SNB September 2026 Preview: this is fine

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Research

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Not time to panic just yet

- **Is it time to panic?** No. Energy prices may have surged since my last Swiss National Bank update and pushed Swiss inflation to its highest level since 2024, but headline inflation remains contained at 0.8 percent YoY. That gives the SNB plenty of breathing room before its 0–2 percent inflation target range is truly threatened. As a result, the SNB is set to hold its policy rate steady at 0.00 percent at its September 24th meeting – marking fifteen straight months of a zero percent policy rate;
- **That said, the chances of another fifteen months at zero have certainly weakened.** You only need to look at SARON swap pricing to see the shift. While this week's meeting isn't live, markets are now pricing in a 50/50 chance of a 25bps hike by December. By March, 30bps of tightening are priced in, rising to a full 50bps by June 2027. This is in stark contrast to the situation during my last update in August, when less than 25bps of total tightening was priced in across the entire horizon;
- **The aggressive shift in market pricing was enough to make anyone second-guess their outlook.** Nevertheless, I think this move is premature and don't yet see sufficient evidence to abandon my baseline scenario. I believe the SNB will hold rates steady until its June 2027 meeting (the end of my forecast horizon);

- **Somewhat surprisingly, inflation has developed right in line with the SNB's June forecast.** The SNB's key conditional inflation forecast put average headline inflation at 0.6 percent YoY in Q2, matching actual inflation. The current Q3 average sits at that same level, though I expect a hotter September inflation print to push it up to the forecasted 0.7 percent;
- **Nevertheless, just because inflation remains contained now doesn't mean the SNB can simply ignore the firestorm around it at Thursday's meeting.** While avoiding forward guidance, the Governing Board will strike a hawkish tone – in a distinctly Swiss sense. The SNB will acknowledge rising inflation risks fueled by the energy price shock, franc weakness and resilient economic growth. While I expect these three factors to push the SNB to revise its new conditional inflation forecast upwards for the coming quarters, I don't think their combined impact will be enough to threaten the two percent ceiling of its inflation target range;
- **The recent uptick in Swiss headline inflation is still largely a story of the energy shock – stemming mostly from the war in Iran.** Currently, energy prices contribute just under half a percentage point to headline inflation. So even if that contribution were to double, the SNB's two percent ceiling wouldn't immediately be threatened. Meanwhile, core inflation – excluding energy and seasonal items – remains anchored at the lower end of the target range at 0.4 percent in August. The situation in Switzerland is markedly different from the Eurozone and US, where core inflation already sat above their two percent target before the war in Iran began;
- **The risk is that a prolonged energy shock feeds into underlying inflation via so called second-round effects.** But those effects haven't shown up in the data yet – no surprise, given that the Swiss Producer Price Index remains in deflationary territory. That said, August's -0.7 percent YoY print is up noticeably from -2.1 percent YoY in July, suggesting pressure is starting to build. Still, I don't expect second-round effects to gain enough traction by June 2027 to force the SNB to hike;
- **Granted, there is a scenario where renewed Middle East escalation and a harsh European winter – at a time when gas storage is at historically low levels – send energy prices soaring as they did in 2022.** That could fuel both headline inflation and second-round effects enough to force the SNB into action. Still, that is not my base case. Instead, I expect energy prices to remain elevated going into winter and gradually decline thereafter – but, most importantly, to avoid a sizable price spike;

- **A complicating factor is that energy prices have also become a key driver of another vital inflation transmission channel: the Swiss franc.** Widening interest-rate differentials have dragged the franc lower in 2026 following FOMC and ECB rate hikes (and expectations of more hikes) to curb energy-driven inflation. If energy prices surge further, rising expectations for further foreign hikes could weaken the franc even more and increase inflationary pressure. That said, I view current market pricing – which incorporates three more 25bps hikes before the ECB and FOMC reach their terminal rates – as premature;
- **Regardless of the cause, I view the franc's current softness as a correction from its surge since 2025 – which was fueled by safe-haven flows.** The weakness is no cause for alarm yet. Currently, I expect the inflationary impulse from the weakening franc to remain contained – adding roughly 0.3 percentage points[1] to headline inflation. Furthermore, this effect will only fully materialize in Q2 2027, just as the base effects from higher energy prices begin to fade;
- **At the franc's current levels – with EURCHF trading in the mid-0.94s – the SNB is more likely to soften, rather than strengthen, its FX intervention language in the September monetary policy assessment.** Should they do this it would serve as a clear signal that the central bank is comfortable with where the currency currently trades;
- **That doesn't mean the SNB will sit on its hands if the currency moves sharply in either direction – it simply gives them the opportunity to up the verbal ante when needed.** So, should a winter energy crisis severely weaken the franc, the SNB could support the currency by selling off parts of its massive foreign investment portfolio. However, in this case I don't expect them to intervene in earnest until they begin hiking interest rates, sticking to the playbook they used in 2022;
- **Don't forget there are also still plenty of risks that could see the franc surge again.** If mounting worries over the French deficit culminate in yet another sovereign debt crisis in the Eurozone, expect the franc to strengthen rapidly;
- **Putting the doom and gloom aside, the Swiss economic outlook has noticeably improved.** The KOF leading index – a reliable six-month forward indicator for economic conditions in Switzerland – sits at its highest level since 2021. Meanwhile, Q2 GDP also surpassed all expectations – albeit heavily buoyed by volatile pharmaceutical exports. In any case, the latest economic forecasts by the State Secretariat for Economic Affairs have raised 2026 and 2027 GDP growth rates to 1.7 percent. Even after this upgrade, growth remains a rounding error below Switzerland's long-term trend rate;

[1] The IMF estimates that every 1 percent decline in the franc adds roughly 0.12 percentage points to headline CPI over a twelve-month period. The broad Swiss franc has weakened 3 percent from its average level in H1 2026, implying a roughly 0.4 percentage-point boost to inflation. Around a quarter of that impact has already filtered through, with the remainder feeding into prices over the next nine months.

- **Enthusiasm should also be kept in check as there are many lingering uncertainties.** The primary driver for growth remains exports – potentially exposed to a slowdown in foreign demand amid rate hike cycles. At the same time, President Trump's insistence on having the world's lowest interest rates leaves Switzerland vulnerable to renewed tariff threats. Look, the Swiss National Bank already holds a couple of million dollars in Trump Media stocks as part of its massive equity portfolio – I suppose it could always buy more if it really wanted to smooth things over;
- **Jokes aside, given the state of the economy, the level of energy prices and the franc's exchange rate, I believe the Swiss National Bank remains set to hold rates steady for the foreseeable future.** Swiss inflation is set to pick up on the back of these tailwinds, but not enough to threaten price stability. In my view, the SARON swaps moved too prematurely on energy-driven rate hikes. Though it should be said that if we get a 2022-style energy shock this winter, they might actually be underpricing the risks. Since both inflation and the franc are linked to energy prices, a genuine shock would hit CPI through direct prices, second-round effects and a weaker franc. Under that scenario, the SNB could be forced to hike aggressively – potentially kicking off with a 50bps hike as it did in 2022;
- **Nevertheless, the world may be on fire, but through the lens of the SNB’s mandate: this is fine.** While remaining on the sidelines amidst global instability may be uncomfortable – it remains the right choice for now.