

## Inflation to push Czech rates to their peak

Energy prices continue to help push Czech inflation higher, and we're not sure we've reached the top. But we do think the market is underestimating the central bank's willingness to cut rates when price pressures start to ease



The Czech National Bank's headquarters in Prague

### Widening CPI deviation from the CNB forecast may bring a bigger rate hike

We're expecting inflation in the Czech Republic to rise only slightly above market expectations from 14.2% to 15.6% YoY when we get the figures tomorrow. Food prices are continuing to rise similarly to previous months. Fuel prices resumed their rise in May (2% MoM), and energy prices remain the main upside risk as usual. A 30% average increase in gas prices was announced for May by a major supplier in the country. Therefore, we expect energy prices to rise more than in February (1.4%) and March (1.5%) but less than in April (2.3%).

Our current forecast is for inflation to peak at 15.9% in June, but recent reports suggest this level may be higher. The fuel tax cut that took effect at the beginning of the month has not had much effect on prices, and fuel costs have instead continued to rise. In addition, the recent announcement by the largest energy supplier to raise prices from July has started another round of price hikes for consumers; we expect to see further announcements from other energy suppliers in the coming weeks. This extra effect is being written into the CPI with a lag due to the contract

fixing of some customers. Thus, we cannot expect the pressure on headline CPI to ease on this account. Upside risks are also heightened by recent inflation surprises in the region, which have been working well as a leading indicator in the past few months. In both Poland and Hungary, inflation surprised 0.3pp higher than market expectations.

The Czech National Bank expects a 14.9% YoY number for May. April's inflation print delivered a 0.3pp deviation from the forecast. Very likely, this deviation will widen significantly in May, which we believe will be the determining factor for the size of the June rate hike. Our forecast is "at least 100bps", but a higher CPI print tomorrow, and yesterday's announcement of changes in the makeup of the CNB's board, may result in a higher move of 125bps or more. Regardless of the outcome, tomorrow's inflation would thus be an opportunity to complete the puzzle for the June CNB meeting.

## What to expect in markets

Over the past week, rates have increased considerably, closing the gap between our forecast and the market's view. The market is now fully expecting a 100bp rate hike in June and the odds perhaps suggest an even bolder move. Tomorrow's inflation numbers and the June CNB meeting may be the last trigger for payers before the new CNB board starts on July 1. On the other hand, we believe the market is still underestimating the CNB dovish shift, and the market's first clash with the new board may be a reason for it to reassess its expectations.

Although we are sceptical about a slowdown in inflation in the second half of the year compared to the CNB's forecast, the delay in data releases may bring dovish summer months. And once we do see that inflation has peaked, we would expect an immediate rate cut as per the CNB model, similar to what we see in its current forecast. This should make it easier for the doves coming to the board to change rates' direction. This means that the first rate cut may come sooner than the market currently thinks, namely before the middle of next year.

## 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>.