PREVIEW: SNB rate decision due Thursday 16th June 2022 at 08:30BST

- Expected to keep the Key Rate at -0.75%. Although, a June hike cannot be outruled, with 2/26 polled by Reuters forecasting a 25bp increase.
- However, given the ECB is yet to actually hike and the inflation situation is comparably not as concerning, the SNB can afford to wait until after the ECB moves.
- Focus will be on the CHF classification, inflation forecasts, accompanying Key Rate assumption and the tiering multiplier.

OVERVIEW: Overall, a June hike is a possibility but is not the base case, evidenced by 24/26 respondents polled by Reuters expecting an unchanged Key Rate at -0.75%, with the other two calling for a 25bp hike. The SNB is likely to await confirmation of the ECB lift-off in July and then hike at the next scheduled meeting, which occurs in September. However, the timing of the September meeting being one week after the ECB, where theoretically we could have had 75bp of total ECB tightening by that point, raises the argument for an interim-meeting move post-July given the implications for interest differentials. Reminder, the SNB's most recent rate alterations came via unscheduled announcements. Thus, a post-ECB move in July cannot be ruled out but, as mentioned, September/December are the focal points. For the June gathering, focus points include the CHF classification (currently "Highly Valued"), inflation forecasts, particularly the 2023 rate (currently 0.9%) compared to the 2.0% target and the attached Key Rate assumption. Finally, the tiering multiplier (currently 30x) will garner focus, particularly if we see a hike, as this was designed to offset the impact of negative rates on the domestic banking sector.

PREVIOUS MEETING: In March, the SNB left its Policy Rate at -0.75% as expected and reiterated the Swiss Franc's classification as being "Highly Valued"; additionally, they maintained a willingness to intervene within the FX market as necessary to counter upward CHF pressure. Perhaps the most interesting alteration was the notable upgrades to their inflation forecasts, someway above the SECO and KOF releases; however, with the benefit of hindsight, the upward revisions were insufficient.

JUNE: At the time of writing, there is just over 22bp of upside implied for the June gathering or around an 89% chance of a hike; however, for a number of reasons, the SNB is likely to hold fire at this week's meeting. Although, this is not a unanimous view with the likes of Citi expecting a hike this week and desks broadly cautioning that a June increase cannot be ruled out.

The main arguments against a June increase are a desire not to pre-empt/front-run the ECB and recent commentary from Vice-Chairman Zurbrugg on the inflation situation. On the first factor, the ECB has guided us towards a 25bp increase in July which will then be followed by at least a 25bp increase in September – the final magnitude to be determined by inflation forecasts at the time. Precedent tells us the SNB generally does not pre-empt the ECB in policy announcements, thus, they are likely to wait until after the July ECB hike before altering their own policy. However, the SNB has made clear they are not a follower of other Banks and widening interest differentials, particularly with relation to the EZ, are of note and imply further currency-driven inflationary pressures ahead – factors which could merit breaking this precedent. On inflation, this is a pressure that Switzerland is already cognizant of with CPI surpassing market expectations for the last three readings to a YTD peak of 2.9% YY in May; a measure that already exceeds the SNB's expected peak of 2.2% for 2022, via March forecasts. On inflation, Vice-Chairman Zurbrugg spoke on May 31st before the release of the May inflation data but when, as the SNB receives data early via embargo, he would have been privy to the print. Zurbrugg commented that inflation is low vs other nations and he believes the drivers are temporary, remarks which perhaps serve to dilute some of the impetus around the SNB taking near-term action.

On the flip-side, a June hike is justified by the above-forecast inflation reading, global tightening and with participants cognisant of recent commentary from the other voting members. Specifically, Chairman Jordan acknowledging the increase in global inflation, Board Member Maechler taking a more 'hawkish' line, making clear that they will not hesitate to increase rates if inflation remains outside the target. However, it is worth making the distinction that these members, unlike Zurbrugg, would not have been privy to the May inflation print; thus, and in particular, Maechler's already 'hawkish' view may well have been magnified by the subsequent release.

SEPTEMBER: Assuming the base-case for the SNB proves correct, in that they refrain from hiking at the June gathering for, the focal point for a 'live' meeting turns firmly to September. A hike at this period, irrespective of magnitude, would be justified by the current guidance from the ECB for a first move in July which will be followed by at least a 25bp increase in September, inflation forecast dependent. Note that the September lift-off concept is caveated by the possibility of an intra-meeting hike taking place after the July ECB move.

OTHER FOCUS POINTS: Irrespective of the rate announcement, focus will then turn to the assumption for the policy rate which currently states that “The conditional inflation forecast is based on the assumption that the SNB policy rate remains at #0.75% over the entire forecast horizon.” On this, the likes of UBS look for a 50bp hike in September which would be followed by 25bp at all of the 2023 meetings – note, it is unclear how explicit the SNB will be in their rate guidance. As an alternative, the Bank could guide markets towards future tightening by altering the currencies classification, which is currently “Highly Valued” and is followed by a willingness to intervene as necessary to prevent appreciation. Both the classification and statement may be changed as a rate signal but also to prevent any marked depreciation, which would fan inflation further; for reference, domestic sight deposits have only increased marginally from the last gathering – given this argument, Credit Suisse expects the “Highly Valued” classification to be lessened. Inflation forecasts to see a marked revision higher from the current peak of 2.20% for 2022 and a 2023 implied forecast of 0.90% - a forecast that UBS expects to be lifted to 1.50%. Note, this forecast and its accompanying Key Rate assumption will provide insight into how persistent the SNB judges price pressures to be and how much action they need to take to bring it back to the 2.0% target. Finally, the tiering multiplier for domestic banks is currently at 30x (after being lifted from 25x during the pandemic) and could be subject to an alteration when the tightening cycle begins, as the multiplier is inherently designed to offset the impact of negative rates. As it stands, the SNB could alter the multiplier figure, revert back to an older (less favourable for banks) calculation or a combination of these approaches.