

European Watch

One and likely done

One and done?

We expect the SNB to increase policy rates 25bp next week to 1.75% and, while still data dependent, this is probably the last hike in this cycle. After the last meeting, we flagged the risks of a 50bp hike in June given the SNB's inflation forecasts at that time. But since then, inflation developments have been a bit more benign, reducing the risk of a 50bp increase. We also expect a more balanced tone when it comes to discussing the inflation outlook. Still, we would expect the SNB to leave the door open for more, if needed.

A patient SNB

We expect the SNB to hold rates steady for some time. Consensus has the first cut in 2Q24, in line with the first forecast reduction from the ECB. We would expect a bit more patience from the SNB and only anticipate one cut in 2H24, followed by another in early 2025. Fears of "letting go" too early dominate central bankers' minds around the world these days. A very active use (unwinding) of the balance sheet probably gives some bias to lag the ECB a bit.

Less is more

The main reason we didn't go for a stronger hiking cycle comparable to other central banks is that we were expecting the SNB to actively use its balance sheet to help with the tightening of conditions. This was explicit in the last statement when they told us this was helping dampen imported inflation. We would expect that trend to continue from here.

FX: SNB fully priced

We think the SNB will deliver another 25bp hike in June, with a risk for 50bp, but this is also consistent with market pricing. The market expects another 50bp by the SNB in the next two meetings. Recent SNB communication has been hawkish, pointing to the need for more tightening. This is in addition to the active role of the balance sheet and communication suggesting comfort with a strong CHF to contain inflation. This is also despite core inflation having dropped to 1.9%, which is the lowest in G10—headline inflation is 2.2%, also the lowest in G10 (Exhibit 1).

CHF has been one of the strongest performers in G10 this year—after GBP—but the FX market does not expect much from the next meeting. Our analysis shows a relatively neutral market position, with hedge funds selling CHF this year (Exhibit 2). The hawkish approach of the SNB may not be sustainable, particularly relatively to the rest of G10 central banks, but for now it supports CHF.

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SNB- Swiss National Bank

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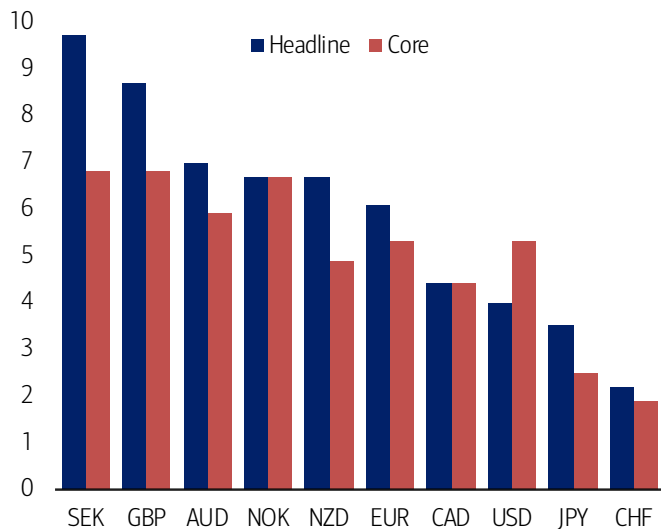
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Exhibit 1: G10 inflation rate

Switzerland has the lowest inflation in G10

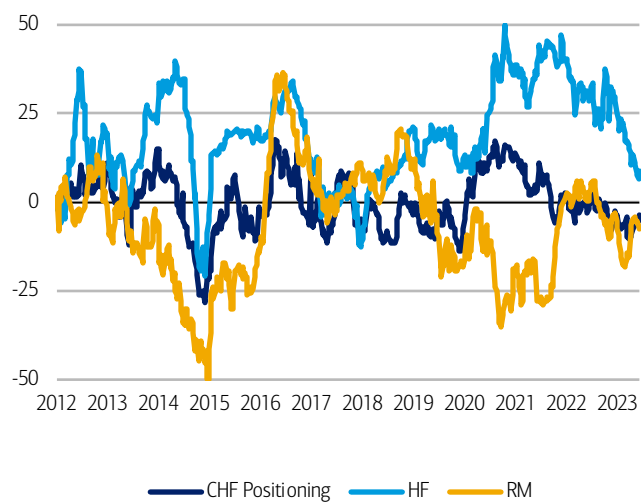


Source: Bloomberg and BofA Global Research.

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Exhibit 2: CHF market position

CHF market position neutral; hedge funds have been selling CHF this year

Source: BofA Global Research. For methodology and latest data, please see: [Liquid Cross Border Flows 12 June 2023](#)

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