

## A Czech rate rise in August?

We think a Czech National Bank rate hike has moved closer as demand-driven inflationary factors are mounting.



### Inflation breakdown

June CPI stagnated in MoM terms and slightly decelerated in YoY terms to 2.3% YoY after 2.4% in May. However, the weaker June figures were driven by a decline in fuel prices, while core inflation accelerated above the Czech National Bank (CNB) expectations.

Fuel prices declined by 1.9% MoM and their YoY dynamics decelerated from May 7.8% to 1.7% in June. Still, prices of services accelerated from 2.8% in May to 3.1% in June, which suggests mounting domestic inflationary pressures. Although inflation ended below the CNB forecast of 2.6% as in the previous months, it was on the back of lower fuel and food prices, which was also confirmed by the CNB in its commentary. On the other hand, core inflation is above the CNB expectations and has remained at 2.5% YoY and accelerated by 0.1% in MoM terms in June. Also, prices of non-tradable items accelerated to 3.5% in June after 3.1% in May, which illustrated domestic inflationary impulses.

### It's not if, but when

In our view, the question is not if the CNB will hike in 3Q17 but when will they hike in 3Q17. The recent set of economic data was positive and surprised on the upside and the likelihood of there

being new data before the August meeting is low. However, the Minutes from the last CNB meeting revealed that some board members are cautious about premature tightening and might prefer to wait. Still, we believe that these voices will not have a majority in the Board as the current economic situation is not consistent with zero rates.

### Watch for August

We think the CNB will deliver the first testing hike in the forthcoming months and as the recent set of data suggests, it might happen at the August meeting.