

Czech National Bank Preview: Everything has already been said

The last meeting of the Czech National Bank this year will bring nothing new. The traditional dovish majority on the Bank Board has already declared that rates are at a sufficiently high level and the current FX regime will continue. We believe that the next CNB move will be a rate cut



The Czech National Bank in Prague

No need to do anything

The Czech National Bank will hold its last meeting of the year on Wednesday. We expect it to be a non-event with rates and the FX regime remaining unchanged. The new forecast will not be released until February, so it is hard to look for anything interesting at this meeting. Board members have been very open in recent days and hence there is minimal room for any surprises. The traditional dovish majority has publicly declared that interest rates are high enough and continue to choose the "wait and see" path. Of course, as always, we have heard the traditional warnings that interest rates could go up if necessary. However, the negligible market reaction shows that the dovish view is clear here. The governor also confirmed last week that the central bank will continue to defend the koruna. At the same time, another board member confirmed that the CNB has not been active in the market for some time. Thus it is hard to look for anything new

here either. The most exciting thing here is the recent publication of the [calendar](#) of monetary policy meetings next year.

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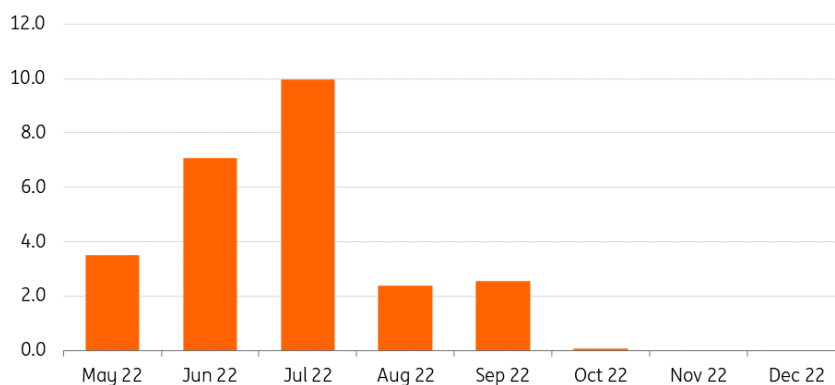
CNB's key policy rate

We expect no change this week

The next rate move will be a cut

In the long term, nothing has changed in our forecast. The inflation picture remains mixed. Thanks to government measures, inflation fell well below the CNB's forecast in October but rose again in November, more than the market expected. At the same time, core inflation accelerated sharply to near year-to-date highs in October in both month-on-month and year-on-year terms, before slowing again in November. Overall, however, it is clear that inflationary pressures remain strong in the economy and the main test will be January's inflation. We think this could easily reach previous highs and go above 18% YoY. However, this is still below the CNB's earlier forecasts, which assumed inflation above 20% YoY, so the central bank is in a comfortable situation under the new reaction function. Thus, we think the CNB's next move will be to cut rates.

CNB costs of FX intervention (EURbn)



Source: CNB, ING estimate

What to expect in rates and FX markets

The Czech IRS curve as well as regional peers have been dragged down in recent weeks, particularly by global drivers. However, locally, the government's measures and artificially low inflation have also played a role, which we believe has given the market the false impression that the inflation problem has been solved. We think this is not the end and the market is pricing in rate cuts too soon. Although our forecast is on the dovish side of the market, we think it will be a more bumpy road ahead. Therefore, we think the market is too aggressive at the moment and we see a higher IRS curve in the coming weeks with a sweet spot in the 1-3y horizon.

On the bond side, Czech government bonds (CZGBs) have finally become cheaper in asset spreads (ASW) in line with our expectations. However, the main pressure has come from the

IRS side, which bounced off the bottom recently. We believe CZGBs should still get cheaper in the coming weeks. However, in the second half of January, next year's supply will come into play. While this should be significantly lower in net terms, it should rise significantly again compared to the last two months as the Ministry of Finance starts to fund next year's budget.

On the FX side, the CNB's official numbers show that the last significant market intervention took place in September and by October, the central bank was essentially no longer active in the market. Moreover, our estimates suggest zero activity in November and December as well. In our view, the market has become accustomed to the CNB's presence in the market and is shifting from strong short positions to the long side given that it is a safe haven within the region at the moment. On the other hand, we expect this potential to be exhausted soon and for the koruna to remain near 24.50 EUR/CZK and not be a problem for the CNB. If the current market conditions persist and the central bank is not forced to intervene, we believe that in May, the board could discuss an exit from this FX regime.

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