

Czech National Bank: The (earlier) awaking of the hawk

The Czech National Bank is clearly tightening prone and the improving pandemic situation should facilitate its hawkish bias. We upgrade our CNB interest rate forecast and now expect three 25bp hikes in 2H21, with the first hike coming in August. We don't rule out a June hike, but the probability is still below 50% in our view



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- The CNB introduced new forecasts today. The main changes were concentrated on GDP (revised from 2.2% to 1.2% in 2021, being reasonably below the market consensus of around 3%) and CPI (revised from 2.0% to 2.7% for 2021) projections, while 3-month Pribor and EUR/CZK paths remained very similar to the previous forecast from February.
- Indeed, 3m Pribor is only slightly lower for 2Q21 (0.47 vs 0.55) but remains almost the same for 2H21 and just by 0.1 ppt higher in 2022. This is very similar to Feb CNB forecast. As such, 3M Pribor signals 3 full hikes in 2021 and potentially even a fourth one at the end of the 4Q21 - this is the same as in the Feb forecast. CZK is slightly stronger in 1H21, same for 4Q21 (25.4) and slightly weaker for 2022. As such, total monetary tightening delivered by rates and FX is similar in the new and old forecast.
- However, what changes significantly is the level of uncertainty expressed by the CNB on

whether the monetary policy normalisation will come this year. Gov. Rusnok even mentioned he is now 100% sure the rates will go higher this year. As such, communication of the CNB related to monetary tightening changed substantially this meeting, while in the March meeting the CNB expressed pandemic uncertainty more vocally. This now seems as a less important factor.

0.25%

Main CNB rate

unchanged today as expected

We change our baseline after today's CNB meeting

Given the CNB communication today, we revise our call for the first CNB hikes from 4Q21 to the August meeting. A June hike cannot be ruled out, but we believe waiting for the new forecast might be preferred by the board. Given the change in timing and the new forecast, 3 hikes seem now likely (vs 2 expected earlier). The DNA of the CNB is hawkish and the bank signalled today it is closer to getting back to normal.