PREVIEW: SNB policy decision due 24th March 2022 at 08:30GMT/04:30EDT

- Expected to keep rates on hold, focus will be on the Franc's classification and language around intervention.
- Currently, the CHF is classified as being "Highly Valued" though the recent EUR/CHF move below parity may merit an upgrade.
- Albeit, its swift reversal and the SNB attributing strength to inflation differentials perhaps weakens the argument for an alteration.

Overview: To keep rates on hold at -0.75%; as always, focus will be on the language and classification of the CHF, particularly in light of recent moves that saw EUR/CHF move below parity. Currently, the CHF is classified as being “Highly Valued”, while an upgrade to this is possible, such a view is perhaps muddied by the swift move back above parity and the SNB’s view that inflation differentials are a driver behind currency demand, a factor they cannot swiftly alter. Elsewhere, and particularly as the ECB referred to their equivalent in March, we remain attentive to any alterations regarding the exemption threshold for domestic banks, currently at 30x. Reminder, since the last outing, we have seen the reactivation of the CCyB, a step that has been a focal point around recent policy announcements. Note, the March gatherings do not feature a presser from Governor Jordan.

Previous Meeting: In December, the SNB kept its Policy Rate at -0.75% and continued to classify the Swiss Franc as “Highly Valued”. Notably, reiterating the line that they “remain willing to intervene in the foreign exchange market as necessary”. While this announcement was essentially unchanged and as expected, we did see some modest pressure in the CHF; though, that was attributed more to an unwinding of positioning given that session's extensive Central Bank docket.

CHF: As is usually the case, the focus of the announcement will be on the currency’s language and classification, particularly in light of recent moves that saw EUR/CHF drop below parity to a low of 0.9970. Currently, the SNB classifies the CHF as being “highly valued” and if they were to upgrade the classification, based on precedent, the Board has “even more highly valued” and “significantly overvalued” at its disposal. Amid the pronounced appreciation in the CHF, the SNB itself reiterated the current classification and preparedness to intervene if needed. Interestingly, it put the appreciation down to inflation differentials. On this, the most recent SECO forecasts highlight elevated inflation globally and on the domestic front, but point to inflation falling back to a 0.7% average for 2023 – seemingly endorsing the SNB’s between-the-lines view that they cannot swiftly alter global inflation differentials that are causing the CHF to be sought after. Notably, the SNB did not directly mention geopolitical-driven demand as a factor behind the recent appreciation. Overall, the significant appreciation of the Franc perhaps merits an upgrade to its classification and a continuation of the interventionist approach. Albeit, such a call is muddied by the Franc's swift pull-back from its venture beyond parity and as low as 1.04 against the EUR since then; at the start of this week, it was just shy of 1.03.

Domestic/Geopolitical Developments: The ‘headline’ development since December is the Russian invasion of Ukraine. However, the likes of SECO caveat that the direct impact on Switzerland is likely to be limited; as such, while it will undoubtedly merit a mention, particularly as COVID diminishes further in influence, it is unlikely to dictate decision making. Elsewhere, CPI YY has printed at 1.6% and 2.2% for January and February respectively, notable above the SNB’s December projection for Q1, which saw inflation at 1.4% - incidentally, the peak reading across the forecast horizon (until end-2024). As mentioned, SECO has upgraded its CPI forecast for 2022 to 1.9% from 1.1% and against the SNB’s current view of 1.0%. A forecast that will undoubtedly be revised higher. Participants will be attentive to where the 2023 average lies, currently 0.6% vs SECO's 0.7%, for insight into whether favourable inflation differentials are expected to remain a driving force for Franc demand.

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