

Interest Rate Markets into June

«In Between Episode»

For TV / streaming series, I call episodes in the middle part that try to connect the introduction of the characters and stories towards the season finale “in between episodes”. Generally the scriptwriters try, with various success, to keep it crisp and exciting. The same seems to apply to economies and central banks at the moment. It’s a ‘wait and see’ experience and, like myself in front of the screen, a bit of suffering in not-so-silence to get it over with — notably for the Swiss National Bank and the US Federal Reserve. The former has the luxury to wait; the latter faces the event of a character and story change.

For the Eurozone and Japan, the story is different. They need to act as they are not the masters of their own destiny. Inflation and deteriorating economies force a tightening of rates this month.

Swiss National Bank

We will have a base rate setting on June 18. Economists/strategists as well as the interest rate market expect the SNB to keep it at 0%. Inflation has slightly moved up to 0.6% in April (May figures will be released on June 4) but this seems to be within the comfort zone.

During May, Chairman Schlegel and Vice Chairman Martin held various speeches with identical messages: inflation picked up on the back of the Iran conflict; the CHF remains a safe-haven currency that will be defended with FX interventions if necessary; the CHF appreciation in the current environment is less prominent than in previous geopolitical events; and growth in 2026 will be below 2025, at around 1%.

Federal Open Market Committee

With the new Fed Chair Kevin Warsh guiding through his first meeting this month, the market does not expect a change in the policy rate. Current expectations for the release on June 17 are a hold (according to CME, with a conviction of over 98%). More important will be the language change in the statement and minutes, and the approach the Fed will apply going forward in terms of data analysis and interaction with the media and market.

Mr. Warsh was a Fed governor from 2006 to 2011. Initially he was an inflation hawk and actively worked on the measures to stabilise the economy during the financial crisis. He resigned, however, as a critic, arguing that the balance sheet expansion had gone too far and that the Fed should shrink it while keeping rates low.

Such views obviously strike a chord with the current administration. But it will be a key factor for spectators whether he can preserve the Fed’s independence.

Looking at the market, there is currently no rate cut priced in in the short run. FedWatch forecasts a 25 bps hike in March 2027. That is supported by research from various banks indicating an unchanged environment even into the second half of next year.

European Central Bank

As mentioned, the ECB is currently a price taker and as such is forced to move. Inflation is well above the 2% threshold and various board members have indicated lately that an increase of 0.25% this month is very likely. ESTR futures for June already quote at almost 2.25%. Looking further to year end, the market even expects an additional increase to 2.5%.

It may be more of a political and fiscal dilemma than a monetary policy one in the Eurozone. With economic activity decreasing and unemployment increasing, individual member states need to find a way to turn the ship around. With the three large economies — Germany, France and Italy — struggling to get themselves

moving, it will be an uphill battle. At the current stage, the ECB's price stability mandate will generate additional headwind.

Market Outlook – Waiting for More Clarity

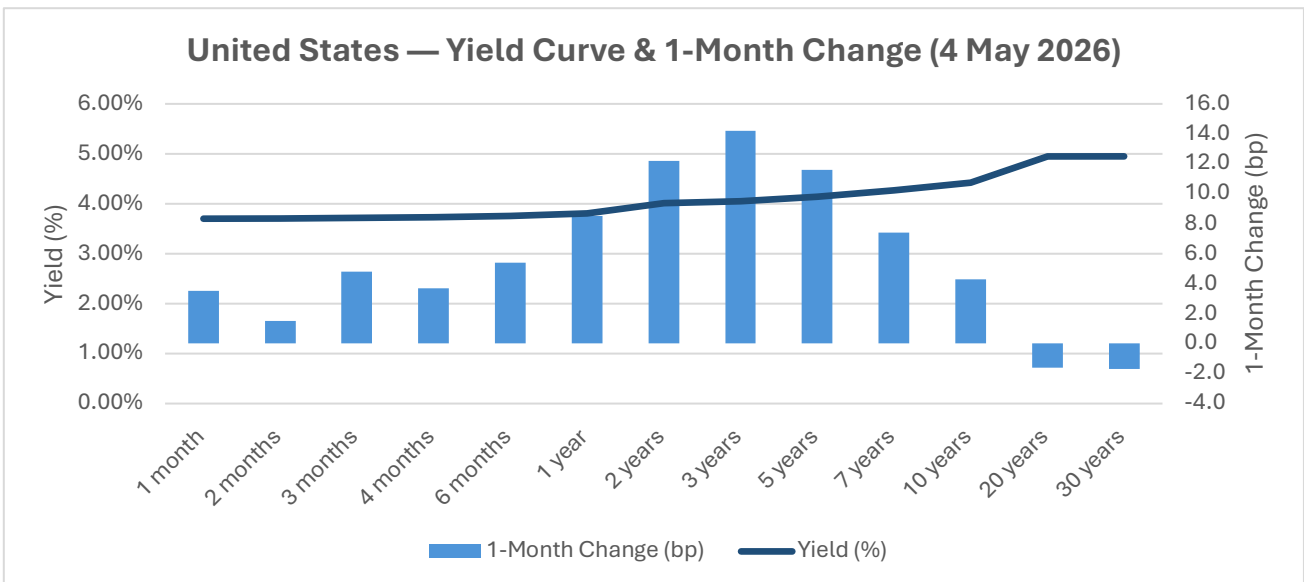
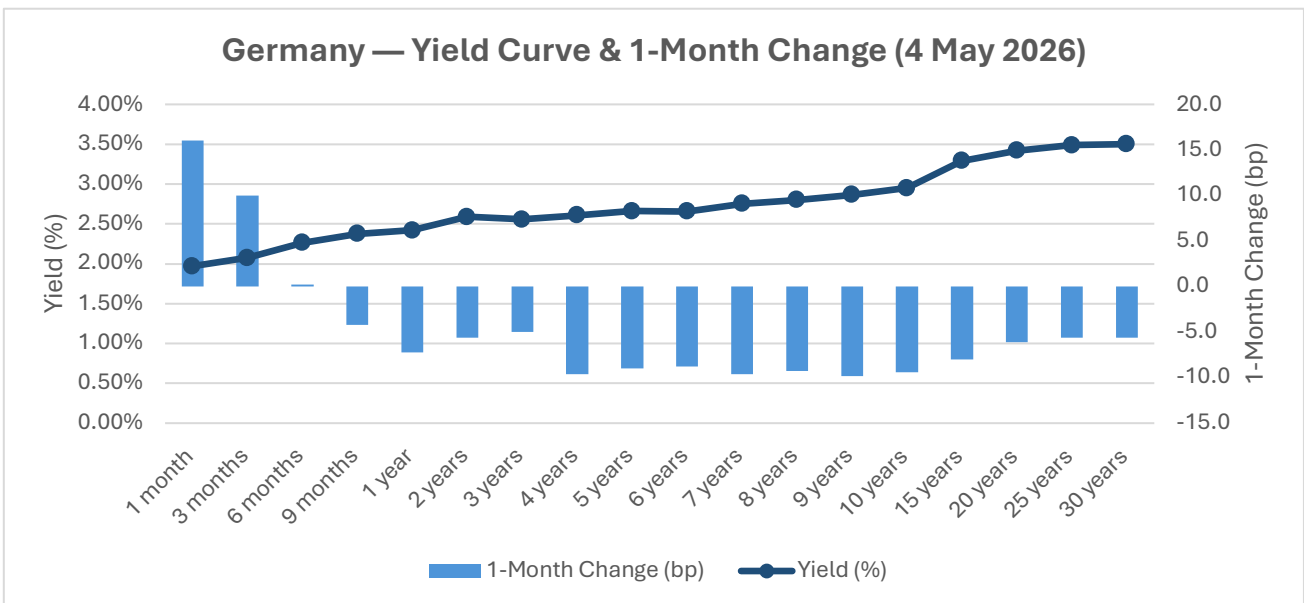
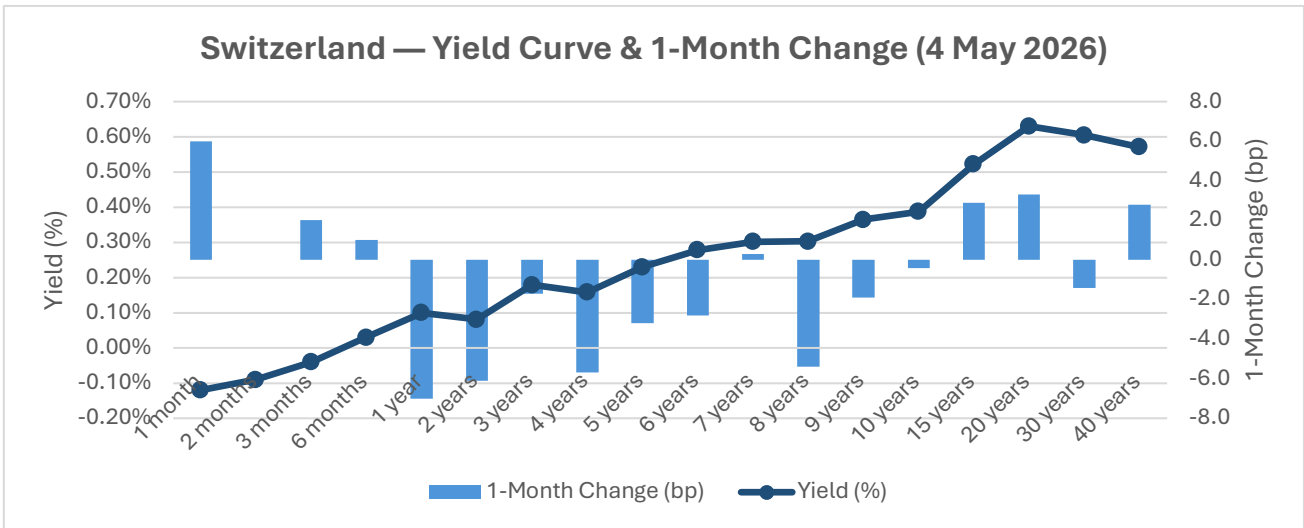
SARON futures currently price in two 25 bps increases over the next 30 months: one in June 2027 and one in December 2028. On the yield curve, it will remain a reflection of inflation expectations. My view is that the 0.5% move on the front end will feed through into the longer part of the maturity spectrum.

There is little argument for lower rates in the **US**. Economic activity and employment remain robust. Inflation remains high, which should keep the neutral rate floored at current levels. We saw a timid increase in longer rates in May, illustrating that market participants do not expect a downward adjustment in policy rates.

Rates in the **Eurozone** are a completely different animal. With higher inflation and lower economic growth expectations, longer yields are actually trending downwards. It remains to be seen whether fiscal policies can counter this. Alternatively, one could take a whack-a-mole approach: with lower overall rates across the curve, treasuries can continue issuing bonds at more favourable terms — until the wheel stops turning, given high debt levels.

Current Snapshot of Government Yields

Government Bond Yield Curves — 2 June 2026



Source: World Government Bonds, 2 June 2026. Bars represent the 1-month change in basis points (right axis). Darker bars indicate a negative (falling yield) move.

Economic Indicators

Economic Data Snapshot					
As of June 2026					
Indicator	Country	Value	As of	Trend	Next Release
Base Rate	Switzerland	0.00%	19.Mar.26	→	18.Jun.26
Base Rate	United States	3.75%	01.May.26	→	12.Jun.26
Base Rate	Eurozone	2.00%	30.Apr.26	→	11.Jun.26
GDP Growth YoY*	Switzerland	0.50%	01.Jun.26	↓	28.Aug.26
GDP Growth QoQ*	United States	1.60%	28.May.26	→	25.Jun.26
GDP Growth YoY*	Eurozone	0.80%	13.May.26	↓	05.Jun.26
CPI YoY	Switzerland	0.60%	05.May.26	↑	04.Jun.26
CPI YoY	United States	3.80%	12.May.26	↑	10.Jun.26
CPI YoY	Eurozone	3.00%	20.May.26	↑	17.Jun.26
Unemployment Rate	Switzerland	3.00%	07.May.26	↓	04.Jun.26
Unemployment Rate	United States	4.30%	08.May.26	→	05.Jun.26
Unemployment Rate	Eurozone	6.30%	01.Jun.26	↑	02.Jul.26

* US GDP is reported QoQ; Switzerland and Eurozone GDP are YoY.

** Trend reflects direction over the last three months.

Sources: Investing.com, Eurostat, Swiss National Bank (SNB), U.S. Bureau of Economic Analysis (BEA).

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