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FX Focus: A Resilient Swiss Franc Despite Disinflation Risks and Tariff Uncertainty

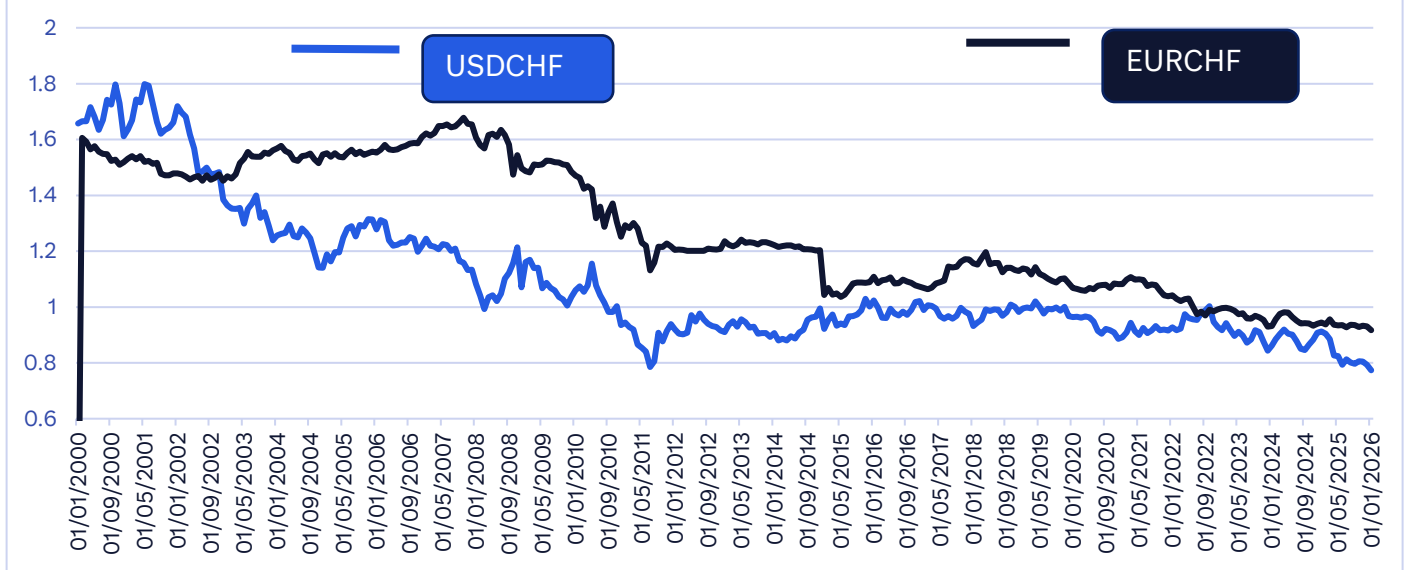
The Swiss Franc (CHF) is currently at its highest against USD and EUR, sitting at levels not seen since 2015 when the Swiss National Bank (SNB) adopted the currency peg from 2011 to 2015. The SNB's reluctance to counter CHF strength may be due to inflation staying above zero, and from buoyant Swiss exports despite tariff and trade uncertainty. Still, the Franc remains the most attractive G10 funding currency especially with euro area growth now showing some green shoots and the JPY narrative a bit shakier.

- The trade-weighted CHF has gained ~4.5% since early April 2025, which was when U.S. President Donald Trump announced the first wave of reciprocal tariffs, with Switzerland among his key targets. It has gained despite trade and tariff uncertainty and significant disinflation risks facing the Swiss economy from the strength of its currency.
- Swiss inflation data for January shows headline CPI up just 0.1% year-on-year while Swiss core CPI is up only 0.5% on-year, the lowest within the developed world. With imported inflation running at -1.5% on-year, SNB President Martin Schlegel warned last month that there may be some negative monthly inflation readings in 2026 with annual inflation expected to average just 0.3% on-year in 2026. He also acknowledged CHF appreciation could threaten price stability. This extends the downward pressure trend on overall inflation.
- But official Swiss rates are already at 0% and President Schlegel has repeatedly insisted there is a substantially higher bar to cutting rates below zero given pressures on the Swiss banking system from reduced lending margins experienced from 2015-22 when the SNB implemented negative rates. However, overall price dynamics in Switzerland remain muted while the currency's strength poses sizable downside risks to Swiss inflation.
- President Schlegel also acknowledges CHF appreciation is difficult for exports, saying "it's a big challenge for many companies." Yet, the central bank may be reluctant to outrightly intervene in FX markets to weaken the currency for fear of a rebuke from the United States as Switzerland remains on a Treasury watchlist for potential FX manipulation.
- But Swiss exports have been resilient with 2025 exports (excluding gold) reaching CHF287 billion in 2025, up from CHF283 billion the previous year. Meanwhile, the effective US tariff rate on Switzerland has fallen back below 7% after reaching 25% in 1H25 to now sit below the effective rate faced by other European exporters.
- Investor discussions tend to focus on USDCHF spot whereas SNB's attention typically tends to be on the EURCHF cross in its bid to maintain real exchange rate stability with Switzerland's largest trading partner: the euro area. With Swiss inflation readings estimated at 0.3% in 2026 and euro area inflation projected to average just slightly below 2.0%, relative purchasing power parity (PPP) considerations would suggest the EUR should depreciate against CHF by 1.5-1.7% per year, implying a sub 0.9250 – 0.9450 range in the EURCHF cross that has held from April-Dec 2025.
- However, at ~0.9105 and 0.7725 as of Feb 19, 2026, the Franc has already hit its strongest levels against EUR and USD respectively and the risks now appear more two-sided. Countering the narrative of CHF strength is the fact that the Franc remains the most attractive funding currency based on carry among its G10 cohort. And with euro area growth showing some green shoots and the JPY weakness narrative looking a bit shakier as an alternative funding currency, the CHF is poised to return to its "funder" title.
- But ultimately, what matters for CHF is where EUR trades vs USD and CHF as the SNB tries to maintain exchange rate stability with the euro. EURUSD has seen a 1.1300-1.2000 trading range while EURCHF has seen a 0.9250 – 0.9450 in EURCHF for the most part since last April. Currently, the EURCHF cross trades below its range for that period but if it is able to reverse course and trade within the range, this would imply a 0.78 – 0.82 range for USDCHF spot. This suggests that the current levels in EURCHF and USDCHF are more an overshoot from "fair value".

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FIGURE 2: USDCHF and EURCHF currently trade at lows last seen in 2015 when SNB introduced the peg from 2011-15



Source: Bloomberg, February 19, 2026. Past performance is no guarantee of future results. Real results may vary.

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