

Instant Reaction

EcoAlert

Inflation will be more volatile but should decline



Michal Brožka
 (420) 222 008 569
 michal_brozka@kb.cz

Consumer price index (March 2020)

	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	-0.1	0.4	0.1
Consumer prices (% yoy)	3.4	4.0	3.5

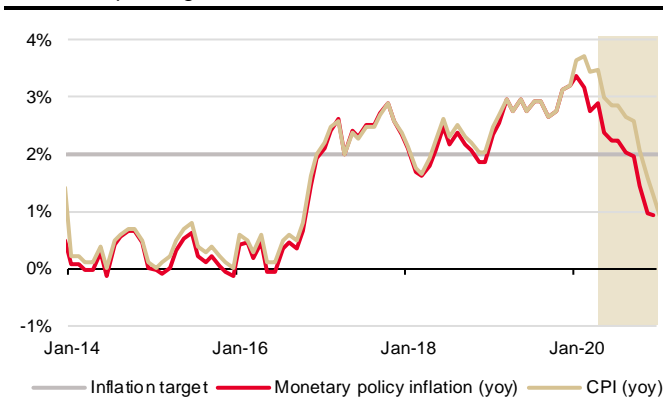
Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

In March, inflation decelerated. Mainly, the prices of fuel were lower while the increase of food prices and tobacco was lower than we expected.

In March, Czech consumer prices declined 0.1% mom, while the market expected a 0.1% rise. The year-on-year inflation decelerated to 3.4% down from 3.7% in February. The CNB forecast showed 3.6%, but the recent forecasts are not so relevant for future implications.

The prices increased mainly due to the higher prices of food and clothing. Prices of alcohol and tobacco were higher, but given the higher excise taxes we expected a bigger increase. Due to the decline in oil prices inflation was pushed down by lower prices of fuel. Prices of package holidays were also lower. **In sum, compared with February, we can say that prices of goods increased 0.3% on average while prices of services decreased 0.6%. According to our calculations, core inflation decelerated to 2.8% down from 3.2%.**

Inflation is peaking and should decline (% , yoy)



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

Transport prices lower with oil price decline

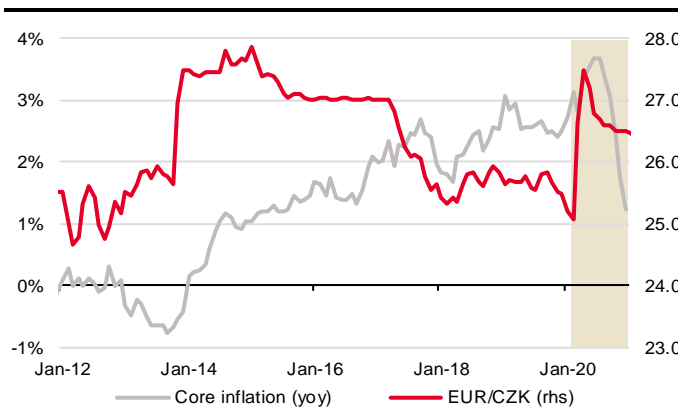
	mom	yoy
Total	-0.1%	3.4%
Food and non-alcoholic beverages	0.9%	6.4%
Alcoholic beverages, tobacco	1.4%	3.8%
Clothing and footwear	1.2%	4.9%
Housing, water, energy, fuel	0.2%	3.8%
Furnishings, household equipment	-0.1%	2.1%
Health	0.4%	1.3%
Transport	-2.0%	0.1%
Post and telecommunications	-0.9%	-4.7%
Recreation and culture	-2.1%	2.3%
Education	0.1%	4.1%
Restaurants and hotels	0.2%	5.5%
Miscellaneous goods and services	0.5%	4.0%

Source: CZSO, Economic & Strategy Research, Komerční banka

For these months, we expected year-on-year inflation will peak with higher excise taxes and weaker CZK, which increases prices of imports. On the other hand, there is a sharp drop of the oil price and other commodities while some sectors have already observed a drop in demand. **The big question is to what extent the supply chains have been disrupted and how the disruption will affect prices. In the second half of the year, according to our forecast, weak demand will outweigh other factors. In other words, the pandemic shock will lead to lower inflation. At the turn of the year, inflation could drop below the CNB's 2% inflation target.**

Inflation is now still strongly above the CNB target. The three-month moving average of the mom inflation is now nearly 4%. But spot inflation is not something the CNB should be afraid of. The outlook is important, and that is very uncertain now. We expect that due to the pandemic shock prices will be more volatile than usual. **If, as we expect, the CNB board members will be rather afraid that weak domestic demand will lead to lower inflation, the CNB will probably cut interest rates further. It is relevant to be afraid that the 2% inflation target will be undershot. In the second quarter, we expect a lowering of the CNB 2-week repo rate to 0.5% down from the current 1.0%.**

Core inflation will decline swiftly



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

Transport and seasonal drop of packaged holidays push inflation down

Contribution to inflation in p.p.	mom	yoy
Total	-0.1%	3.4%
Food and non-alcoholic beverages	0.1	1.1
Alcoholic beverages, tobacco	0.1	0.3
Clothing and footwear	0.0	0.2
Housing, water, energy, fuel	0.0	1.0
Furnishings, household equipment	0.0	0.1
Health	0.0	0.0
Transport	-0.2	0.0
Post and telecommunications	0.0	-0.1
Recreation and culture	-0.2	0.2
Education	0.0	0.0
Restaurants and hotels	0.0	0.3
Miscellaneous goods and services	0.0	0.3

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

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research



Jan Vejmelek, Ph.D., CFA
(420) 222 008 568
jan_vejmelek@kb.cz

Economists



Michal Brozka
(420) 222 008 569
michal_brozka@kb.cz



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



Martin Gürtler
(420) 222 008 509
martin_gurtler@kb.cz



Strategist

František Táborský
(420) 222 008 598
frantisek_taborsky@kb.cz

Equity Analyst



Bohumil Trampota
(420) 222 008 560
bohumil_trampota@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Head of Research of Rosbank



Evgeny Koshelev
(7) 495 725 5637
evgeny.koshelev@rosbank.ru

Chief Economist of BRD-GSG

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

Economist BRD-GSG



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



Equity Analyst

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



Economist Rosbank

Anna Zaigrina
(7) 495 662 1300
anna.zaigrina@rosbank.ru

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics



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

Euro area



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



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



Latin America

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



India

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



Korea

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

China



Wei Yao
(33) 1 57 29 69 60
wei.yao@sgcib.com



Greater China

Michelle Lam
(85) 2 21 66 57 21
michelle.lam@sgcib.com



Japan

Takuji Aida
(81) 3-6777-8063
takuji.aida@sgcib.com



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

Head of Rates Strategy



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



Head of Euro Area Rates Strategy

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



Covered Bonds & SSA

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



Head of US Rates Strategy

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

Jorge Garayo



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



Jean-David Cirotteau

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



Shakeeb Hulikatti

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

Kevin Ferret



(44) 20 7676 7073
kevin.ferret@sgcib.com



Rohit Gaurav

(91) 8067318958
rohit.gaurav@sgcib.com



Michael Chang

(1) 212 278 5307
michael.chang@sgcib.com

Chief Global FX Strategy



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

Head of Emerging Markets Strategy



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



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



Kiyong Seong
(852) 2166 4658
kiyong.seong@sgcib.com



Marek Dřimal
(44) 20 7550 2395
marek.drimal@sgcib.com

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