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A final rate cut in September

Swiss economy

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- After a second consecutive cut, the SNB policy rate is now closer to its terminal value. We expect one final rate cut to 1.0%, probably in September, but the exact timing will likely depend on inflation and the Swiss franc exchange rate.
- While the potential for additional SNB rate cuts is limited, in our view, the ECB and the Fed are likely to ramp up monetary policy easing in the coming months. We expect the CHF to appreciate against both the USD and the EUR over the next 12 months.
- Since market expectations already reflect an SNB policy interest rate of 1.0% by the end of the year, we expect the 10-year Swiss government bond yield to trend sideways around 0.7% over the next 12 months.

Source: UBS

At its monetary policy assessment in June, the Swiss National Bank (SNB) lowered its policy rates again, from 1.5% to 1.25%. In justifying the move, the SNB cited the decrease in underlying inflationary pressure—i.e., the components that drive inflation in the medium term—compared to spring and the franc's sharp appreciation against the US dollar and the euro in the prior weeks. A driver of the CHF's recent strength has been the political uncertainty following Emmanuel Macron's announcement of new elections in France at the end of June.

Final rate cut ahead

We estimate the neutral policy rate to be around 1% and therefore expect a final rate cut by the SNB. Indeed, with inflation within the target band of 0–2% and economic growth below its potential, a neutral stance is appropriate, in our view.

In our base scenario, we expect the SNB to lower its policy rate by 25 basis points to 1.0% in September. This forecast is conditional on a slowdown in inflation in the months ahead, a moderate appreciation pressure on the Swiss franc, and the beginning of an easing cycle in the US. However, the SNB might delay the next rate cut until inflation has slowed further or until it has more confidence that the Federal Reserve will undertake substantial rate cuts. Against this backdrop, the timing of the final rate cut is somewhat uncertain.

The magnitude of future easing is clearer, however. We would only foresee more than one additional rate cut by the SNB in a risk scenario where the Swiss economy does not recover or even slows. An SNB policy rate significantly below 1% would indicate an expansionary monetary policy, which we think would only be justified if Swiss growth slumps and deflationary risks arise.

Foreign exchange market interventions less in focus

Recently published data show that the SNB has not intervened in the foreign exchange market since December 2023. Nonetheless, the central bank reiterated its willingness to intervene "as necessary." With the rapid appreciation of the Swiss franc against the euro recently following the rise in political uncertainty in France, we would not rule out temporary foreign currency purchases by the SNB. In the past, appreciation pressures on the franc

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related to political uncertainty were often met with foreign exchange interventions.

Stronger CHF in the medium term

The Swiss franc depreciated following the SNB's June interest rate decision. Nevertheless, the outlook for the SNB policy rate is unlikely to be the main driver of the Swiss franc over the next 12 months, in our view. Since more than one additional rate cut by the SNB is unlikely, investors' focus will likely shift to the monetary policy outlook in the Eurozone and the US.

We believe that the USD is more likely to depreciate against the CHF than the euro, given its elevated valuation and with the Federal Reserve set to start lowering its policy rate in September. In contrast, while the European Central Bank has started its easing cycle, the CHF is already slightly expensive against the EUR. That said, any flare-up of political risks would weigh on the euro and likely result in a lower EURCHF over the coming months.

Sideways trend in long-term yields

Long-term interest rates in Switzerland have been relatively stable so far this year. We expect this sideways trend to persist over the next 12 months and maintain our June 2025 forecast of 0.7% for 10-year Swiss government bond yields. Indeed, financial markets will likely continue to price in a modest easing of monetary policy, which should prevent long-term interest rates from climbing. At the same time, as interest rates are already low in Switzerland, we do not see much potential for even lower yields.

Appendix

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