

## CNB Preview: Fourth consecutive hike ahead

The combination of inflationary pressures and a relatively weak koruna not delivering demanded monetary tightening should bring another CNB rate hike this Thursday



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### Slightly weaker growth, but monetary policy unchanged

Though the Czech economic data has been slightly softer than expected in recent months, it remains solid. The labour market is overheating, wages are accelerating by more than 8% year-on-year and household confidence continues to be high. The new central bank forecast might bring a slight downward revision of economic activity for this and next, though the revision should only be a minor one and the need for continued monetary tightening should not be called into question.

### CPI decelerated due to one-offs

CPI slowed down to 2.3% in September due to a correction in prices for package holidays (which grew strongly during the summer) and newly-introduced bus and rail fare discounts for pensioners and students. As such, this is no game changer for the central bank. Core inflation under the Czech

National Bank's definition reached 2.1% year-on-year in September and inflationary pressures are gradually mounting due to favourable household consumption.

## Need to tighten in 4Q is high due to weak koruna

Looking at the previous forecast, the CNB expected an average 1.68% repo rate in 4Q18. This is consistent with hikes being delivered at the end of September and the beginning of November. The EUR/CZK was pencilled in at 25.25 in 4Q18, i.e. a 2% strengthening in the CZK compared to the previous quarter (25.8). This illustrates how intense monetary tightening was demanded by the CNB's model for 4Q18. Given that the CZK has not appreciated as expected, a hike this Thursday seems the most likely scenario. Still, the currency is unlikely to benefit considerably from this week's hike as the decision is largely priced in.

**1.75** expected 2-week repo rate after the November monetary meeting

## More hikes to come next year

We expect the new forecast introduced by the CNB this week to be less bullish on the pace of CZK appreciation (the last forecast expected EUR/CZK to get to 24.3 by the end of 2019). As such, any tightening will need to come via rate hikes next year and three more increases is our baseline scenario for 2019.