

CNB FX intervention: Koruna under control

According to our estimates, the Czech National Bank spent around EUR2.2bn defending the koruna last week when it decided to leave rates unchanged. Since mid-May, the total cost has thus reached almost 15% of all FX reserves. However, we think we will see calm in the FX market at least until the next inflation number, unless global factors come into play



Source: Shutterstock

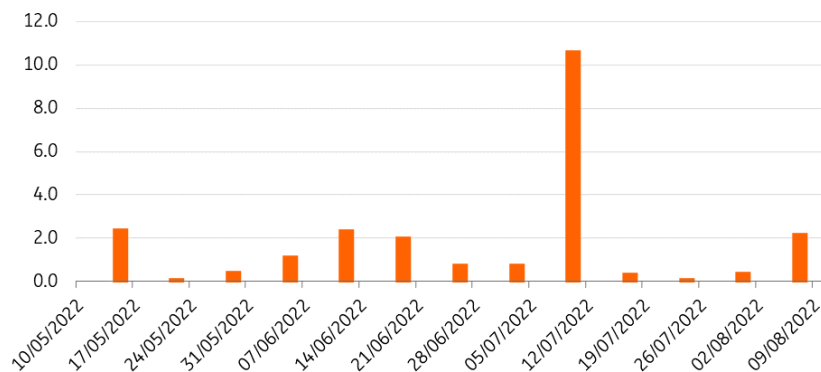
Last week cost the CNB around EUR2.2bn

The CNB's policy meeting last week marked another milestone for the FX intervention regime and with the first data available, it is time to look [again](#) at the overall costs and implications for the months ahead. The CNB yesterday published official figures for June showing that FX reserves sold increased to EUR7.1bn from EUR3.5bn in May, above our estimates. However, more interesting will be the figure for July, when CEE currencies underwent a massive sell-off. According to our estimates, FX reserve sales rose to EUR10.8bn last month.

On the other hand, when the [CNB left rates unchanged](#) last week, and disappointed market

expectations, the central bank sold around EUR2.2bn. Overall, we thus see the cost of FX intervention from mid-May to the end of last week at around EUR23.6bn, representing almost 15% of all FX reserves held by the CNB at the end of April.

Weekly cost of FX intervention (EURbn)



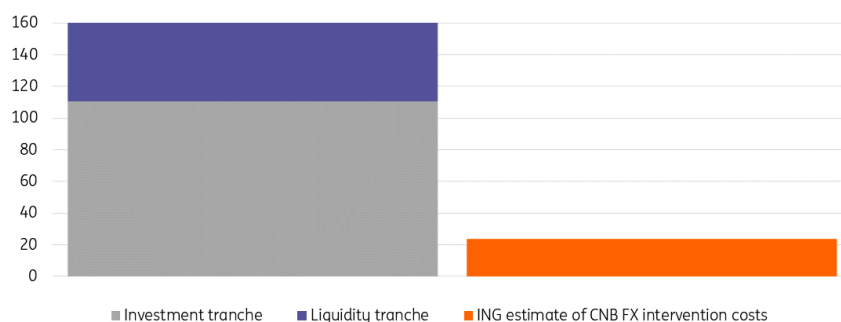
Source: Macrobond, ING calculation

CNB has tamed the markets but hasn't won yet

The last [CNB meeting](#) made it clear that an early end to FX intervention is not on the table. Compared to the previous meeting, the commitment to prevent "any excessive fluctuations in the exchange rate of the koruna" was included in the announcement of the Board's decision. Although we did not take away anything really new from the meeting regarding the CNB's approach to FX intervention, it is clear to us that the new board is more open to using FX reserves and, moreover, in a situation where it no longer wants to hike interest rates further, this seems like the only option.

Based on the cost of FX intervention in recent weeks, it seems that markets have become comfortable with the CNB's presence in the market and for now do not want to test the central bank's commitment to defend the koruna. As we mentioned earlier, we think the current situation is not about the domestic economy and the CNB, but about global developments. The markets have accepted that another rate hike by the central bank is unlikely and [the latest inflation](#) number makes this decision easier. We have already seen short CZK positions liquidated several times, which has discouraged the market from attacking the central bank further for now. Thus, at least until the next inflation number in the first half of September, the CNB can rest easy unless another EM sell-off comes into play, which is not our baseline view.

Size of CNB FX reserves in April and costs of intervention since mid-May (EURbn)



Source: Macrobond, ING estimate

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 <http://www.ing.com>.