

## Czech National Bank Review: The dove dressed as a hawk

As expected, everything remained unchanged today. The central bank is in a comfortable situation with inflation below its forecast and the koruna far below intervention levels. January inflation may bring some headaches, but it should not be enough to hike rates



Czech National Bank building in Prague

# 7.00%

CNB's key policy rate

No change

As expected

### No change in rates and FX regime

As expected, the CNB left interest rates unchanged at today's meeting. The central bank also confirmed that it would continue to prevent excessive fluctuations in the koruna. Given that the new forecast will not be published until February, today's meeting only confirmed the dovish majority in the board. As last time, five board members voted for this decision, with two members

voting for a 50 basis point rate hike.

During the press conference, Governor Michl reiterated that the board was discussing a rate hike or rate stability today. Neither rate cuts nor the timing of future rate cuts was the subject of today's meeting. The governor also reminded that the CNB still expects inflation to approach 20% year-on-year in January due to the change in the effect of government measures, which should be the peak of inflation, and expects a slowdown thereafter. He also cited the sharp drop in domestic demand, the slowdown in the credit market and the decline in real wages as evidence of easing demand pressures on inflation. The list of risks has seen only cosmetic changes and risks remain significant in both directions.

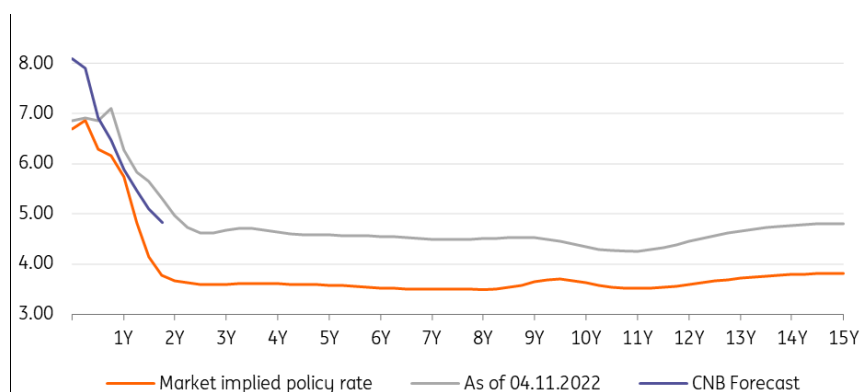
*"The Bank Board is ready to react appropriately to any materialisation of the risks of the forecast"*

8th Situation Report on Economic and Monetary Developments

## The January number will be a restart of the inflation story

From our perspective, nothing much has changed in the picture after today's meeting. The board has been trying to maintain hawkish expectations for longer, but the market instead is more focused on the global picture. In line with the CNB, we expect inflation to rise further in the next two months, but we do not expect it to reach 20% YoY. The main reason for this is our different view on the impact of government measures on CPI. We expect the price cap to have a roughly similar impact to the current saving tariff. Thus, the January re-pricing will be decisive and may surprise massively to the upside. However, in the base case scenario, we expect numbers close to 18% YoY. This should be enough for the CNB to maintain its current rhetoric and not have to do anything. But, given our expectation of rising inflation across the region, the turn of January/February may be a reminder to the market that inflation is still a problem in the region.

## Market expectations have moved significantly since the last meeting



Source: Refinitiv, ING

## What to expect in rates and FX markets

The market has taken a significantly more dovish view recently and today's CNB meeting didn't change that much. Although market rates have already bounced off the bottom last week, it is still pricing in an aggressive rate cutting trajectory. At the end of next year, the market expects rates to be at 6%, which is close to our forecast. But we expect the path to that won't be straightforward, and the re-peak in inflation in January will make it a bumpy ride. Therefore, in our view, it is too early for rate receivers at the short end of the curve and at the same time the long end should be supported upwards by core rates for a while longer. Thus, overall, we expect the IRS curve higher without a significant change in slope in the coming weeks.

The koruna is hitting its strongest levels in eleven years. At the same time, we last saw CNB activity in the market in September. Overall, the koruna is playing into the central bank's hands and we expect nothing to change in the near term. In our view, the current rally is mainly driven by foreign conditions in the form of friendly EUR/USD levels and mainly falling gas prices. In addition, significant short positioning in the market in the past has supported the current rally. Overall, however, we expect this to be a temporary spike and the koruna to return to 24.30 EUR/CZK, but this is still far from CNB intervention levels.

### 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 [www.ing.com](http://www.ing.com).