

| Instant Reaction |

EcoAlert

Producer prices surprised with a marked drop



Jana Steckerová
(420) 222 008 524
jana_steckerova@kb.cz

Industrial producer prices – February 2018

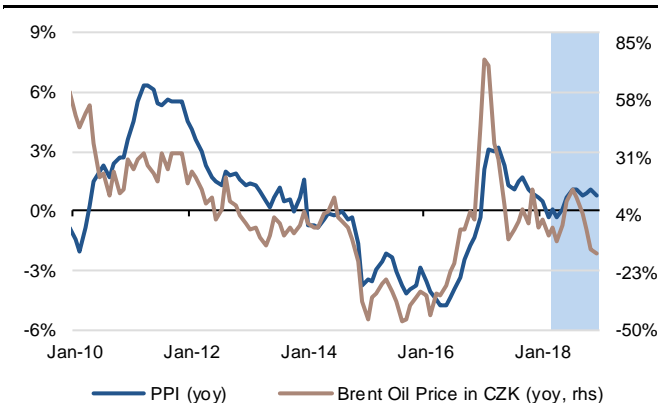
	mom	yoy
Actual:	-0.4%	-0.3%
KB Forecast:	-0.1%	+0.1%
Consensus (Bloomberg):	+0.1%	+0.2%

Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

Production price indices recorded a surprising drop. Producer and agricultural prices have slumped in particular. On the other hand, construction prices continued moderate growth while prices of market services increased distinctively. Producer and agricultural prices thus added to the disappointment represented by February's consumer inflation. Although we assume the central bank will continue to hike interest rates, it may be possible it will choose a time out in May given previous inflationary developments.

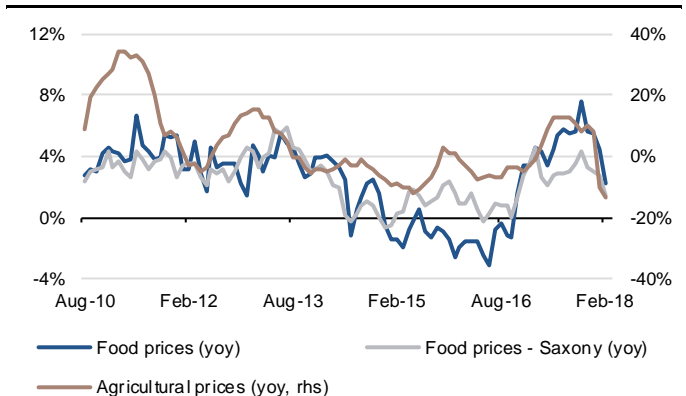
Industrial producer prices fell 0.4% mom in February. In yoy terms, producer prices declined 0.3% while they were up 0.5% in January. February's slowdown was driven mainly by the development on world commodity markets. Brent crude oil prices fell 5% to an average of \$65.7 a barrel in February. Prices have also fallen in the manufacturing of transport equipment and food products, where the stronger koruna might play a role. During the year, however, the industrial producer price index should rise again above the 1% level.

Prices in industry declined in yoy terms



Source: CZSO, Macrobond, Economic & Strategy Research, KB

Pressures on food prices eased



Source: CZSO, Macrobond, Economic & Strategy Research, KB

Agriculture prices slowed further in February, reaching only 3.2% yoy after the 7.2% seen in January. We expect the slowdown to continue, so the impact of food prices on consumer inflation will gradually decline. On a month-on-month basis, prices of eggs, fruit and meat fell. Agricultural producer prices dropped 2.2% compared with January.

On the contrary, prices of construction work continued to rise steadily. In February, their dynamics reached 0.1% mom and 2.2% yoy. Prices of construction work are set to grow further, in our view. The output of this sector is increasing, although it is still hampered by the difficulties related to starting new projects, especially in Prague, and the slow startup of infrastructure buildings.

Market prices in February increased 1.5% mom. Employment and advertising prices rose in particular. In a yoy comparison, prices of market services were 2.2% higher.

Consumer price inflation as well as producer price inflation stood behind our estimates and the market consensus in February. Although we expect the central bank to continue to hike interest rates, the bank might choose a time out in May. We expect the central bank to hike rates in August and November.

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research
Jan Vejmelek, Ph.D., CFA
 (420) 222 008 568
 jan_vejmelek@kb.cz

<p>Economists Viktor Zeisel (420) 222 008 523 viktor_zeisel@kb.cz</p>	<p>Marek Dřimal (420) 222 008 598 marek_drimal@kb.cz</p>	<p>Monika Junicke (420) 222 008 509 monika_junicke@kb.cz</p>	<p>Jana Steckerová (420) 222 008 524 jana_steckerova@kb.cz</p>
<p>Equity Analysts Miroslav Frayer (420) 222 008 567 miroslav_frayer@kb.cz</p>	<p>Jiří Kostka (420) 222 008 560 jiri_kostka@kb.cz</p>	<p>Sectors David Kocourek (420) 222 008 569 david_kocourek@kb.cz</p>	

SG IN CENTRAL AND EASTERN EUROPE

<p>Chief Economist of SG Poland Jaroslav Janecki (48) 225 284 162 jaroslav.janecki@sgcib.com</p>	<p>Head of Research of Rosbank Yury Tulinov, CFA (7) 495 662 13 00 (ext. 14836) yury.tulinov@rosbank.ru</p>	<p>Chief Economist of BRD-GSG Florian Libcor (40) 213 016 869 florian.libcor@brd.ro</p>
<p>Head of Fin. Markets Research BRD-GSG Carmen Lipara (40) 213 014 370 carmen.lipara@brd.ro</p>	<p>Economist Ioan Mincu (40) 213 014 472 george.mincu-radulescu@brd.ro</p>	<p>Equity Analyst Laura Simion, CFA (40) 213 014 370 laura.simon@brd.ro</p>

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics
Klaus Baader
 (852) 2166 4095
 klaus.baader@sgcib.com

<p>Euro area Anatoli Annenkov (44) 20 7762 4676 anatoli.annenkov@sgcib.com</p>	<p>Michel Martinez (33) 1 4213 3421 michel.martinez@sgcib.com</p>	<p>Yvan Mamalet (44) 20 7762 5665 yvan.mamalet@sgcib.com</p>	<p>United Kingdom Brian Hilliard (44) 20 7676 7165 brian.hilliard@sgcib.com</p>
<p>North America Stephen Gallagher (212) 278 4496 stephen.gallagher@sgcib.com</p>	<p>Omair Sharif (1) 212 278 48 29 omair.sharif@sgcib.com</p>	<p>Latin America Dev Ashish (91) 80 2802 4381 dev.ashish@socgen.com</p>	<p>Ankur Shukla (91) 80 6731 4432 ankur.shukla@sgcib.com</p>
<p>China Wei Yao (852) 2166 5437 wei.yao@sgcib.com</p>	<p>Japan Takuji Aida (81) 3 5549 5187 takuji.aida@sgcib.com</p>	<p>Kiyoko Katahira (81) 3 5549 5190 kiyoko.katahira@sgcib.com</p>	<p>Arata Oto (81) 3 6777 8064 arata.oto@sgcib.com</p>
<p>Korea Suktae Oh (82) 2195 7430 suktae.oh@sgcib.com</p>	<p>India Kunal Kumar Kundu (91) 80 6716 8266 kunal.kundu@sgcib.com</p>	<p>Inflation Vaibhav Tandon (91) 80 6731 9449 vaibhav.tandon@sgcib.com</p>	

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Research
Brigitte Richard-Hidden
 (33) 1 42 13 78 46
 brigitte.richard-hidden@sgcib.com

Head of Fixed Income & Forex Strategy
Guy Stear
 (33) 1 41 13 63 99
 guy.stear@sgcib.com

<p>Fixed Income Bruno Braizinha (1) 212 278 5296 bruno.braizinha@sgcib.com</p>	<p>Jean-David Ciotteau (33) 1 42 13 72 52 jean-david.ciotteau@sgcib.com</p>	<p>Cristina Costa (33) 1 58 98 51 71 cristina.costa@sgcib.com</p>	<p>Jorge Garayo (44) 20 7676 7404 jorge.garayo@sgcib.com</p>
<p>Head of Euro Area Rates Strategy Ciaran O'Hagan (33) 1 42 13 58 60 ciaran.ohagan@sgcib.com</p>	<p>Shakeeb Hulikatti (91) 80 2802 4380 shakeeb.hulikatti@sgcib.com</p>	<p>Rates Derivative Strategy Adam Kurpiel (33) 1 42 13 63 42 adam.kurpiel@sgcib.com</p>	
<p>Head of US Rates Strategy Subadra Rajappa (1) 212 278 5241 subadra.rajappa@sgcib.com</p>	<p>Jason Simpson (44) 20 7676 7580 jason.simpson@sgcib.com</p>	<p>Marc-Henri Thoumin (44) 20 7676 7770 marc-henri.thoumin@sgcib.com</p>	
<p>Foreign Exchange Kit Juckes (44) 20 7676 7972 kit_juckes@sgcib.com</p>	<p>FX Derivatives Strategy Olivier Korber (33) 1 42 13 32 88 olivier.korber@sgcib.com</p>	<p>Alvin T. Tan (44) 20 7676 7971 alvin-t.tan@sgcib.com</p>	
<p>Head of Emerging Markets Strategy Jason Daw (65) 6326 7890 jason.daw@sgcib.com</p>	<p>Régis Chatellier (44) 20 7676 7354 regis.chatellier@sgcib.com</p>	<p>Phoenix Kalen (44) 20 7676 7305 phoenix.kalen@sgcib.com</p>	
<p>Amit Agrawal (91) 80 6758 4096 amit.agrawal@sgcib.com</p>			

Disclaimer

The

information herein is not intended to be an offer to buy or sell, or a solicitation of an offer to buy or sell any securities. All information and opinions have been obtained from or are based on sources believed to be reliable, but their completeness and accuracy are not guaranteed by Komerční banka, a.s., even though Komerční banka, a.s. believes them to be fair and not misleading or deceptive. The views of Komerční banka, a.s. reflected in this document may change without notice.

Komerční banka, a.s. and its affiliated companies may from time to time deal in, profit from the trading of, hold or act as market makers of securities, or act as advisers, brokers or bankers in relation to securities or derivatives thereof emitted by persons, firms or entities mentioned in this document.

Employees of Komerční banka, a.s. and its affiliated companies, or individuals connected to them including the authors of this report, may from time to time have a position in or be holding any of the investments or related derivatives mentioned in this document. Komerční banka, a.s. and its affiliated companies are under no obligation to provide any services to their clients on the basis of this document.

Komerční banka, a.s. does not accept any liability whatsoever arising from the use of the material or information contained herein beyond what is required by law. This research document is primarily intended for professional and qualified investors. Should a private customer obtain a copy of this report, they should not base their investment decisions solely on the basis of this document and should seek independent financial advice. The investors must make their own informed decisions regarding the appropriateness of their investments because the securities discussed in this report may not be suitable for all investors.

The performance attained by investment instruments in the past may not under any circumstance serve as a guarantee of future performance. The estimates of future performance are based on assumptions that may not be realized. Investment instruments and investments are connected with different investment risks, the value of any investment can rise and fall and there is no guarantee for the return of the initial invested amount. Investment instruments denominated in foreign currencies are also subject to fluctuations caused by changes in exchange rates, which can have both positive and negative influences particularly on the prices of the investment instrument and consequently on the investment return.

This publication is issued by Komerční banka, a.s. which is a bank/stockbroker according to the applicable legislation and thus regulated by the Czech National Bank. Komerční banka, a.s. applies various measures to prevent conflict of interests in the process of creating investment recommendations, such as the implementation of an appropriate internal separation including information barriers between different departments of Komerční banka, a.s. in compliance with the requirements imposed by applicable regulation. The employees of Komerční banka, a.s. proceed in accordance with the internal regulations governing conflict of interest.

The evaluation of employees creating investment recommendations is never by any means tied with the volume or profit of the trades with instruments mentioned in this document done by Komerční banka, a.s., or the trades of Komerční banka, a.s. with the issuers of such instruments. However, the evaluation of the authors of this document is linked to the profits of Komerční banka, a.s. which also partially include the results of trading with investment instruments.

The recommendations mentioned in this document are intended for the public and the document before its publication is not available to persons not involved in the creation of this document. As per our practice, the issuers usually do not receive a copy of research reports prior to their publication. Each author of this research report hereby states that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the securities or issuers at stake.

This document and its contents is not designed for persons with permanent residence or seat in the United States of America and to persons who are deemed as "U.S. persons", as defined in Regulation S under the US Securities Act of 1933, as amended.

This document is not an investment recommendation according to Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse and does not constitute investment advisory according to Act no 256/2004 Coll., on Capital market undertakings as amended.

Please refer to our website <http://www.trading.kb.cz> for more details.