

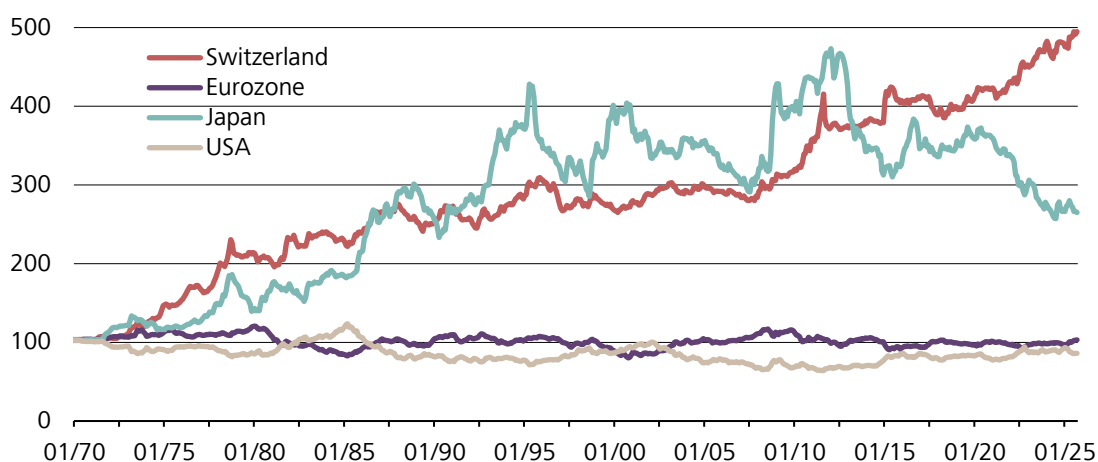
Macro check-up

The Swiss economy is being held back by US tariff policy. The business outlook in the sectors affected by the 39% punitive tariffs has deteriorated again recently, leading to expectations of further industrial job losses. However, the robust services sector and the resilience of domestic demand should continue to allow moderate positive economic growth. Since the Swiss franc has remained fairly stable against the euro so far this year, moreover, there is no reason for the SNB to take action.



CHART OF THE MONTH: THE LAST HARD CURRENCY

Nominal, trade-weighted exchange rate (index)



Source: BIZ, Raiffeisen Economic Research

When US president Richard Nixon finally abandoned the US dollar's gold peg in 1971 and devalued the USD, the Bretton Woods system of fixed exchange rates ended and currencies began to fluctuate freely. In the following decades, both the Japanese yen and the Swiss franc both demonstrated a sustained pattern of strong appreciation.

The main reason for their strength was sustained lower inflation in the two currency areas. According to the theory of purchasing power parity, the exchange rate adjusts to reflect different price developments of internationally tradeable goods in the currency areas. Lower price increases are reflected in nominal appreciation. In real or price-adjusted terms, the appreciation of the Swiss franc has not been pronounced over time, especially against the USD. Against the euro, however, the Swiss franc has strengthened significantly in real terms, particularly since the financial crisis. This has also been the case against the yen, especially since the pandemic. The yen has lost its safe-haven currency position

in recent years and has also ceded significant ground against the other major currencies in both nominal and real terms.

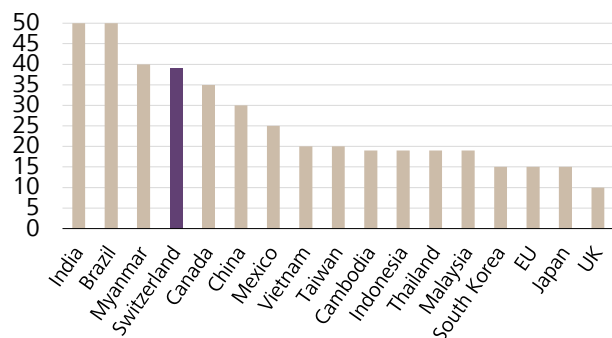
This development is driven by a combination of increased inflation and the continuation of loose monetary policy. While real interest rates in the US remain very positive thanks to the Fed's restrained policy, they are extremely negative in Japan, with a key interest rate of 0.5% and inflation of just under 3%. This makes investments in yen much less attractive and weakens the currency – which in turn is reinforced through more imported inflation. In Switzerland, the real interest rate is also slightly negative, with an SNB key rate of 0% and an inflation rate of 0.1%. In the eurozone, however, the situation is not much different. As Switzerland is also increasingly becoming the last pillar of stability in terms of fiscal policy, the Swiss franc remains in demand. With the prospect of persistent and significant inflation differentials, the gap between the Swiss franc and other currencies is set to continue widening over time.

Economic situation



RECIPROCAL US IMPORT TARIFFS

In % by trading partner

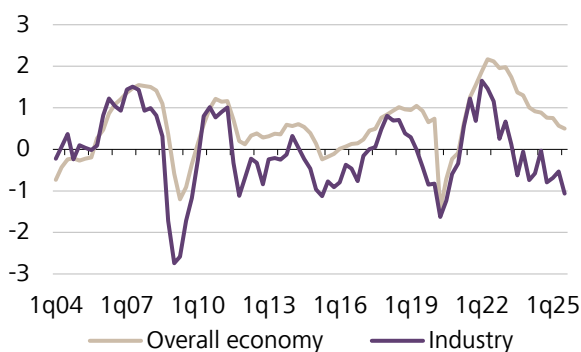


Source: Center for Global Development, Raiffeisen Economic Research



SWISS LABOUR MARKET

KOF employment indicator (0 = long-term average)

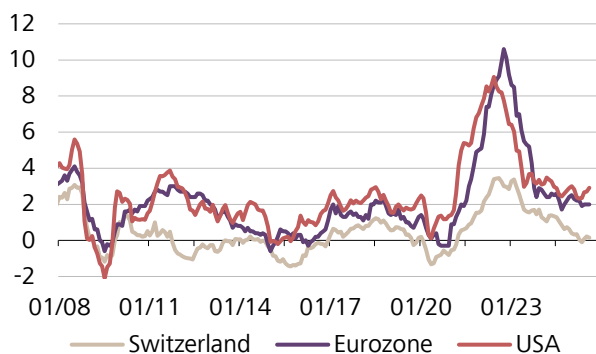


Source: KOF, Raiffeisen Economic Research



CONSUMER PRICES

In % compared to previous year



Source: LSEG, Raiffeisen Economic Research

USA solid, Europe moderate

In the United States, it is currently difficult to assess economic trends due to the long shutdown and the resulting lack of many data releases. The incomplete data available, however, does still point to what was up until recently a solid economy. Europe, however, has been unable to keep pace. In the third quarter, the eurozone continued to record just moderate growth of +0.2% compared to the previous quarter. The economies of Italy and Germany actually stagnated. Future growth momentum is expected mainly from the planned boost in public investment in Germany. In the other countries, on the other hand, the signs point more towards budget consolidation. So far, however, there is no sign of an acceleration in growth in Germany either. In fact, the assessment of the situation in industry has deteriorated again recently, and expectations are also showing few indications of positivity, not least because of the government coalition's lack of impetus for reform. This also applies to the construction sector, which should actually benefit most from the recovery plan.

Swiss competitiveness suffers

In addition to the EU, many Asian countries have also recently concluded trade agreements with the US, negotiating lower than originally threatened punitive tariffs and additional exemptions. China also achieved a significant reduction in tariffs thanks to the leverage gained through its rare earths. Switzerland, on the other hand, has yet to make any progress in the negotiations. As long as the reciprocal tariff of 39% remains in place, this puts the exporters concerned at a huge competitive advantage over and above the strong Swiss franc. For the important pharmaceutical sector, on the other hand, initial deals by the US government with pharma companies give hope that the threatened 100% tariffs will be avoided. Concern about competitiveness is being reflected in Swiss industry surveys. In contrast to service providers, more manufacturers are looking to reduce their workforce due to weak demand.

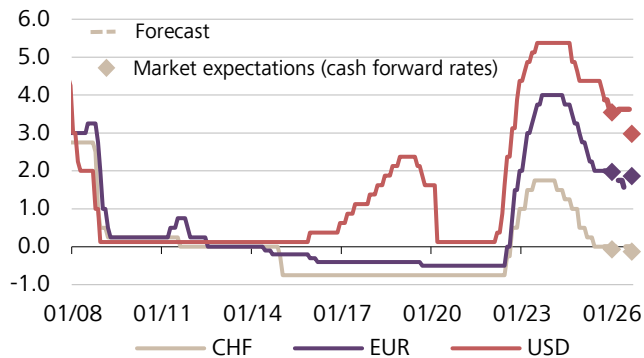
Swiss inflation remains close to zero

The punitive tariffs have so far been borne primarily by US importers. This, at least, is suggested by the relative stability of US import prices. So far, the extent to which the additional costs are being passed on to consumers has been limited. However, companies are still planning significant price adjustments in the coming months, which is keeping price pressure high in the US. In Europe, on the other hand, companies are not reporting a resurgence of price pressure. The weaker economy and declining wage dynamics suggest a further slight downward trend in inflation in the eurozone, even if service sector inflation has recently remained stubbornly high. In Switzerland, however, service providers have seen no need for a major price increase for some time. In addition, imported deflation continues to dampen price developments and keeps headline inflation only slightly above zero.

Interest rates



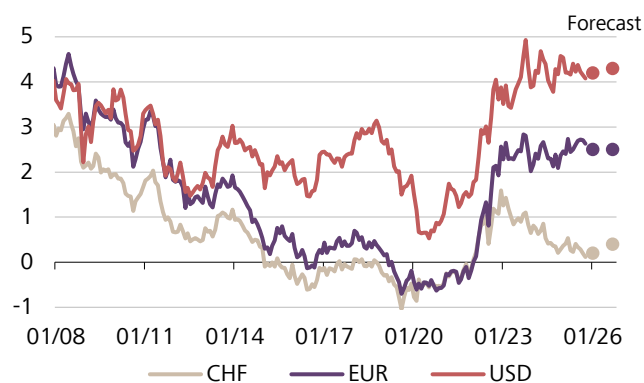
KEY INTEREST RATES, IN %



Source: LSEG, Raiffeisen Economic Research



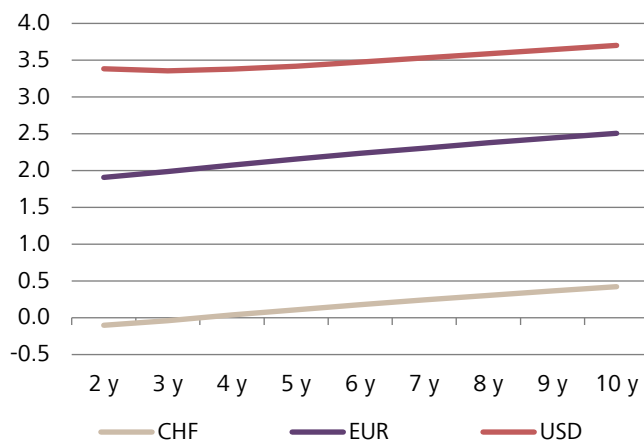
10-YEAR GOVERNMENT BONDS, %



Source: LSEG, Raiffeisen Economic Research



INTEREST RATE CURVE (11 NOVEMBER), IN %



Source: LSEG, Raiffeisen Economic Research

Fed maintains cautious path

For the second time in a row, the US Federal Reserve lowered its target rate by 25 basis points in October, taking it to 3.875%. Fed chairman Jerome Powell confirmed that the assessments of committee members differed greatly, with some more concerned about the labour market, others more so about inflation. The lack of many data releases as a result of the shutdown was also limiting visibility looking forward. For Powell, therefore, a renewed interest rate move in December is not a foregone conclusion – on the contrary, all options were being kept open. On the interest markets, the factored-in probability of a December move has fallen sharply after the more cautious comments, but is still above 50%. In any case, the latest available labour market and price data showed no clear trend and do not provide a clear guideline for the next interest rate decision.

ECB in an even better position

At its last meeting, the European Central Bank reported a resilient growth outlook. Although manufacturing was being held back by tariffs and the stronger euro, further positive effects of previous interest rate cuts and increased public investment are expected. Some downside risks, such as US tariff policy in particular, have recently diminished, in the ECB's assessment. At the same time, the central bank still considers the underlying inflation indicators to be consistent with the inflation target. Taken together, the ECB's Governing Council even sees itself in a somewhat better position, with no need for action on monetary policy. The continuing improvement in the economic outlook and persistent service inflation make a readjustment of interest rates less likely, at least in the short term.

SNB well below the bar

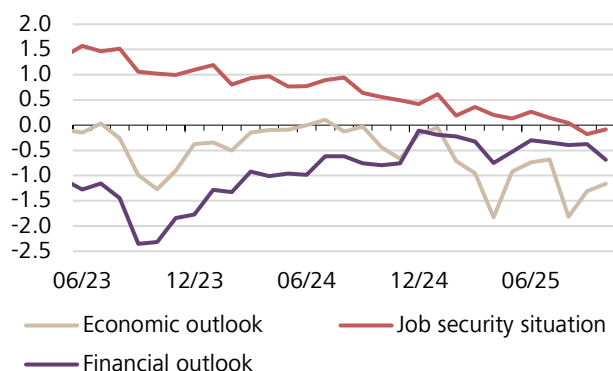
In the wake of new US tariff disputes, the EUR/CHF exchange rate slipped briefly to an all-time low. When it was at a similar level in April after the announcement of reciprocal US punitive tariffs caused turmoil in the market, the SNB intervened in the foreign exchange market by pumping in CHF 5 billion. Foreign currency purchases are therefore not excluded at present. In principle, however, the Swiss franc has not shown any major further movement against the euro lately. The EUR/CHF exchange rate has remained more or less stable over the course of the year so far. Since the ECB has stopped its lowering cycle and is maintaining a comfortable interest rate spread with the SNB, the Swiss franc is not becoming more attractive as an investment currency. Exchange rate-induced imported deflation has also reached its peak. At the quarterly meeting in September, SNB president Martin Schlegel reiterated that the bar for reintroducing negative interest rates due to negative side effects was much higher than for lowering interest rates following positive effects. In the current environment, however, even without the hurdle, there is no need for the SNB to act.

Swiss sectors



CONSUMER SENTIMENT

In standard deviations from the mean (last 10 years)

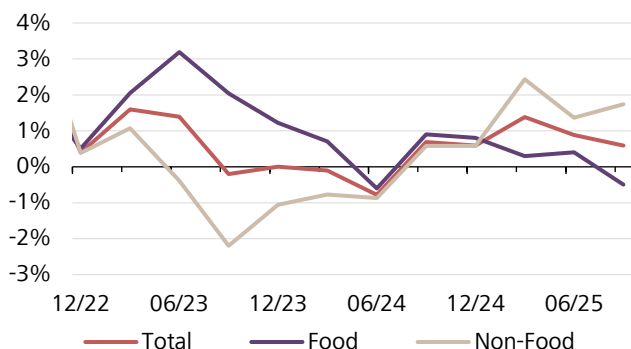


Source: SECO, Raiffeisen Economic Research



RETAIL TRADE

Nominal sales compared to previous year (excluding fuels)

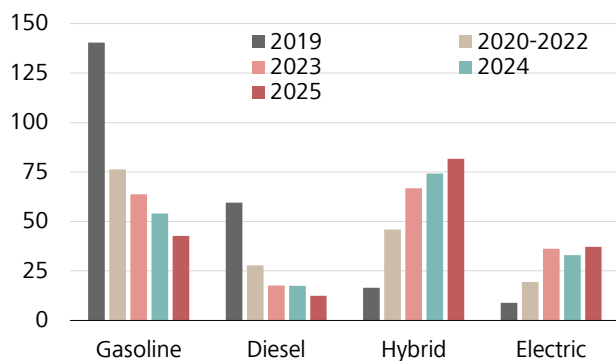


Source: FSO, Raiffeisen Economic Research



NEW REGISTRATIONS OF PASSENGER CARS

By drive type, January-September, cumulative (in thousands)



Source: FSO, Raiffeisen Economic Research

Fragile consumer sentiment

Consumer sentiment in Switzerland has worsened since the summer. Consumers are more pessimistic about economic developments than they were a year ago and increasingly feel that their job security is at risk. However, the mood is not negative across the board. Expectations regarding consumers' own financial situation have stayed stable and remain close to the historical average, one of the main reasons for this being low inflation. The timing for making major purchases is also considered more favourable than a year ago. Accordingly, despite the uncertainty on the labour market, consumer dynamics have slowed down only slightly, as the trend in retail trade shows.

Robust consumer dynamics in the non-food segment

Nominal retail sales (excluding fuels) rose again in the third quarter and are 0.6% above the previous year's level. This represents an increase of around 1% for the current year, although overall selling prices have declined. Sales growth is thus being driven by volume sales, which have so far increased by 1.7%. Almost all of the increase is attributable to the non-food segment, which again posted a robust growth rate in the third quarter, particularly in home electronics and online retail in general. Only bricks-and-mortar clothing retailers saw sales growth remain negative. In the food segment, sales also declined in the third quarter (-0.5%), again on a price-adjusted basis. Food is currently becoming cheaper, but prices are falling less sharply than in the non-food segment.

New car sales continue to decline

The price sensitivity of consumers is also evident in the car trade: While changes of ownership in the used car market are increasing sharply, sales of new cars are declining. The latter rose for the first time this year in July and August. In September and October, however, figures declined again. The decline comes mainly in petrol and diesel models. Hybrid and electric vehicles, on the other hand, increased their market share. These remain more expensive to purchase, which, according to surveys, is the main obstacle to purchasing a plug-in vehicle. Nevertheless, their prevalence is increasing again after last year's decline. One of the reasons for this is that CO2 regulations have forced importers to put more vehicles with alternative propulsion on the market. The choice for the customer base is growing, most recently due to the market entry of new Chinese suppliers.

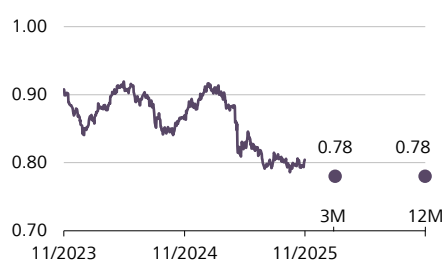
Exchange rates



FORECAST

**EUR/CHF**

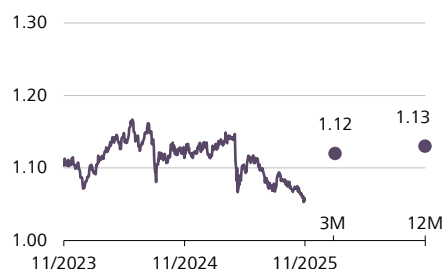
At times in October, one euro cost 0.9210 Swiss francs. Ignoring the turmoil following the removal of the minimum exchange rate at the beginning of 2015, this was an all-time low. This was driven, on the one hand, by strong demand for the Swiss franc as a safe haven for capital. On the other hand, the common currency is suffering from a weakening economy and the French government crisis. The European Central Bank (ECB), meanwhile, has left interest rates unchanged. In our view, the EUR/CHF exchange rate will continue to trend lower. Over the course of the year, however, positive stimulus effects from a further ECB rate cut should provide some support for the euro.

**USD/CHF**

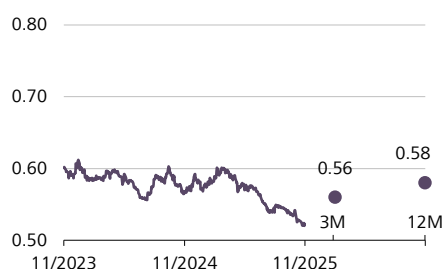
Despite stubborn inflation (September: +3.0%), the U.S. Federal Reserve (Fed) has cut its key interest rate by a quarter percentage point. This has largely exhausted its room for monetary easing. The pressure on the dollar resulting from the diminishing interest rate advantage is therefore easing. However, Trump's tariff policy will continue to weigh on the greenback. Accordingly, it fluctuated between 0.81 and 0.79 Swiss francs last month. Since investor confidence in the dollar is currently somewhat impaired, we have revised our USD/CHF forecasts downward.

**EUR/USD**

Both the Federal Reserve and the ECB are nearing the end of their respective interest rate cutting cycles. The euro is being held back by political uncertainties surrounding France and by economic weakness in Europe. As a result of this mix of factors, the common currency weakened against the greenback last month (-1.7%). In our view, the EUR/USD exchange rate is likely to move sideways in the medium term. Accordingly, we are maintaining our 3- and 12-month forecasts at 1.15 and 1.16.

**GBP/CHF**

Inflation in the UK did not rise further in September. At 3.8%, however, it remains well above the Bank of England's (BoE) 2% target. At the same time, the economy has picked up slightly: GDP grew by 0.1% in the third quarter compared to the previous quarter. Meanwhile, at the end of October, the pound was at times as cheap as never before at 1.0530 Swiss francs. We believe there is currently too much pessimism surrounding the British currency. Moreover, the BoE is likely to continue focusing on maintaining price stability. We are therefore sticking to our previous GBP/CHF forecasts.

**JPY/CHF***

In October, the Japanese yen continued its downward slide against the Swiss franc, ending the month with a 3.0% loss. The recent uptick in inflation does give the Bank of Japan (BoJ) some room to raise interest rates. However, under the new Prime Minister Sanae Takaichi, many market participants consider an aggressive tightening of Japanese monetary policy unlikely. She is seen as an advocate of loose fiscal and monetary policy in the tradition of former Prime Minister Shinzō Abe. While we still expect slightly higher interest rates, we have revised our 12-month forecast for the JPY/CHF currency pair slightly downward to 0.58.

* Multiplied by 100

Sources: Bloomberg, Raiffeisen Schweiz CIO Office, Raiffeisen Schweiz Economic Research

Raiffeisen forecasts (I)



ECONOMIC SITUATION

GDP (average annual growth in %)

	2022	2023	2024	2025 forecast	2026 forecast
Switzerland*	3.5	1.3	1.2	1.2	1.0
Eurozone	3.6	0.6	0.8	1.3	1.0
US	2.5	2.9	2.8	1.8	1.3
China**	3.0	5.2	5.0	4.8	4.0
Japan	1.0	1.8	0.1	1.0	0.8
Global (PPP)	3.6	3.3	3.2	2.9	2.6

Inflation (annual average in %)

	2022	2023	2024	2025 forecast	2026 forecast
Switzerland	2.8	2.1	1.1	0.2	0.5
Eurozone	8.4	5.5	2.4	2.0	1.6
US	8.0	4.1	3.0	3.0	3.2
China	2.0	0.2	0.2	0.2	0.5
Japan	2.5	3.3	2.7	2.7	1.9



FINANCIAL MARKETS

Key interest rates (end of year %)**

	2023	2024	Current****	3M forecast	12M forecast
CHF	1.75	0.50	0.00	0.00	0.00
EUR	4.00	3.00	2.00	2.00	1.50
USD	5.25-5.50	4.25-4.50	3.75-4.00	3.75-4.00	3.50-3.75
JPY	-0.10	0.25	0.50	0.50	0.75

Capital market interest rates (10-year government bond yields; end of year %)

	2023	2024	Current****	3M forecast	12M forecast
CHF	0.65	0.27	0.13	0.20	0.40
EUR (Germany)	2.02	2.36	2.70	2.50	2.50
USD	3.88	4.57	4.16	4.20	4.30
JPY	0.61	1.09	1.73	1.50	1.30

Exchange rates (end of year)

	2023	2024	Current****	3M forecast	12M forecast
EUR/CHF	0.93	0.94	0.93	0.90	0.91
USD/CHF	0.84	0.90	0.81	0.78	0.78
JPY/CHF (x 100)	0.60	0.58	0.52	0.56	0.58
EUR/USD	1.10	1.04	1.16	1.15	1.16
GBP/CHF	1.07	1.14	1.06	1.12	1.13

Raw materials (end of year)

	2023	2024	Current****	3M forecast	12M forecast
Crude oil (Brent, USD/barrel)	77	75	64	60	65
Gold (USD/ounce)	2063	2625	4081	4000	4200

*Adjusted for sporting events **The GDP figures are more controversial in their accuracy than in other countries and should be viewed with some caution. *** The key interest rate relevant for money market rates (SNB deposit rate, ECB deposit rate, interest rate corridor for the Fed Funds target rate) ****10.11.2025

Raiffeisen forecasts (II)



SWITZERLAND – DETAILED FORECASTS (ADJUSTED FOR SPORTING EVENTS)

	2021	2022	2023	2024	2025 forecast	2026 forecast
GDP, real, % change	5.9	3.5	1.3	1.2	1.2	1.0
Private consumption	2.2	4.9	1.4	2.4	1.4	1.5
Government consumption	2.9	-0.6	1.4	1.3	1.2	0.8
Investment in equipment	7.0	4.7	3.8	1.2	1.2	1.9
Investment in construction	-3.1	-6.9	-1.5	-1.4	2.2	1.8
Export	11.5	5.8	-2.0	3.0	6.3	1.0
Import	4.8	6.6	1.1	3.7	6.9	1.9
Unemployment rate in %	3.0	2.2	2.0	2.4	2.9	3.3
Inflation in %	0.6	2.8	2.1	1.1	0.2	0.5

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