

## Czech National Bank Preview: No change in the current tone

We expect rates and the FX commitment to remain unchanged. The central bank will present a new forecast including expectations for the key January inflation. Given the upside risks to inflation in the first quarter, we expect the tone of the meeting to be the same as in recent months. In our view, a rate cut discussion will not start until mid-year



Source: Shutterstock

# 7.00%

CNB's key policy rate

We expect no change

### Unclear game changer

On Thursday, the CNB monetary policy meeting is unlikely to bring a change in interest rates. The

bank board has kept interest rates unchanged since the last increase to 7% in June 2022. In our view there are currently no strong arguments for the bank board to change their prevailing attitude in keeping rates unchanged at the current level for an extended period.

This is also supported with recent several interviews of board members Karina Kubelkova, Oldrich Dedek, deputy governor Eva Zamrazilova and a newspaper article with Governor Michl. They all stress that the current excessive inflation is mostly driven by supply-side shocks, mainly energy prices and food prices. In their view, the proper response to such developments is not another increase of interest rates. They assume that maintaining the current level of interest rates brings sufficient tightening of monetary policy which should contribute to the taming of inflation to the levels aligned with the goal of price stability, i.e. 2% growth of CPI in the monetary-policy horizon.

What could be a game-changer is unclear. Eva Zamrazilova stressed this could be wage bargaining of labour unions – demanding an increase of wages above 10% year-on-year – which would envisage the increase of inflation expectations. However, she does not expect this now. This information is unlikely before May.

## New forecast shows expected inflation for January

The CNB forecast suggests interest rates should be 100bp higher now, and then start to decline gradually as of the second quarter, in order to bring inflation back to the target by the end of 2024. The reluctance of the bank board to follow the recommendation of staff forecast suggests the board will maintain the current level of interest rates for an extended period, instead of the recommended temporary shift, followed by gradual cuts thereafter. Our view is the Czech National Bank will start talks about an interest rate reduction only in mid-year.

More interesting than the decision itself will be the presentation of the new forecast. Given that the economy developed more or less in line with the CNB's November forecast, the main focus will be on the new inflation forecast. While it has surprised significantly to the downside compared to the central bank's last forecast, the main reason is a wrong assumption about the methodological impact of government measures on CPI. On the other hand, adjusted for this effect, inflation surprised to the upside. So the main question will be what number the CNB expects for the key months of January and February. However, we expect a rather higher number, which should keep the same tone of the meeting as in previous sessions.

### What to expect in rates and FX markets

Markets are currently pricing in roughly 150bp of rate cuts over a one-year horizon with the first move during the summer months. We believe such expectations are premature and the release of January inflation will provide an opportunity for markets to revise these expectations. We also think the long end is lagging behind the move in core rates and should trade higher. Thus, overall, we see room for the entire IRS curve to move up and bear flattening.

On the bond side, the Ministry of Finance, as we [expected](#), took advantage of favourable market conditions and strong terms to boost its Czech government bonds (CZGBs) offering in January. We expect MinFin to maintain the same pace of issuance in February, which would lead to the issuance of roughly 25% of all CZGBs for this year at the end of February. Such frontloading, in our view, could make CZGBs more expensive in relative terms in the second quarter, conditional on favourable global developments.

In the FX market, the koruna is currently at the strongest levels in more than a decade, driven mainly by falling gas prices and improving sentiment in Europe. Of course, in these conditions there is no reason for the CNB to intervene in the market and we last saw the central bank in the market during the September meeting last year. Although we think market rates have the potential to go up, given the overbought nature of the koruna, we do not believe the CNB meeting has anything to offer in support of the FX. In our view, the koruna has the most long positioning in the CEE region at the moment. Our model suggests a fair value at the moment rather around 24.00 EUR/CZK. Thus, we see risks more towards a correction of current gains. On the other hand, lowering gas prices can move koruna a bit lower again. But in a nutshell, we are hardly looking for a trigger for a move in either direction in the coming weeks.

## Author

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.