PREVIEW: SNB Policy Announcement due Thursday, 22nd June 2023

- Expected to hike by 25bp to 1.75% according to all but 3/33 banks surveyed by Reuters who look for a 50bp hike.
- 23/33 polled think the June hike will be the last, given the trajectory of inflation, though the SNB will likely remain data-dependent.
- Expectations for further tightening were cemented by hawkish remarks from Chairman Jordan after May's CPI.

Overview: Expected to continue the tightening cycle from the current 1.50% policy rate in order to bring inflation back into the 0-2.0% target band from 2.2% YY in May. Further tightening is expected given inflation remains above forecast alongside the tone of recent SNB commentary. On the latter, expectations for a hike were cemented by hawkish remarks from Chairman Jordan, speaking after May's CPI, that inflation is more persistent than thought and both second- and third-round effects are being seen. Currently, market pricing looks for a 25bp hike to 1.75% which would be a step-down from the recent 50bp pace that would be merited by the marked pullback from the prior in May's CPI data; albeit, inflation is ultimately still above target. However, the domestic economy is experiencing a relatively mixed performance with the ZEW in particular highlighting areas of concern. Overall, Jordan's remarks mean the SNB is unlikely to be dissuaded from further tightening, though the trajectory for inflation suggests the peak is near and thus the prudent magnitude is likely to be 25bp. Given this, 23/33 polled by Reuters think June's hike will be the last for 2023. For reference, Citi calls for an unchanged announcement in June given the trajectory of CPI towards the target band.

Previous Meeting: In March, the SNB hiked by 50bp as expected to 1.50% and did not rule out further tightening action. Additionally, the language around price stability and a willingness to conduct two-way FX intervention if required was reiterated. On inflation, the statement highlighted concern over second-round effects and imported inflationary pressures; factors which merited an increase to the inflation forecasts, even when accounting for the new 1.50% Policy Rate. In wake of the hawkish hike from the SNB, which contrasted somewhat with the ECB's and Fed's approach at the time, the CHF saw modest appreciation and market pricing lifted to imply a 25bp rate increase in June and then a 50bp increase in September to a 2.25% terminal level.

Inflation & Jordan: May's CPI YY printed at 2.2% in-line with market expectations and notably down from the prior 2.6%. Additionally, it came in lower than the SNB's Q2 forecast (set in March) of 2.5%. The Swiss Statistics Office (BFS), on the MM figure of 0.3% in-line with market forecasts, writes that this saw price pressures from housing rentals and package holidays alongside many food prices. In contrast and a familiar theme for inflation, energy prices decreased. As a reminder on housing and a point of concern for inflation ahead, the Swiss Federal Office of Housing recently approved the first-ever increase in the rental reference rate to 1.50% (prev. 1.25%), effective June 2nd. The 25bp increase allows landlords to hike rental prices by up to 3.0% and as such will fan the associated inflation component and potentially weigh on broader economic activity; desks expect further upside to the rental rate later in the year.

Following the May CPI release, Chairman Jordan provided extensive remarks on inflation and the policy rate. Specifically, writing that inflation is more persistent than we had thought, seeing second- and third-round effects. On this, the inclusion of third-round effects is a notable addition to the language used in the March statement which highlighted concern over second-round effects. Jordan then turned his attention to the Policy Rate, saying Swiss rates are relatively low and it is not a good idea to wait for inflation to rise and then have to hike rates. Commentary which means a hike in June is all but a certainty and would perhaps, when accounting for the impending rental price pressures, lean in favour of another 50bp hike. Overall, Jordan made clear that the SNB wants inflation to be below the 2.0% mark and as such within the 0.0-2.0% target band, saying when inflation is at such levels for a long time there is no problem. For reference, the likes of SNB's Schlegel have spoken recently as well, though before the May inflation data, similarly highlighting signs of inflation spreading and as such refused to rule out further policy tightening.

Broader Economy: Inflation aside, economic developments have been somewhat mixed. With the latest Producer Price data (April) dropping markedly from the prior while the unemployment rate remains steady around the 2.0% mark. Somewhat dated now, Q1 GDP was firmer than expected at 0.3% (exp. 0.1%).

However, more timely releases including May's PMIs and the KOF continue to slip and highlight pressures that the Swiss economy is facing, with the KOF in particular showing another month of deterioration for the overall business situation. Highlighting the manufacturing sector as a particular cause for concern, a view that has been echoed in survey releases for other European regions; additionally, despite improving substantially in the months prior, activity in the financial/insurance services sector declined. Overall, while the economy's performance is mixed and there are areas of concern the clear inflation emphasis outlined by Jordan in his recent remarks indicates the SNB is unlikely to be dissuaded from taking further tightening action. That being said, the overall picture leans in favour of a 25bp hike, as market pricing currently implies.