

Czech Republic: Higher energy prices postponed

Inflation in July showed a further slowdown in the month-on-month rate, despite the announced record hike in household energy prices. We believe inflation will continue to rise, but the pace may be more gradual and peak later, making things easier for the dovish Czech National Bank. We see less risk of an additional rate hike after today's number



The Czech National Bank in Prague

17.5%

 July inflation (YoY)

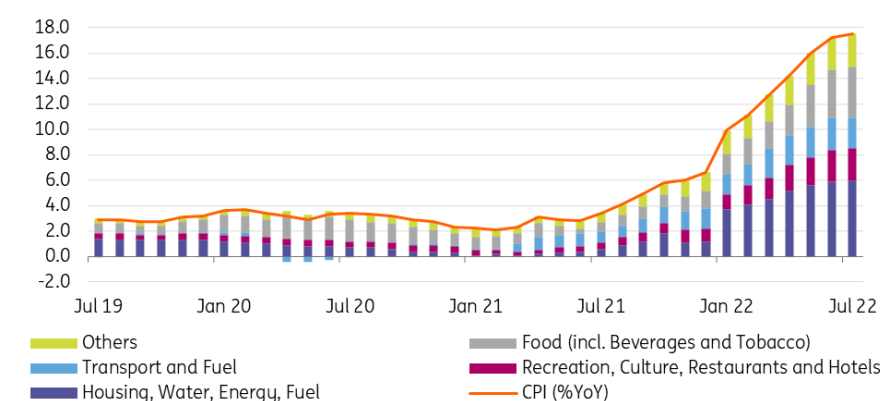
Lower than expected

Second month in a row indicating slowing inflation

Consumer prices increased by 1.3% MoM in July, driven mainly by seasonal growth in holiday

prices. In annual terms, the growth of consumer prices amounted to 17.5%, 0.3 percentage points up on June. The slowdown in the month-on-month rate from 1.6% in June marks the second slowdown in inflation in a row without seasonal adjustment. Food prices continued to rise, but at their lowest rate (1.3%) so far this year. Fuel prices were virtually flat. The main question, however, is where the effect of the announced energy prices is, as this had been expected to be the main driver of inflation in July.

Contributions to year-on-year inflation (pp)



Source: Macrobond, ING

Household energy prices rose by only 1.6% MoM, the lowest rate this year, while the announced changes in list prices, on the other hand, indicated their biggest hike this year. The statistics office does not comment on the situation and the only explanation we see is a significantly higher ratio of fix/float contracts, which would imply a more gradual impact of the energy price increase in the following months and especially in January, when a large proportion of fixed contracts expire.

Today's result is 0.4 percentage points below the market estimate and 1.3 percentage points below the CNB forecast. According to our calculations, core inflation remained unchanged at 14.6% YoY. As always, the official numbers will be released later today, alongside CNB commentary.

The one-off effect, or a different story of a later peak in inflation

Along with the central bank, we were in the camp expecting a jump in prices in July, which did not happen. Key to understanding the situation will be August inflation, which similarly should be hit by the announced hikes in household energy prices. This will thus be an opportunity to confirm the statistical office's approach, or, conversely, it will turn out that the July effect was specifically due to a different mix of fix/float contracts.

For the headline numbers, our forecast now stands at 18.8% YoY for August, with the impact of July's higher energy prices pushed into this number. This shouldn't much change the narrative of inflation peaking in September, as even the central bank assumes.

On the other hand, if we see the same effect of energy prices in August as we did in July, their impact on inflation will take much longer to filter through, and should only peak in January next year, along with the end of much of the fixed contracts. This would already imply a significantly

different inflation story in the Czech Republic, with a later peak.

Any result below CNB forecast would be good news for the new board

Inflation below the central bank's forecast will be welcome news for the doves in the board. We will get one more inflation number before the September meeting that may confirm or refute the current trend. We believe inflation will continue to rise, but for the weeks ahead today's number will be ammunition to confirm the dovish tone of the CNB. We do not have further rate hikes in [our forecast](#), and the more gradual pass-through of energy prices into CPI makes this decision easier for the new board. We see the risk of an additional rate hike after today's inflation number as lower.

Author

Frantisek Taborsky

EMEA FX & FI Strategist

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.