.

Expensive Swiss franc weighs on Swiss exports

While inflation is no longer a problem, the strength of the Swiss franc has become a very clear one for Swiss exporters, who are becoming increasingly vocal on the subject. Last week, the Swiss watch industry made a direct appeal to the SNB to ensure that the Swiss franc weakens. Over the summer, EUR/CHF reached 0.93, close to the all-time low reached at the end of 2023. The value of the Swiss franc has since eased slightly, but remains very high.

While the strong Swiss franc made it easier than elsewhere for the SNB to control inflation in 2021 and 2022, it is now a serious problem for Swiss exporters, against a backdrop of weaker global demand. Some believe that the SNB might be tempted to combat the strength of the Swiss franc by cutting rates by 50 basis points this week, but we doubt it. With its key rate already at 1.25% since June, the potential for further rate cuts by the SNB is not considerable, and we think it will prefer to proceed slowly and cut its rate to 1% this time. At the same time, the SNB is likely to step up its intervention in the foreign exchange market, and may even resume describing the Swiss franc as 'overvalued'. This would be a clear sign of its willingness to intervene further to limit further appreciation, against a backdrop of expected volatility in global markets over the coming months that is generally synonymous with a tendency for the Swiss franc to appreciate. We believe that another 25 basis point rate cut in December is likely.

A 25bp cut could see CHF rally Thursday

Expectations extracted from the Swiss overnight index swaps (OIS) market show investors pricing a 37bp cut this Thursday. In other words, the market is evenly split between a 25bp and 50bp cut. Should the SNB deliver on our expectations of a 25bp cut then the initial EUR/CHF reaction would likely be lower.

Any introduction of the term 'overvalued' to describe the Swiss franc, while notable, looks unlikely to turn the bearish trend in EUR/CHF. Here the view is that the convergence in global interest rates down towards the low Swiss level, while investors are reluctant to price the SNB policy rate below 0.50% in this cycle, is a dominant bearish theme for EUR/CHF. FX intervention would likely be passive and at some point could run into some difficulties with a US Treasury vigilant on countries using intervention to prevent local currencies from adjusting stronger.

Our baseline view sees EUR/CHF staying offered in a 0.93-0.95 range over the coming months. Right now, we suspect the only meaningful SNB communication to remove appreciation pressure on the Swiss franc would be comments that 0.50% is not a floor for the policy rate.

Author

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer