

## CNB Review: The May rate hike is still on the table

The Czech National Bank remained on hold today as expected. The neutral tone of Governor Rusnok's press conference has been an outlier within the realm of the dovish bias of central banks globally. A CNB hike in May, when the new forecast is presented, still remains on the cards if the data stabilizes and Czech koruna remains soft



Source: Czech National Bank

### Balanced risks for inflation

The CNB Board assessed the risks to the current inflation forecast as being broadly balanced. Although inflation accelerated at the beginning of the year, it should head back to the CNB target in mid-2019. Pro-inflationary risks stem from a weaker CZK compared to the CNB assumptions, anti-inflationary risks stem from the global economy, weaker wages growth and households consumption in 4Q18.

**1.75%** 2-week repo rate  
on hold due to global uncertainty

As expected

## Further hikes dependent on global outlook

Governor Rusnok confirmed the previous statements that even two hikes can be delivered this year, but also none should the global economy continue deteriorating. As such, we continue to believe at least one hike can be delivered this year, assuming that recent global weakness will fade away gradually.

## Door for May hike not closed yet

Being asked about a May hike, however, Governor Rusnok admitted that it will be data dependent. Some risks might evaporate by the May meeting and CZK might also be weaker. Given the recent dovish U-turn among many other global central banks, we read today's CNB message as the May hike still being on the cards. We still look for the May hike, but admittedly, foreign data have improved between on and the May meeting.

## Weaker CZK among hike arguments in May

One argument for tightening in May will be the CZK developments, as the current CNB forecast sees EUR/CZK at 25.17 in 2Q19, as such around 2% stronger than the 1Q-average. As CZK will not likely appreciate as expected, this will be a clear reason to tighten from the perspective of CNB tightening trade-off between FX and rates.

### CZK unlikely to appreciate

We see the CZK upside as limited and retain our view that EUR/CZK will struggle to decline towards 25.50 as the CNB has been taming its hawkishness while the environment for EM FX and European currencies remains challenging. If anything, we see a meaningful risk of EUR/CZK moving to/above 26.00 in coming months should the CNB not deliver the interest rate hike. The current CZK softness is in our view one reason which could swing the CNB board towards the May hike, yet this should only keep CZK stable, but unlikely to lead to a meaningful appreciation.