

Czech hike by 25bp almost a 'done deal'

Despite October's koruna strengthening, the central bank is likely to deliver another 25bp hike this Thursday



Source: Shutterstock

CPI safely above the 2% target

Czech CPI hit the 2.7% level in September and should remain safely in the upper tolerance band of the Czech National Bank (CNB) over the monetary policy horizon. Also, the average of 2% inflation for 2018 pencilled in the last CNB forecast will most likely be revised upwards due to pro-inflationary pressures given the favourable economic developments, accelerating wage dynamics and solid consumer sentiment.

2.7% September YoY inflation

Solid economic performance

Economic performance soared in 2Q17 as GDP reached 4.7% YoY, a figure well above the initial market estimate of 2.9% or the CNB forecast of 3.6%. As such, we will most likely see a stronger

GDP trajectory in the new CNB forecast released next week.

This will be driven by renewed investment activity, but also accelerating consumption of households and foreign demand.

0.25 Expected November hike
as part of tightening was delivered by stronger CZK

The CNB is sending hawkish signals

Recent comments from the CNB representatives continue the hawkish stance despite EUR/CZK going under the 25.6 level. This means the Bank is comfortable with EUR/CZK moving lower. CZK has appreciated by more than 1% since the last meeting in September, delivering monetary tightening equivalent to a 25bp hike. Therefore we believe that the November meeting will deliver a typical 0.25 hike, though rhetoric might be hawkish as some Board members (V. Benda or T. Nidetzsky) might vote even for 50bps 2-week repo increase. Deposit rate will remain at zero and Lombard rate will increase by 50bp to normalise spreads between CNB facility rates.

The expected hawkish bias in the central bank's November meeting, the actual 25bp hike, two members potentially voting for a 50bp hike, suggests further gradual downward pressure on EUR/CZK spot.

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