PREVIEW: SNB Policy Announcement due Thursday 15th December 2022 at 08:30GMT/03:30ET

- Expected to hike by 50bp, taking the policy rate to 1.00% given inflation remains above target.
- However, recent CPI prints have been below the SNB's Q4 forecast, provided in September, and thus there are some calls for a 25bp increase.
- Finally, participants will be focused on commentary around the CHF and how much/if any further tightening is expected.
- SNB's Chairman Jordan to speak from 09:00GMT onwards.

Overview: Expected to hike by 50bp, taking the Policy Rate to 1.00%. A move that is merited by inflation remaining above target, however, given the Q4 figures looks set to be comfortably below the SNB's earlier forecast, outsized hawkish action is not likely to be deemed necessary by the Governing Board. This view is also supported by ongoing signs/forecasts of an economic slowdown, albeit a recession is not expected; taken together, these factors have sparked some calls for a 25bp increase. Currently, market pricing looks for 50bp, but around 10% chance of a 25bp hike is implied. Further out, the release will be scrutinised to see if further tightening is expected, with the statement in September saying that "It cannot be ruled out that further increases in the SNB policy rate will be necessary to ensure price stability over the medium term." Elsewhere, we look for any updates to the language on the CHF and willingness to engage in two-way intervention as required alongside any further tweak to the tiering system, as the Policy Rate moves further into positive territory.

Previous Meeting: In September, the SNB hiked by 75bp, as expected and lifting the Policy Rate to 0.50%. However, going into the release, market expectations were skewed towards a 100bp move and thus a pronounced dovish reaction was seen in the CHF and broader asset classes. Looking ahead, the Board said further hikes cannot be ruled out while Chairman Jordan stressed that interim moves can be undertaken if needed and that without tightening, inflation would be significantly higher. Rates aside, the SNB once again failed to provide a specific classification for the Franc, last regarded as 'Highly Valued' in March, and stressed a willingness to intervene to strengthen/weaken the currency, as needed. Additionally, the SNB altered its tiering system, essentially flipping the prior exemption to account for rates moving into positive territory

Inflation: November's inflation print was in-line with the prior and market expectations at 3.0% YY, a figure that is below the SNB's forecast from September of 3.4% for the Q4-2022 period; while December's metric is not yet available, the figures for the quarter thus far are comfortably below this forecast. Thus, perhaps reducing the need for any 'outsized' policy action and chiming with consensus for a 50bp hike. Although, the easing of inflation pressures and signs of a looming headwind may, in tandem, be deemed sufficient to merit a more pronounced slowdown in the pace of tightening to a 25bp increase – though this is not the consensus, market pricing only ascribes around a 10% chance of a 25bp hike. Given the below-forecast readings, the latest Swiss SECO forecast (December 13th) cut the 2022 CPI forecast incrementally to 2.9% from 3.0% and the 2023 read to 2.2% from 2.3% - a reduction that will be well received by the SNB's Board and as such we could see downward revisions to its own estimates, currently at 3.0% and 2.4% respectively.

Commentary/CHF: Somewhat bucking the trend from the SNB, we have had a substantial amount of commentary from speakers, and particularly Chairman Jordan. For the most part, this has been a reiteration of the known stance and willingness to intervene to buy/sell the CHF as necessary, while emphasising that the currency's nominal appreciation has assisted in fighting inflation. FX aside, Jordan made clear that more tightening is required as current policy is not sufficiently restrictive to bring inflation back to target.

Back to FX, the Franc has depreciated a touch since the last gathering, as EUR/USD continues to move away from parity. Specifically, EUR/CHF was around 0.9600 following the September announcement, near to the YTD low, compared to the 0.9850 region at the time of writing. While this depreciation is not insignificant, it keeps the pair well below parity and as such the CHF remains significantly stronger with the longer-term trend intact. Given this is assisting in curbing CPI, the Board will likely reiterate a willingness to intervene either way and acknowledge the assistance from the CHF in their fight against inflation. In terms of the classification, this has been omitted since March and there is still no indication as to when we can expect the formal description to be reintroduced, if at all.

Other Data Points/Forecasts: As mentioned in the inflation section, there are signs of a looming global slowdown, from a Swiss perspective Q3 GDP increased QQ to 0.2% from 0.1% in Q2. Though, most recently, SECO cut its 2023 domestic economic growth forecast to 1.0% from 1.1%, remarking that this points to sluggish growth for Switzerland, but not a severe recession; adding, the slowdown will likely be felt in the labour market, with unemployment seen ticking up marginally YY.

On that note, the jobless rate has ticked up slightly since September, given the broader economic slowdown. While only incremental, any further indication of labour market slackening will draw scrutiny from the SNB and serve as a factor against any hawkish surprise from the Governing Board.