CNB Review: The wait-and-see approach remains intact

The Czech National Bank remained unanimously on hold. The tone of the press conference could not be described as dovish, as no need for further easing was signalled. As such, long-term stability of rates seems as most likely, with a tilt towards lower-for-longer due to Covid risks

Source: Shutterstock

Not a dovish press conference

The press conference did not strike a particularly dovish tone. Governor Rusnok mentioned that the current economic developments are roughly in line with the CNB baseline, though the recent epidemiological situation represents clear downside risks. The CPI outlook did not change. CPI should remain above 3% this year and slow down close to the 2% target next year. Core CPI is higher than expected while food prices decelerated more than expected.

Although the downside risks to the economy are growing, Governor Rusnok did not mention any need to deliver further easing. Indeed, the CPI outlook remains robust with limited deflationary risks. This in our view does not warrant any imminent need for further easing, particularly when partial/ targeted lockdown measures won't mean the repeat of the economic collapse seen in late 1Q / early 2Q20.

0.25%

The main 2-week repo rate

unchanged as expected

As expected

CZK delivering easing

The currency was mentioned as an automated stabilizer, meaning that the current CZK weakness is easing monetary conditions (CZK is down 3.5% in September compared to the August), which according to Governor also lowers the need to act.

Governor Rusnok mentioned that the CNB does not want to see a profound collapse in the currency either and reiterated the central bank is ready to act (as was the case this spring when the CNB delivered verbal interventions), and as was the case back then, this in our view is more of a story of EUR/CZK being around 28.00 but not at the current spot.

Stability of rates for longer

All in all, the CNB will keep rates at the current level at least until the middle of next year. We expected the first cautious rate hike in the second half of 2021, but recent developments increase the chances that interest rates will remain at current levels throughout next year.