

European Watch

SNB review: neutral FX stance

Key takeaways

- SNB policy rates on hold, but focus on FX selling dropped earlier than thought. That's not dovish, however, we would argue.
- Inflation forecasts say no cuts needed; happy with CHF level. We still expect no cuts before Sep-24, FX stays the main tool.
- Symmetric risks around CHF suggest range-bound TWI, but SNB is not willing to describe CHF as overvalued.

SNB neutral on FX interventions again

There was no change to the SNB policy rate today, as expected. It remains at 1.75%. The small surprise to our expectation was that the central bank dropped the reference to a focus on foreign asset selling earlier than we thought. Our call remains unchanged: we expect the SNB to start cutting later (September 2024) and less (quarterly to 0.5% by September 2025) than the ECB, with the risk of even less.

“Dovish” would look different

Although the pivot to symmetric FX intervention language was earlier than expected, we would not read the SNB as “dovish” per se. Inflation forecasts at 1.6% in late 2026 are sufficiently low to take rate hikes formally off the table. But they are sufficiently high to suggest that cuts are not needed and the exchange rate is probably at tolerable levels for the SNB at the moment. That means that the SNB is happily “on hold” for now. That implies FX selling if the currency were to depreciate and FX buying, potentially, if sharp upward pressure on CHF were to materialise as global central banks start to cut. We would not rule out the need thereof on an ad hoc basis through 2024.

FX: A small tweak

We had thought that the SNB would keep its language on FX sales unchanged, but in the event, they made it more symmetric than previously. Crucially, however, SNB President Jordan was reluctant to indulge the markets in a significant change in the characterisation of CHF. He stopped short of resurrecting the “CHF is overvalued” language, preferring to adopt the following: “We need to change policy if FX rate becomes too tight”. Jordan has left the language deliberately vague, as it suggests to us that the SNB will act opportunistically to prevent significant strength or significant weakness. We would take the reference point as the CHF real effective exchange rate (REER), as shown in Exhibit 1. In our view (FX sales have not ceased), the SNB balance sheet remains sizeable, but it has inserted some optionality. We think that it will sell FX if the CHF REER becomes too weak and potentially sell CHF if it becomes too strong. This is all suggestive of a central bank that wants to keep the CHF range-bound. Despite the small tweak in language, we are comfortable with our projections for CHF moving forward, looking for 0.96 by year-end and 0.97 by year-end 2024 (Exhibit 2). Perhaps the key message here is that today’s announcement should limit excessive CHF volatility.

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ECB: European Central Bank

SNB: Swiss National Bank

Exhibit 1: CHF REER

Language tweak may suggest that SNB wants to keep CHF in a range



Source: BofA Global Research, Bloomberg

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Exhibit 2: CHF forecasts versus EUR and USD

We expect modest CHF weakness next year

		2023		2024				2025			
	Spot	Q4	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
EUR/CHF	0.95	0.96	0.96	0.96	0.97	0.97		0.98	0.98	0.99	1.00
USD/CHF	0.87	0.91	0.87	0.87	0.84	0.84		0.84	0.84	0.84	0.83

Source: BofA Global Research, Bloomberg

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