

Surprising drop in Czech inflation opens the door to rate cuts in November

Inflation fell faster than expected in September, but base effects mean that inflation could rise again throughout the rest of the year. However, headline and core inflation are below the central bank's forecast and we think this opens the door to a rate cut in November



The food and non-alcoholic beverages section saw the most significant negative contribution to Czech annual inflation in June

6.9%

Headline inflation

year-on-year

Lower than expected

Inflation falling faster than expected

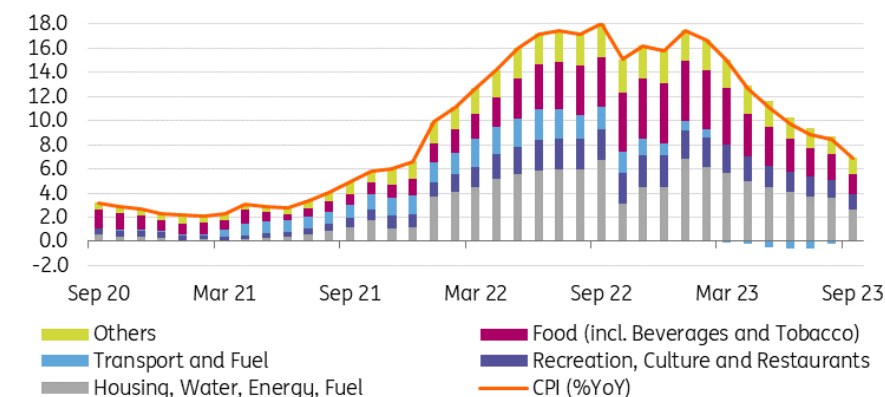
Consumer prices fell 0.7% month-on-month in September, which translates into a decline from 8.5% to 6.9% year-on-year, three-tenths below our forecast. The market was expecting 7.5%, and the Czech National Bank had projected 7.2% in its August forecast. In YoY terms, this number

should be this year's low given the base effect in the coming months, but it confirms that inflationary pressures are fading very quickly.

The main downward drivers were food, housing and recreation prices. On the other hand, clothing, fuel and education prices rose. This was all expected, however, there were surprises in the detail and dynamics. Food prices fell 1.6% MoM, the fastest since April. September's reduction in energy prices was more pronounced in the CPI than we expected and the seasonal movement in recreation prices was much larger than in previous years. On the other hand, the increase in fuel prices was lower than indicated by the weekly surveys.

Core inflation fell from 6.0% to 5.4% according to our calculations. This should confirm a third quarter below the central bank's forecast (6.0% vs 6.2%). The official numbers will be published later today as always.

Breakdown of annual inflation (bp)



Source: Macrobond, ING

November rate cut in play despite rising inflation in months ahead

Looking ahead, the base effect from last year comes into play in the next three months due to government measures to reduce energy prices for consumers. Our fresh nowcast indicator shows an increase in the headline number to 8.2% YoY for October, but this is less than we had previously expected given the earlier drop in energy prices. And it should also be safely below the CNB's current forecast. Inflation should then remain around 8% or below until the end of the year, and in January, in turn, the base effect should help inflation move into the 2-3% YoY range.

For the CNB, today's number is clearly good news that should support the case for cutting rates as early as November, as mentioned in the latest [CNB minutes](#).

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.