

Czech National Bank in hiking mode

As expected, the CNB delivered a 25bp hike today. However, the market already had high expectations (one additional hike this year and two more next year). As such, today's press conference in which Governor Rusnok was non-committal disappointed slightly



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Today's hike delivered as expected

Today's Czech National Bank (CNB) decision came as no surprise, as it was fully priced in by the market, given the recent comments by some CNB Board members. Still, market expectations were even higher, expecting in total two hikes this year and two more in 2019. As such, it was clear that today's hike itself would not support CZK and the press conference would be the key event of the day.

1.5%

The CNB 2-week repo rate
after today's monetary meeting

As expected

The current high expectations of the market was slightly disappointed

The press conference itself had a dovish tilt, however. Firstly, one board member voted for a rate-stability (most likely O. Dedek in our view). Secondly, Governor Rusnok mentioned that a further hike is likely, but it will depend on the new forecast and it may even come only at the beginning of 2019 (rather than this year which the market is pricing in).

We still see one more hike this year as likely

Still, taking into account that: (a) the latest CNB forecast see the 2-week repo at 1.68% in 4Q18 on average, which is fully consistent with both September and November hikes, and (b) EUR/CZK at 25.25 in 4Q18, which is not a very likely path given current developments, the November hike remains very likely. Indeed, the EUR/CZK and interest rates combination for 4Q18 signals a solid need for monetary tightening demanded by the CNB model, and recent economic data should not change that in the new forthcoming forecast significantly.

What was mentioned further during the press conference:

- Core inflation has been above the central bank's forecast in recent months. The labour market creates significant inflationary pressures, as the CNB forecast expects. Wage growth remained stable, in line with the CNB assumption.
- Growth of the Czech economy slowed down in 2Q18 and was slightly below the CNB forecast. Recent monthly indicators confirm solid economic growth.
- The Bank Board assessed the balance of risks to the current inflation forecast at the monetary policy horizon as being balanced.

One more this year ... and two or three more in 2019

Although we expect the CNB to hike in November, we see the upside to CZK as fairly limited. This is because (a) the November hike is priced in and (b) the market is fully pricing additional two hikes for the next year.

For next year, the current CNB forecast assumes the stability of rates, since monetary conditions should be tightened by a stronger koruna (24.35 in 4Q19). However, the koruna is likely to appreciate slower than the CNB assumes, in our view, which will require further increases in rates. At this point, we continue to see two- to three-hikes next year as the most likely scenario.