PREVIEW: SNB Policy Announcement due Thursday, 14th December 2023

- **Expected to keep the policy rate at 1.75% following November's inflation print.**
- **Though, the latest inflation report theoretically opened the door to a cut which cannot be entirely dismissed as a possibility**.
- **Rates aside, the SNB could tweak its FX language to de-emphasise the selling foreign currency element.**

OVERVIEW: Expected to leave rates unchanged at 1.75% given the cooler than expected November inflation print which was the first to account for the rental increase. However, this release means that a cut cannot be entirely dismissed given the SNB's willingness to surprise and markets pricing around a 25% chance of a reduction. In the scenario of a hold, the statements language may feature a reference on further tightening given uncertainty around the evolution of the rental price index but is, on balance, unlikely to flag a cut. Rates aside, the SNB could tweak its FX language to de-emphasise the selling foreign currency element. The policy announcement is made at 08:30GMT, Chairman Jordan speaks from 09:00GMT onwards.

PREVIOUS MEETING: September saw the policy rate left at 1.75% (consensus at the time was evenly split between a hike and hold), a decision that was taken to allow for the publication of more data to see if tightening taken thus far was sufficient to counter "remaining inflationary pressure". With particular reference to November's inflation data, as it would be the first print to show the rental rate increase in the index. At the time, the SNB judged that "the significant tightening of monetary policy over recent quarters is countering remaining inflationary pressure". Accompanying inflation forecasts were maintained at just over target for 2024 and seen printing under 2.0% in Q1-2025. On FX, the SNB maintained its focus on selling foreign currency. Overall, the SNB made clear that it cannot be ruled out that further policy tightening could become necessary. Since the gathering the SNB has tweaked its remuneration level, lowering it to 25 (prev. 28), a change that has no impact on the monetary stance.

HOLD: On balance, the most likely course of action for the SNB with all 31 economists polled by Reuters expecting an unchanged announcement. An outcome justified by November's CPI which was markedly cooler than expected printing at 1.4% Y/Y, well below market expectations of 1.7% and the SNB's Q4 view of 2.0%, even given the 1.1% Q/Q (2.2% Y/Y) influence of the rental price index. A print which removed any possibility of a December hike and theoretically opened the door to a cut (see below). However, Federal Statistics Office (FSO) caveats that how much/quickly the adjustment will affect the rental price index cannot be conclusively assessed on November's number alone. A caveat which considerably lessens the likelihood of a cut. Inflation aside, Q3 GDP has been slightly softer than expected by markets while more timely points such as November's KOF saw a larger than forecast increase and the month's Investor Sentiment continues to recover. Overall, these developments do not add any conviction to calls for a cut as the SNB in September noted that growth is "expected to remain weak for the remainder of the year" while still guiding towards some possibility of further tightening.

CUT: While none of the respondents to the Reuters survey forecast a cut, an easing of policy cannot be entirely dismissed given the SNB's willingness to defy/surprise markets (as recently as September, given split consensus at the time) and markets currently pricing in a 25% chance of a cut. A probability that has become markedly less dovish than that seen after the November inflation release, which saw around a 60% chance of a cut implied. However, it is worth caveating that this has been heavily influenced by marked dovish movements at other G10 central banks, namely the ECB and Fed.

RATE GUIDANCE & FX: Given the mentioned caveat from FSO on the rental price index, the statement could well be accompanied by language pointing towards some possibility of further tightening depending on how this component of CPI evolves. Particularly as Chairman Jordan and Vice Chair Schlegel have spoken about the possible inflationary influence of rent ahead. More explicitly, mid-November (before the November CPI) Jordan remarked that he was not sure if Switzerland had reached the terminal rate. Given this, the SNB is unlikely to provide guidance towards a rate reduction (in the scenario of a hold), but as inflation is now within the 0-2% target band this cannot be entirely ruled out, particularly as history shows the SNB is used to inflation being in the lower half of the guidance band. Rates aside, the SNB could tweak its FX language to de-emphasise the selling element, given the notable CHF strength that has resulted. Currently, guidance says "In the current environment, the focus is on selling foreign currency".

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