

## Czech National Bank: Ongoing wait-and-see approach

The CNB did not surprise today and kept the main rates unchanged, as broadly expected. The press conference did not bring too much clarity regarding future monetary policy setting, as Governor Rusnok signalled flexibility and did not exclude any possible option. Wait-and-see approach for forthcoming quarters seems as the most likely scenario



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### In the press conference it was mentioned:

- The Board assessed the risks of the latest May forecast as balanced. The main risks in an anti-inflationary direction are linked to foreign-trade protectionism and slowdown in the euro area, while inflationary risks are related to a weaker koruna exchange rate.
- Governor Rusnok confirmed that in the case of less positive global economic scenarios, the CNB may take a longer pause with further rate hikes. But according to Governor Rusnok, the May forecast was already suggesting it. However, if these risks would start fading, the CNB could continue in gradually increasing rates. Still, it is not possible to exclude rate cuts either

if the less favourable global development scenario becomes a reality. All in all, the CNB is relatively flexible in this respect, according to Governor Rusnok.

As we mentioned earlier, and as the press conference suggested, the further path of CNB rates trajectory will largely depend on developments abroad. If the situation abroad does not improve significantly, it would be surprising for the CNB to raise rates this year, as some hawkish votes at the CNB suggest. On the other hand, the market is already pencilling in rate cuts, which is premature for the state of the domestic economy, in our view.

2%

2-week repo rate

remained stable after June monetary meeting

As expected

We therefore see the stability of rates as the most likely scenario as we see the global economy further deteriorating in 2H19 with the trade-war escalation (the US imposing auto-tariffs on EU cars). Together with Brexit uncertainty, China slowdown and weakness in the automotive segment, the global situation will get worse before it gets better in our view, underlining our call for CNB rates stability for some time.

Despite the recent koruna rally, we remain cautious about further CZK gains. This is largely due to our base case of (a) limited upside to EURUSD; (b) deteriorating trade war outlook, with the US imposing tariffs on China in 3Q19 and tariffs on EZ car exports by 4Q19. We thus expect higher EURCZK in 2H19.

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