

Instant Reaction |

EcoAlert

Strong inflation increases the probability of an earlier hike



Viktor Zeisel
(420) 222 008 523
viktor_zeisel@kb.cz

Consumer price indices (May 2018)

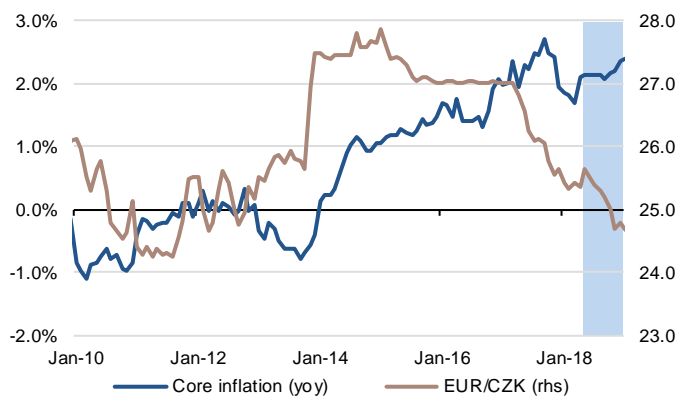
	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	0.5	0.3	0.3
Consumer prices (% yoy)	2.2	2.0	2.1

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

In May, inflation accelerated and returned above the CNB's 2% target. The price level increased due to food being more expensive. Core inflation also recorded sound dynamics and fuel prices significantly contributed to overall price growth as they followed oil price development on global markets. The koruna depreciated amid the risk-off mood of May and joined the pro-inflationary pressures. Today's statistics contribute to the picture of an earlier rate hike. We still count on November, but the probability of a rate increase in August is rising.

May's inflation accelerated to 2.2% and returned above the CNB target. The average price level increased 0.5% mom. Its growth was supported by both volatile items and core prices. The latter increased 0.25% mom while food prices rose 0.9% and fuel prices were even 4% more expensive than a month ago. In May, several pro-inflationary pressures emerged. Those pressures will keep inflation above the 2% mark also in the months to come. In the first place, rapid wage growth finally propels into prices, which is apparent in the service prices. It was joined by an increase in global oil prices and a depreciating koruna.

Core inflation accelerates



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

CPI sub-indices

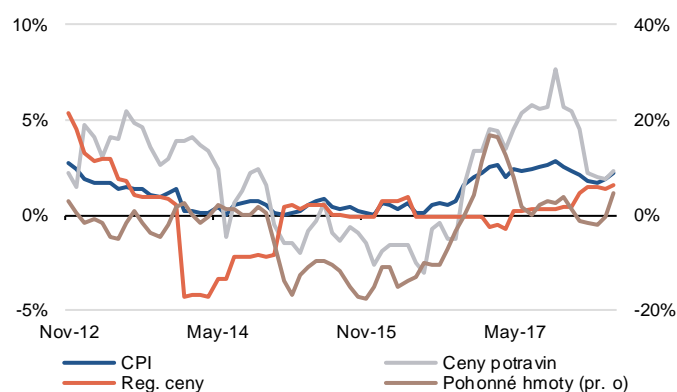
	mom	yoy
Total	0.5%	2.2%
Food and non-alcoholic beverages	1.0%	2.4%
Alcoholic beverages, tobacco	0.4%	3.6%
Clothing and footwear	-0.5%	-1.4%
Housing, water, energy, fuel	0.3%	2.5%
Furnishings, household equipment	0.3%	1.5%
Health	0.7%	3.9%
Transport	1.2%	2.9%
Post and telecommunications	-0.2%	-2.2%
Recreation and culture	-0.2%	0.5%
Education	0.0%	1.5%
Restaurants and hotels	0.5%	3.6%
Miscellaneous goods and services	0.3%	2.5%

Source: CZSO, Economic & Strategy Research, Komerční banka

Core inflation remained at 2.1% yoy; fuel price inflation in yoy terms returned to positive figures when it printed 4.8%. Food inflation also accelerated as it bounced back above the 2% level to 2.4%. The yoy administered price inflation added 0.2pp to 1.6%.

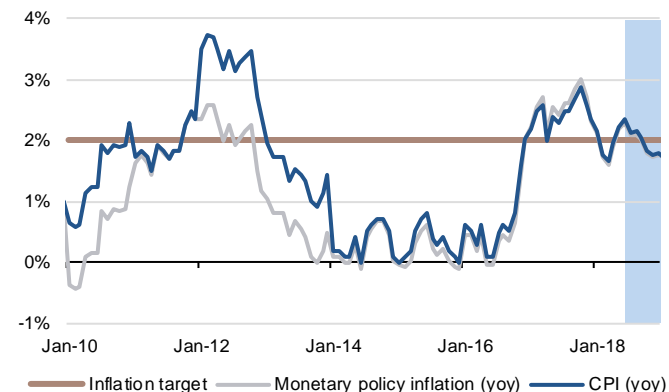
Current inflation is three ticks higher than the CNB expected in its May forecast. The price growth should remain above the CNB target in the summer months, as well. After the holidays, inflation should ease below the 2% mark due to strong base effects. Yet, we still assume that the central bank will continue rate hikes as core inflation is set to remain around 2%, signalling that the price pressures do not fade. The next rate hike should come in November, in our view. However, we see a growing probability that the hike will come already in August. The EUR/CZK rate will be crucial for the timing. We expect that the koruna appreciates to EUR/CZK25.5 at the end of June and continues its gain onward.

Food prices broke the downward trend



Source: CZSO, Economic & Strategy Research, Komerční banka

Inflation to stay above 2% during the summer



Source: CZSO, CNB, Macrobond, Economic & Strategy Research, Komerční banka

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research



Jan Vejmelék, Ph.D., CFA
(420) 222 008 568
jan_vejmelék@kb.cz

Economists



Viktor Zeisel
(420) 222 008 523
viktor_zeisel@kb.cz



Marek Dřimal
(420) 222 008 598
marek_dřimal@kb.cz



Monika Junické
(420) 222 008 509
monika_junicke@kb.cz



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

Equity Analysts



Miroslav Frayer
(420) 222 008 567
miroslav_frayer@kb.cz



Jiří Kostka
(420) 222 008 560
jiri_kostka@kb.cz



Sectors
David Kocourek
(420) 222 008 569
david_kocourek@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Chief Economist of SG Poland



Jaroslaw Janecki
(48) 225 284 162
jaroslaw.janecki@sgcib.com



Head of Research of Rosbank
Yury Tulinov, CFA
(7) 495 662 13 00 (ext. 14836)
yury.tulinov@rosbank.ru

Chief Economist of BRD-GSG

Florian Libocor
(40) 213 016 869
florian.libocor@brd.ro

Head of Fin. Markets Research BRD-GSG



Carmen Lipara
(40) 213 014 370
carmen.lipara@brd.ro

Economist

Ioan Mincu
(40) 213 014 472
george.mincu-radulescu@brd.ro



Equity Analyst
Laura Simion, CFA
(40) 213 014 370
laura.simion@brd.ro

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics



Klaus Baader
(852) 2166 4095
klaus.baader@sgcib.com

Euro area



Anatoli Annenkov
(44) 20 7762 4676
anatoli.annenkov@sgcib.com



Michel Martinez
(33) 1 4213 3421
michel.martinez@sgcib.com



Yvan Mamalet
(44) 20 7762 5665
yvan.mamalet@sgcib.com



United Kingdom
Brian Hilliard
(44) 20 7676 7165
brian.hilliard@sgcib.com

North America



Stephen Gallagher
(212) 278 4496
stephen.gallagher@sgcib.com



Omair Sharif
(1) 212 278 48 29
omair.sharif@sgcib.com



Latin America
Dev Ashish
(91) 80 2802 4381
dev.ashish@socgen.com



Ankur Shukla
(91) 80 6731 4432
ankur.shukla@sgcib.com

China



Wei Yao
(852) 2166 5437
wei.yao@sgcib.com



Japan
Takuji Aida
(81) 3 5549 5187
takuji.aida@sgcib.com



Kiyoko Katahira
(81) 3 5549 5190
kiyoko.katahira@sgcib.com



Arata Oto
(81) 3 6777 8064
arata.oto@sgcib.com

Korea



Suktae Oh
(82) 2195 7430
suktae.oh@sgcib.com



India
Kunal Kumar Kundu
(91) 80 6716 8266
kunal.kundu@sgcib.com



Inflation
Vaibhav Tandon
(91) 80 6731 9449
vaibhav.tandon@sgcib.com

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

Fixed Income



Bruno Braizinha
(1) 212 278 5296
bruno.braizinha@sgcib.com



Jean-David Cirotteau
(33) 1 42 13 72 52
jean-david.cirotteau@sgcib.com



Cristina Costa
(33) 1 58 98 51 71
cristina.costa@sgcib.com



Jorge Garayo
(44) 20 7676 7404
jorge.garayo@sgcib.com

Head of Euro Area Rates Strategy



Ciaran O'Hagan
(33) 1 42 13 58 60
ciarano.hagan@sgcib.com



Shakeeb Hulikatti
(91) 80 2802 4380
shakeeb.hulikatti@sgcib.com



Rates Derivative Strategy
Adam Kurpiel
(33) 1 42 13 63 42
adam.kurpiel@sgcib.com

Head of US Rates Strategy



Subadra Rajappa
(1) 212 278 5241
subadra.rajappa@sgcib.com



Jason Simpson
(44) 20 7676 7580
jason.simpson@sgcib.com



Marc-Henri Thoumin
(44) 20 7676 7770
marc-henri.thoumin@sgcib.com

Foreign Exchange



Kit Juckes
(44) 20 7676 7972
kit.juckes@sgcib.com



FX Derivatives Strategy
Olivier Korber
(33) 1 42 13 32 88
olivier.korber@sgcib.com



Alvin T. Tan
(44) 20 7676 7971
alvin-t.tan@sgcib.com

Head of Emerging Markets Strategy



Jason Daw
(65) 6326 7890
jason.daw@sgcib.com



Régis Chatellier
(44) 20 7676 7354
regis.chatellier@sgcib.com



Phoenix Kalen
(44) 20 7676 7305
phoenix.kalen@sgcib.com



Amit Agrawal
(91) 80 6758 4096
amit.agrawal@sgcib.com

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.