Why the Swiss franc is depreciating

A cyclical carry trade inside an intact secular uptrend

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The Swiss franc depreciated by roughly 3.4% against both the euro and the US dollar since March 2026. This note attributes the move to a nominal interest rate differential that has widened sharply against Switzerland — the SNB is frozen at 0.00% while the ECB tightens and the Fed debates — compounded by the exhaustion of a safe-haven bid largely priced during the first quarter of the war. We show that the inflation differential, when applied consistently, leaves Switzerland's real policy rate above the euro area's and explain the mechanics behind. The latest depreciation is a positioning phenomenon inside an intact secular uptrend, and we remain structurally bullish the franc over multi-year horizons.

1. What happened

EUR/CHF has risen from about 0.9032 on 9 March to roughly 0.9331–0.9340 in mid-August, a gain of 3.4% for the euro. USD/CHF has moved from 0.7797 to approximately 0.8075, up 3.5% for the dollar.

Two qualifications matter. The franc remains historically strong: USD/CHF's all-time low is near 0.71, and as recently as March the currency was up more than 11% against the dollar on a twelve-month basis. This is a retracement from extreme levels, not a devaluation.

More telling, the depreciation has occurred through escalation rather than in its absence. On 11 August, EUR/CHF rose to 0.9340 with the Strait of Hormuz still closed and Brent in the mid-eighties. A franc that will not rally on a live energy crisis is reporting on positioning, not on news.

A retracement inside the trend:
USD/CHF is back on its 7-year refression line

Source: Bloomberg, Syz Group

A retracement inside the trend:
EUR/CHF remains inside its 19-year downward channel

Source: Bloomberg, Syz Group

2. The interest rate differential

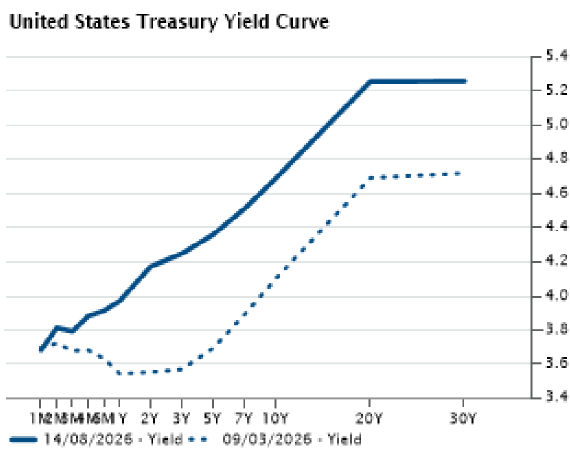
The SNB left its policy rate at 0.00% on 18 June, a fourth consecutive hold. Its conditional forecast, inflation of 0.6% in 2026 and 2027, and 0.7% in 2028, sits comfortably inside the target band, and consensus sees no hike before 2028.

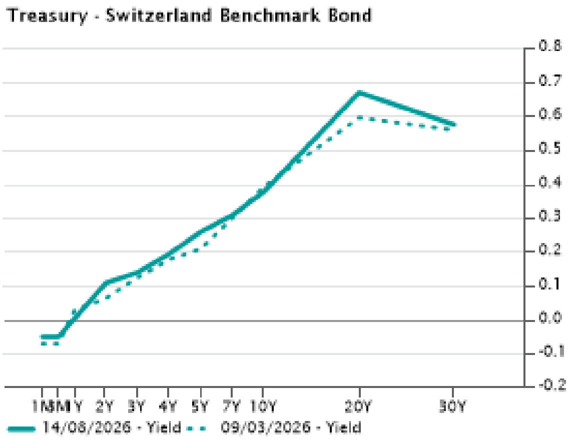
The ECB raised its key rates by 25 basis points on 11 June, its first increase since September 2023, lifting the deposit rate to 2.25%. Eurosystem staff project headline inflation at 3.0% this year. A September hike is closely priced but a December hike only fifty-fifty.

The Federal Reserve held at 3.50%–3.75% on 29 July by a 9–3 vote, with three regional presidents wanting an immediate increase.

The franc's nominal carry disadvantage is therefore about 225 basis points against the euro and 360 against the dollar. What changed since March is not the level, as the gap has been wide for some time, but the direction of travel. The ECB moved from a cutting bias to active tightening; the Fed acquired a hawkish dissenting bloc; the SNB did nothing and, by its own numbers, has little reason to change course. Investors shorting the franc are therefore not only being paid to hold the position today; they expect that compensation to increase tomorrow. That forward-looking carry is what can allow the trade to withstand even a geopolitical shock. Yet, it is not only the short-term interest rates of a country, which can directly be steered by central bank policy, but also longer-term interest rates across the so called "yield-curve" that currently drag the Swiss franc.

While the US 10-year Treasury yield rose from around 4.1% in March to nearly 4.7%, and the 30-year yield increased from 4.7% to roughly 5.2%, Swiss yields moved very little by comparison. The 10-year Swiss government bond yield actually fell from 0.39% to 0.35%, while the 30-year yield edged up from 0.56% to just 0.58%. Eurozone yield curves also shifted higher similarly to the US, with the German 10-year government bond yield rising from 2.8% to 3.2% and the 30-year yield from 3.4% to 3.7%. The widening of the interest rate differential in the mid-to long-term interest rates additionally helps to explain the negative pressure on the Swiss franc in the recent weeks. However, we must take inflation into account.





3. Low inflation: the necessary correction

Swiss CPI fell to 0.4% year-on-year in July, from 0.5% in June. Euro area HICP was 2.9%, with energy up 10.0%. US headline CPI was 3.4%.

The inflation differential helps to explain the relationship between the three currencies more clearly. Relative purchasing power parity (PPP) implies that the low-inflation currency appreciates in nominal terms at roughly the inflation differential. That is not merely theory; it is the best single description of the franc since the collapse of Bretton Woods. Low inflation is why USD/CHF has fallen from 4.32 in 1971 to 0.81 today.

The mechanics behind also connect Switzerland's low inflation to the SNB's low policy rates, albeit indirectly. Low inflation allows the SNB to hold rates at zero while peers facing higher domestic inflation tighten. In this sense, the inflation differential is the underlying cause of the rate differential, which in turn is the more immediate driver of the currency move. The distinction matters because the two links behave differently: the policy channel can reverse in a single meeting, while the PPP channel is far more persistent.

Applying the differential consistently sharpens the point. Deflating each policy rate by current headline inflation:

	Policy rate	Headline CPI	Real policy rate
Switzerland	0.00%	0.4%	-0.40%
Euro area	2.25%	2.9%	-0.65%
United States	3.625%*	3.4%	+0.23%

* Midpoint of the 3.50%–3.75% target range. August 2026

Switzerland's real policy rate is higher than the euro area's. The 225-basis point nominal advantage pushing EUR/CHF up does not merely shrink in real terms — it inverts to a negative 65 basis points. Against the dollar it survives, but at roughly 25 basis points rather than 360.

Similarly, we can also take future inflation expectations into account for mid- to longer-term real interest rates, where, for example, the difference of the 10-year government bond rate between Switzerland and Germany from nominal about 2.9% drops to less than 1.2% in real terms.

Investors short the franc against the euro are collecting a spread fully accounted for by inflation. The carry is real cash flow and the trade is coherent, but it is a positioning trade, not a repricing of Swiss fundamentals. Positioning trades unwind faster.

4. A spent safe-haven bid and a one-sided central bank

The franc gained nearly 2% against the euro in the weeks after hostilities began on 28 February in the Middle East. That flow now appears exhausted. Safe-haven demand is a stock adjustment, not a perpetual flow: once portfolios have rebalanced, the marginal buyer disappears even though the risk remains. A six-month-old crisis is also no longer news, and markets price changes in risk rather than levels of it. Meanwhile, the hedge has become expensive, costing 225 to 360 basis points a year in forgone carry.

The SNB has not resisted. Its June statement flagged an increased willingness to intervene, explicitly to counter a rapid and excessive appreciation of the Swiss franc. That is a put written against strength, with nothing written against weakness. With the policy rate at the global floor and Chairman Schlegel repeatedly citing the undesirable side effects of negative rates, franc weakness requires no response at all: it relieves exporters and lifts the inflation forecast off its floor. The weakness is tolerated rather than endured, and the market knows it.

5. Risks to the near-term view

- **Escalation:** the safe-haven bid is dormant, not dead; months of accumulated carry can be erased in one session.
- **Resolution:** a reopening of Hormuz would collapse the energy premium, pull euro area inflation toward target and remove the case for the September and December hikes. The euro's carry advantage rests on inflation that is energy-driven at the margin.
- **An SNB surprise:** the consensus that Switzerland is frozen at zero until 2028 is crowded.
- **Reframing:** the real-rate arithmetic above is not how the market currently prices the pair, and such shifts happen abruptly.

6. Conclusion: cyclical weakness, structural strength

The depreciation since March is cyclical and technical. It reflects a nominal carry gap and an exhausted flow, not any deterioration in Switzerland's economic position. Nothing in the past six months has damaged the foundations of franc strength over the long-term, and those foundations remain in our view the strongest of any major currency.

We continue to expect the franc to appreciate against both the euro and the dollar over multi-year horizons, for four reasons.

- **The inflation differential is the engine.** Switzerland is running inflation roughly 250 basis points below the euro area and 300 below the United States, and the SNB's own forecasts hold it near 0.6% through 2028 while the Eurosystem projects 2.0% to 3.0%. Relative purchasing-power (PPP) converts that gap into nominal appreciation at approximately its own rate. The mechanism is slow, but it has not failed in fifty years.
- **Switzerland has no real carry disadvantage.** As shown above, its real policy rate already exceeds the euro area's. The pressure on the franc is nominal, and nominal pressures are the ones that reverse.
- **The external position is a standing bid.** Switzerland runs a persistent and large current account surplus and is among the world's biggest net external creditors. This generates continuous structural demand for francs that is independent of rate expectations or risk sentiment.
- **Institutional credibility is the scarce asset.** Low public debt, an independent central bank with a five-decade record of delivering price stability, and political continuity are precisely what investors pay for in a world of fiscal deterioration and inflation that has run above target across the G7 for five years.

The tactical conclusion follows from the structural one. Franc weakness driven by a carry gap that largely vanishes in real terms is an opportunity to add Swiss franc exposure at better levels, not evidence of a faltering currency. For Swiss-based investors, hedging foreign assets still comes with the full nominal carry cost. But against the US dollar, the entry level given a potential reversal of the Swiss franc's depreciation is in our view attractive for a 12-month horizon. Versus the euro, we currently expect the franc to remain broadly stable until mid-2027 and only later begin to appreciate materially. At current levels, we therefore do not see an immediate need for a Swiss-based investor to increase currency hedging vs the euro.

Data Appendix

Exchange rates

Pair	9 Mar 2026	10 Apr 2026	Mid-Aug 2026	Change
EUR/CHF	0.9032	0.9246	~0.9331–0.9340	+3.4% (EUR)
USD/CHF	0.7797	0.7874	~0.8072–0.8080	+3.5% (USD)

Policy rates, August 2026

Central bank	Rate	Last change	Next event
SNB	0.00%	Held 18 Jun 2026 (4th)	25 Sep 2026
ECB	2.25% (deposit)	+25bp eff. 17 Jun 2026	10 Sep 2026
Federal Reserve	3.50%–3.75%	Held 29 Jul 2026 (9–3)	Sep 2026 FOMC

Inflation, July 2026 (year-on-year)

Economy	Headline	Note
Switzerland	0.4%	Down from 0.5%; four-month low
Euro area	2.9%	Up from 2.8%; energy +10.0%
United States	3.4%	Down from 3.5%

Central bank inflation projections

Pair	2026	2027	2028
SNB conditional forecast	0.6%	0.6%	0.7%
Eurosystem staff (headline)	3.0%	2.3%	2.0%

Sources: Swiss National Bank monetary policy assessments of 19 March and 18 June 2026; European Central Bank monetary policy decisions of 11 June 2026 and Eurosystem staff projections; Federal Reserve FOMC statement and Chairman's press conference, 29 July 2026; Eurostat flash HICP estimate, 31 July 2026; Swiss Federal Statistical Office CPI release, 3 August 2026; Reuters economist surveys; Bloomberg and Trading Economics for market data.

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