

CNB FX intervention: September was second most expensive month

According to our calculations, the Czech National Bank spent around EUR8bn in September, which is the second most expensive month since the start of FX intervention. In total, the CNB spent around EUR30bn, equivalent to 19% of total reserves. The pressure on the koruna will continue in the winter months and the CNB may rethink its current approach



The Czech National Bank in Prague

CNB spent about EUR8.0bn in the last two weeks

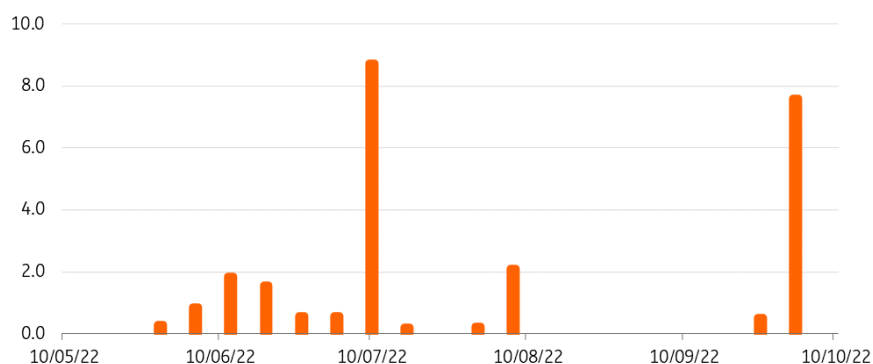
Last week's CNB meeting brought the topic of FX intervention and the sustainability of costs back into play. With the first data from last week already in hand, it is time to look [again](#) at the big picture and possible implications for the months ahead. Based on the bank liquidity data, we can see that the CNB had not been active in the market since the August meeting until mid-September, as [confirmed](#) by board member Jan Frait.

The week before the September [meeting](#), the koruna came under pressure and the CNB returned to the market with minimal activity of EURO.5bn based on our estimates. However, we saw a heavy load of EUR7.6bn on Wednesday and Thursday last week. Overall, we see that CNB spent

roughly EUR8bn in September.

While in previous months our estimates differed only marginally from the central bank's official numbers released later, September's estimate is more complicated. The CNB meeting took place at the end of the month and quarter, which is linked to the seasonal pattern of movements within the banking sector and deposit rebalancing. Therefore, this time our estimate is associated with a greater degree of uncertainty.

Weekly cost of FX intervention (EURbn)



Source: Macrobond, ING calculation

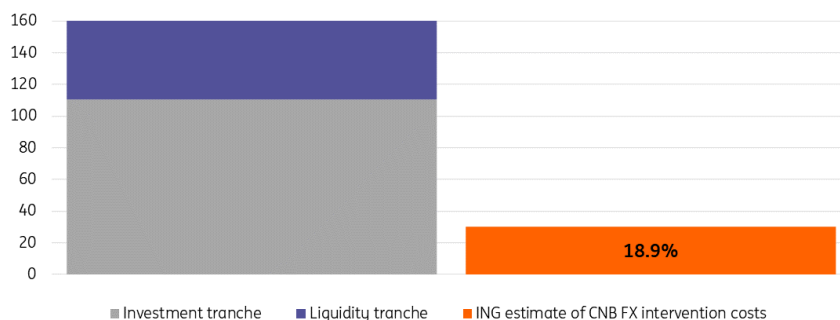
The market will continue to test the CNB's resolve

Based on our estimate, we see that September (EUR8bn) was the second most expensive month for the central bank since the start of FX intervention in mid-May, after July's EUR10bn. Overall, we see that the CNB has spent around EUR30bn since then, equivalent to just under 19% of total FX reserves before the intervention began.

Last week thus brought back into play the question of when the CNB will hit the bank board pain threshold and how long the central bank will be present in the market. Central bank activity in the market has been seen around the board meetings and during the sell-off in emerging markets in early July. Although we do not expect the CNB to announce a decision at the board meeting to stop intervention, market attention is visibly concentrated in that direction. There are two meetings left before the end of the year, in November and December. If the September pattern repeats, 30% of FX reserves would be spent by year-end, the pain threshold we mentioned [earlier](#), leading the CNB to rethink its approach.

Moreover, with winter approaching, we can expect the pressure on CEE currencies to continue, plus the Czech Republic faces a sensitive rating review by S&P next week and Fitch the week after. So we can expect that the pressure on the koruna will not ease and the market will test the CNB. If this scenario comes to pass, we do not expect the CNB to announce a complete exit from the market, but rather quietly move its levels above the current 24.60-70 EUR/CZK and play a cat-and-mouse game with the market.

Size of CNB FX reserves in April and costs of intervention since mid-May (EURbn)



Source: Macrobond, ING estimate

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