PREVIEW: SNB rate decision due Thursday, 20th March 2025

- **Expected to cut by 25bps to 0.25%, a rate which the majority of desks expect to be the low-point for 2025.**
- **A cut is justified by the absolute low level of inflation and forecasts from December for it to moderate further in Q2.**
- **However, sticky internal and core metrics alongside significant near/medium-term uncertainty argue in favour of no change.**
- **Policy announcement at 08:30GMT, press conference from 09:00GMT.**

OVERVIEW: Expected to cut the Policy Rate by 25bps to 0.25% according to 28/32 respondents to the Reuters survey, the other four look for no change. A cut would be justified by the low absolute level of inflation and the SNB's forecast, as of December, for a further moderation in Q2. However, on the flip side, the argument to leave rates unchanged stems from the sticky internal and core metrics. Leaving rates unchanged would allow the SNB to see how this develops over the quarter, whether inflation actually moderates further and what impact the incoming US tariffs, EU retaliation and European stimulus has on Switzerland. Points of uncertainty which also serve as the primary justification for the 19/32 respondents who look for rates to be maintained at 0.25% until end-2025 (i.e. a March cut and then on hold); for reference, 10 look for another cut to 0.00% and three expect it to be 0.50% at year end. With the SNB the prospect of negative rates is always in focus and, for reference, 2/15 respondents label the risk of a return to negative policy as "high" with the remainder describing it as "low".

PREVIOUS MEETING: In December, the SNB cut by 50bps to 0.50%. A move which exceeded market consensus though some desks did look for the larger magnitude. Alongside the cut, the SNB reiterated that it "remains willing to be active in the foreign exchange market as necessary" while on the updated inflation forecasts, which were subject to a significant revision lower, the SNB said this was "reflecting the lower-than-expected inflation in the case of oil products and food"; further out, medium-term forecasts were only subject to modest adjustments. Note, the cut to 0.50% potentially moved the Policy Rate into the realm of the neutral rate which some desks believe to be between 0.00% and 0.50%.

RECENT COMMENTARY: Chairman Schlegel spoke at the end of January at which point he noted that while the SNB does not like negative rates they cannot be excluded and such policy has worked previously. Alongside this, he noted that they expect inflation to be "relatively low" in 2025. More recently, Tschudin said price stability is their focus point and inflation can temporarily deviate from the 0-2% target band as the medium-term trajectory is more important. On policy, she said negative rates remain an important instrument "if needed" and the toolbox includes the use of FX intervention.

INFLATION: Inflation prints in 2025 have been in-line and hotter than the market expected for January and February respectively, at 0.4% Y/Y and 0.3% Y/Y. Metrics which are in totality marginally hotter than the SNB's Q1 projection of 0.3% Y/Y. Focussing on the February report, the internals were a little sticky with rental measures only easing marginally while goods inflation kept the overall core figure at a 0.9% rate; note, on the rental figure, this should begin to moderate later in the year after a recent drop in the reference rate.

The headline inflation rate is at a very low absolute level and is, according to the December forecasts, expected to cool further in Q2. Points which justify the easing undertaken thus far and argue in favour of the SNB continuing the cycle and taking the policy rate to 0.25%. However, inflation YTD is running just above the SNB's Q1 forecast from December which, alongside the sticky internals, could factor in favour of leaving rates on hold to retain policy space and see how prices develop into Q2 and beyond.

FISCAL STIMULUS & CHF: While not directly involved, the Swiss economy will likely benefit from the blockbuster stimulus that is being outlined at an EU-wide level and also from member nations such as Germany. On this point Rabobank highlights that, in the context of better EZ growth projections from such stimulus, such projections tend to soften the Franc which will be welcomed by the SNB and reduce the need for rates to go as far as 0.0% or even into negative territory.