PREVIEW: SNB rate decision due Thursday 22nd September 2022

- Expected to hike by 75bp, though there are some calls for 50bp and 100bp increments.
- Such an increase is merited by the hot inflation situation, though prices in Switzerland are not as hot as global peers.
- Further ahead, assuming inflation does not markedly accelerate, the pace of tightening is expected to revert to a more 'standard' pace.

Overview: Expected to increase the Policy Rate by 75bp to 0.50%, given the still elevated inflation backdrop alongside global Central Bank tightening and a desire for CHF appreciation. However, some desks are calling for a 50bp move – a magnitude that is arguably merited by the tentative signs of stabilisation in domestic inflation. On the flip side, some desks and market pricing (~45% probability) look for a 100bp hike – a view that is perhaps justified by global tightening action, a desire to frontload and in order to ensure that the CHF continues to rise and works to prevent any further external price pressure. Rates aside, we remain attentive for any further downward adjustments to the Exemption Threshold, which is currently 28x, and whether the CHF gets a formal classification at this meeting.

Previous Meeting: In June the SNB surprised markets by delivering a 50bp hike which took the Policy Rate to -0.25% and remarked that further increases cannot be ruled out. A move which sparked pronounced CHF appreciation and a substantial hawkish reaction across broader asset classes. Such a move was justified by the "further considerable and broad-based increase in inflation in many nations" seen at that point. Notably, the meeting did not feature a currency classification though Jordan subsequently remarked that the Franc is no longer "Highly Valued". Unsurprisingly, as the SNB moved towards an exit from NIRP, the Exemption Threshold for sight deposits at domestic banks was reduced to 28x from 30x.

75bp: Inflation continues to serve as the main driving force behind expectations for further SNB tightening, the most recent CPI release was for August where the YY printed at 3.5% (exp. 3.4%) lifting from the prior 3.4% that was seen in both June and July. A release which, at the time, quelled some of the market pricing for a potential intra-meeting hike give the three months of relatively steady inflation could be taken as a tentative sign of stabilisation; though, as officials have intimated, it is too soon to tell. Albeit, 3.5% is still someway above the 2.0% target and the SNB's June forecast for a peak 2022 reading of 2.8% - a forecast which will undoubtedly be revised upwards in September; for reference, CPI is seen at 1.9% and 1.6% in 2023 and 2024 respectively.

Inflation metrics aside, the most pertinent update has been from Chairman Jordan on September 8th (post-ECB), remarking that it would not create difficulty if the ECB undertook 100bp hikes and that inflation uncertainty is greater than normal, so he cannot say it has peaked. Additionally, remarking that CHF appreciation is generally positive. Comments which, while not directly endorsing any particular magnitude, seemingly lie at the hawkish-end of proceedings given risks of further inflation upside and a welcoming of CHF appreciation. However, Vice-Chair Maechler said inflation appears to be stabilising, though it is too soon to label this a trend and that the Franc is very strong and is a factor behind comparably low domestic inflation. Remarks which, similarly do not give much away, but do not provide an overt indication of a desire to be excessively hawkish. In totality, the concern that inflation may pick up further and an overt acknowledgement from rate-setters on the benefit of a firmer CHF seemingly chimes with consensus for a 75bp hike; a magnitude that derives further credence from the ECB delivering such an increase.

50/100bp: On 50bp, given the aforementioned (albeit caveated) remarks from Maechler that inflation may have begun to peak, the SNB may elect to stick with the magnitude implemented at the June gathering, given the domestic inflation situation is significantly more muted vs global peers. However, as the ECB hiked 75bp and consensus looks for the same from the SNB, a 50bp hike, while significant, may well spark a dovish reaction in the CHF and thus erode some of the recent welcome FX appreciation and by extension one of the main factors behind the relatively contained domestic price pressures. Evidently, the potentially wider-than-expected rate differential to Europe under such a scenario would also weigh on the Franc.

On the flip side, a 100bp increase could be justified if rate setters want to ensure that sufficient front loading has been implemented to prevent any pronounced acceleration in price pressure and to nail on the, possible, domestic peak inflation narrative. Additionally, such a move would surpass consensus and likely spark a wave of CHF appreciation and possibly a broader hawkish move as seen after the last SNB review and following the likes of the Riksbank (+100bp) in recent sessions. While the SNB has welcomed recent CHF appreciation, the Bank has spent much of its energy in recent years combating “overvaluation” of the currency, and thus may not be willing to potentially fan pronounced upside, with inflation at a potential tipping point.