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ECONOMIC RESEARCH – JUNE 2025

# INVESTMENT INSIGHT SWITZERLAND

- ✓ More nuanced and contrasting leading indicators
- ✓ CPI and PPI indices point to deflation
- ✓ SNB could move into negative rates in June
- ✓ SNB may trigger weakening of the franc

## THE SNB COULD ALREADY GO NEGATIVE IN JUNE

### Contrasting leading indicators

Leading indicators for the Swiss economy remain mixed. The manufacturing sector continues to struggle, with its PMI dropping to a 5-year low, while the services sector shows resilience. Consumer confidence has improved slightly but remains pessimistic, and retail sales are subdued.

### CPI and PPI indices signal deflationary pressures

Switzerland is now experiencing deflation, with the Consumer Price Index (CPI) turning negative in May at -0.1%. This is primarily due to sharp drops in energy and food prices and a strong Swiss franc, which makes imports cheaper. Producer and import prices are also in a deflationary trend, with a year-on-year fall of -1.8%. While core inflation is still positive, the overall trend points to significant and ongoing deflationary risks.

CPI & PPI - Switzerland


*Sources : Bloomberg, BBGI Group*

## SNB likely to cut rates to combat deflation

The Swiss National Bank (SNB) is increasingly concerned about the risk of a deflationary spiral. The unexpected first-quarter GDP acceleration is unlikely to deter the SNB from acting. To combat the strong franc and its deflationary effects, the SNB is expected to cut its key interest rate at its next meeting, with a potential return to negative rates. This action aims to prevent a negative feedback loop of lower consumption and investment.

## Potential for a 50-basis-point rate cut

Given the intensifying deflationary pressures and the Swiss franc's continued strength as a safe-haven asset, the SNB may consider a more aggressive rate cut than the expected 25 basis points. We believe there are sufficient reasons for the SNB to lower its key rate by 50 basis points to -0.25%. This move would be an attempt to trigger a more significant weakening of the franc and stimulate the economy.

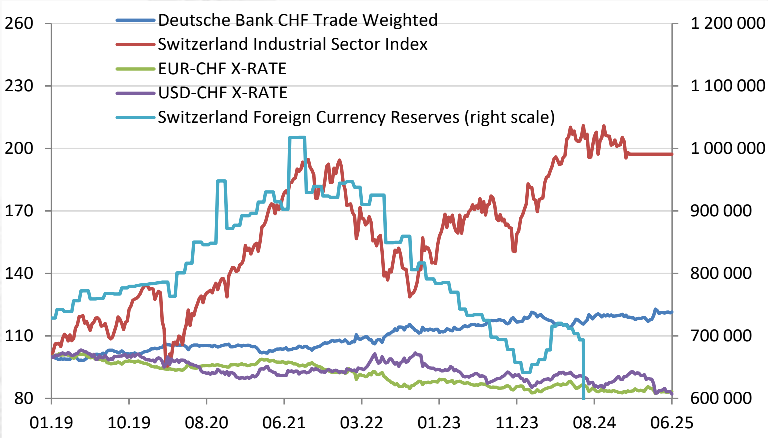
## Swiss Franc could weaken in response to SNB action

The SNB's proactive monetary policy, particularly a potential move back to negative rates, is designed to weaken the Swiss franc. The franc has consolidated against the euro and U.S. dollar, but a decisive rate cut could trigger a trend reversal. This could finally bring about a long-anticipated weakening of the franc, as investors might shift towards more remunerative currencies.

## Reevaluation of Swiss equities

The Swiss stock market, as measured by the SMI, has seen a positive performance. However, with the rising risk of deflation and a potential return to negative interest rates, the outlook for Swiss equities is now more complex. The deflationary environment could weigh on corporate profitability, but a weaker franc might benefit exporters. The market's future trajectory will largely depend on how these contrasting forces—monetary policy and currency valuation—unfold in the coming months.

**Exchange rates and SNB reserves**




*Sources : Bloomberg, BBGI Group*