PREVIEW: SNB Policy Announcement due Thursday 23rd March 2023 at 08:30GMT/04:30EDT

- Expected to hike by 50bp, given the balancing act between CPI and financial stability concerns.
- However, the current inflationary backdrop and 2023 projections as a whole being lifted further above the 0-2% target band mean 75bp cannot be ruled out.
- On the flipside, turmoil in the banking sector suggests a more cautious approach and perhaps takes 75bp off the table, leaving 50bp as consensus and some calls for 25bp.

OVERVIEW: Expected to hike by 50bp from the current 1.00%, with 21/27 respondents to the latest Reuters survey expecting such an outcome. Tightening of this magnitude is justified by inflation remaining persistently above the 0-2% target band and recent upward adjustments to Switzerland's 2023 CPI projection by various domestic institutions. Given this, a 75bp hike cannot be entirely dismissed; though, the recent turmoil in the banking sector goes against such a call with the remaining respondents to the aforementioned survey expecting a smaller 25bp hike. Interestingly, while no desks surveyed expect an unchanged outcome, market pricing has at times suggested no move; at the time of writing, pricing is evenly split between 25bp and 50bp. Note, Maechler is to leave in June 2023 with a replacement yet to be announced.

PREVIOUS MEETING: In December, the SNB hiked by 50bp as expected to 1.00% with the statement essentially a reiteration of the prior meeting aside from a few incremental tweaks to specific words/phrases. At the time, the SNB cited the comparably elevated level of inflation and the view that this was likely to remain "for the time being" as drivers for policy tightening. Additionally, the statement did not rule out that further hikes would be required to ensure medium-term price stability. In the subsequent press conference, Chairman Jordan acknowledged that FX had been sold in recent months to ensure "appropriate monetary conditions", and he reiterated that the Bank is willing to buy/sell foreign currency as necessary. Limited CHF reaction occurred on the policy announcement, though there was some modest appreciation in the run up.

DATA & FX: February's CPI YY came in at 3.4% (exp. 3.1%/prev. 3.3%) and above the SNB's Q1 view of 3.0%; pertinently, CapEco believes that headline inflation is likely to remain above 3.0% in the coming months, which is markedly above the SNB's forecast for a decline to 2.5% in Q2. While not as elevated for the year as a whole, both the SECO and KOF recently lifted their inflation forecasts, to 2.4% (prev. 2.2%) and 2.6% (prev. 2.3%) respectively for 2023. Given this, the SNB may well elect to take action now to stop inflation from becoming entrenched at such high levels and as such a 75bp hike cannot be entirely dismissed as a possibility and could be followed by further tightening depending on how the domestic pricing situation develops.

Elsewhere, developments for unemployment, PPI and GDP recently have been relatively in-line with market expectations. Further out, SECO has lifted its adj. GDP forecast for 2023 to 1.1% (prev. 1.0%), while maintaining the 2024 view at 1.7%.

Turning to FX, the CHF has come under marked pressure in recent sessions given the concern over the domestic banking sector (more below), though this came after pronounced appreciation when the turmoil began and attention was on SIVB. As such, while recent action has been significant, EUR/CHF is back towards the 0.9950 mark and by extension parameters that have been seen throughout the year prior to the recent banking crisis. From the statement/press conference, it will be interesting to see if we get any indication as to whether the SNB would be biased towards buying /selling foreign FX at these levels; though, the Chairman is generally reserved on specifics around this within the meeting presser. Recent commentary from Jordan has reiterated a willingness to use interest rates and FX to get monetary conditions to appropriate levels for price stability.

BANKING SECTOR: While the turmoil began in the US with SIVB, the broader knock to market confidence and comments from the Saudi National Bank that it was not willing to increase its investment (note, it is worth highlighting that this is in the context of them being unable to increase the stake above the 9.9% mark it was already at) resulted in the eventual takeover of Credit Suisse by UBS. Scrutiny/interest in the ironing out of AT1 holders before stockholders aside, the increased focus on the domestic sector and associated concerns around financial stability could serve as an argument for the SNB to dial down the pace of tightening; despite inflation remaining above target. Accounting for this, market pricing has at times been between a 25bp hike and an unchanged outcome from the SNB, while the recent

Reuters poll does not contain any calls for this, 6/27 expect 25bp and the remainder look for 50bp. Currently, pricing is divided between 25bp and 50bp. Rates aside, any commentary within the statement and thereafter by the Board will be closely monitored for further insight into the health of UBS following the acquisition.