PREVIEW: SNB policy announcement due Thursday 19th June 2025 at 08:30BST

- **Expected to cut by 25bps from 0.25%. A cut is justified by the domestic economy's recent performance and below-forecast inflation outturns.**
- **May's -0.1% Y/Y CPI print and ongoing CHF strength factor in favour of a 50bps cut. However, energy-related uncertainty skews the narrative towards a 25bps move.**
- **Rates aside, participants are attentive to any change to the currency language given the strength seen in CHF since March. However, the SNB will be cautious as to what response such action may draw from the US administration.**

OVERVIEW: A cut is justified by the poor performance of the domestic economy and cool inflation prints, with the May Y/Y figure coming in at -0.1%. Such an outturn potentially points to a larger 50bps cut and a return to NIRP. However, recent energy upside and the associated potential inflationary implications of the escalation between Iran and Israel weigh in favour of a 25bps cut, taking the rate to 0.00%. Furthermore, the likes of Tschudin and Schlegel have described May's series as "just one data point", making clear they look at the medium-term price picture. Overall, the bias for the rate decision is towards 25bps, but a larger move, or even an unchanged outcome given the above energy uncertainty and inflationary implications of it, cannot be ruled out. 27/30 respondents to a Reuters survey expect a 25bps cut to 0.00%, three look for a 50bps move and by extension a return to NIRP. Of the 30, 20 expect rates to be at 0.00% by end-2025, nine expect -0.25% and one expects -0.50%. At the time of publication, markets imply just under 33bps of easing in June, i.e. a 25bps cut is fully priced with around a 30% chance of a larger 50bps move. Rates aside, focus is almost as much on currency language given the strength seen in the CHF since March's meeting; as such, the SNB may elect to make its language around intervention more overt towards a desire to weaken the CHF. Though, its hands may be somewhat tied out of concern as to the response it may draw from the US administration. Policy announcement at 08:30BST, Chairman Schlegel from 09:00BST.

PREVIOUS MEETING: In March, the SNB delivered a 25bps cut in fitting with the majority view heading into the meeting; note, there were some outside calls for an unchanged announcement, and as such, the cut sparked a bout of knee-jerk pressure in the CHF as those positions unwound. The attached inflation forecasts were little changed overall, the 2025 views were subject to modest revisions higher (in-fitting with the outturns in January and February). Pertinently, while revised higher, the forecasts remain low and in the lower-half of the 0-2% inflation target band for the entire horizon; the highest forecast was 0.8%, first expected in Q1-2026. The accompanying press conference with Chairman Schlegel saw him describe monetary conditions as appropriate, saying the decision lowers the odds of further easing. Furthermore, he refused to comment on the CHF's value.

INFLATION: As above, inflation outturns across January and February (available before March's SNB) were running a little hotter than the Q1 projection from December's meeting. March's figure came in much cooler than the market expected, leaving the Q1 average slightly hotter than the SNB's December forecast but a touch cooler than the one from March. However, April's figure then came in much cooler-than-expected at 0.0% Y/Y, and was followed by a -0.1% print in May. Ahead of the release, multiple SNB officials had made clear that a negative inflation print was a possibility. Following the May release, Tschudin described it as "just one data point" and emphasised that they look at inflation over the medium-term, not just for one month; language used by Schlegel in the days before the series.

The breakdown of inflation shows that it has been driven lower by energy prices moderating and the strong CHF. On energy, the SNB cannot influence global benchmarks; however, the SNB will welcome the inflationary implications of the recent spike in energy prices. Given this, the SNB may instead choose to focus on the recent core figure, printed at 0.5% Y/Y in May, which remained comfortably within the 0-2% target band for inflation. Additional weight in their assessment on the core figure and the inflationary implications of recent energy moves could be used to argue in favour of sticking to a 25bps pace of easing, or even to leave rates unchanged and see how the energy situation plays out. If taken, such an approach potentially counters the calls for 50bps that emerged/intensified after May's negative headline print.

CHF: While the SNB cannot directly influence energy prices, they can attempt and generally succeed in influencing the Franc. The primary tool has been, and will almost certainly continue to be the policy rate. To counter the downward influence of a strong currency on inflation, exacerbated at times recently by the bouts of haven strength seen on the mentioned geopolitical developments, the SNB could cut to 0.00% (a 25bps move) or go further and return to NIRP via a 50bps reduction.

The other tool the SNB has at its disposal is currency intervention. Something the SNB has done extensively before and has made clear they are willing to continue/increase doing. EUR/CHF was around the 0.9600 handle during March's SNB. Since, it has been as low as 0.9220, and while we are currently off the strongest points, it remains markedly stronger than in March and sub-0.9400. To counter this strength and the downward pressure it places on domestic inflation, the SNB could make its currency language more explicit. In March, the statement said "...remains willing to be active in the foreign exchange market as necessary.". However, the SNB's hands are possibly slightly tied on FX intervention given the US administration's willingness to crack down on those deemed to be gaining an 'unfair' advantage through policy. In relation to that, the SNB clarified at the start of the month that they do not engage in currency manipulation, with policy geared towards domestic needs and not the acquisition of an "unfair competitive advantage".

OTHER DATA: The most recent producer price inflation, for May, showed a larger decline into deflationary territory Y/Y and the first such print for the M/M figure. Unemployment in Switzerland has ticked up slightly on an adjusted basis, but remains sub-3%. Manufacturing PMI continues to decline, as low as 42.1 in May while April's Retail Sales were much softer than the prior. Metrics follow a better-than-expected outturn for Q1 GDP, though of course, the domestic and global backdrop has developed extensively since then.

SECO downgraded their GDP forecasts and cut the inflation view in their most recent report. Lowering 2025 and 2026 GDP to 1.3% (prev. 1.4%) and 1.2% (prev. 1.6%) respectively, when adjusted for sport. On inflation, the government body cut the inflation forecast to 0.1% (prev. 0.3%) in 2025 and to 0.5% (prev. 0.6%) for 2026; these inflation forecasts are significantly lower than the 0.4% and 0.8% the SNB currently has.