

Instant Reaction

EcoAlert

Inflation decelerated mainly due to food prices



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

Consumer price index (September 2020)

	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	-0.6	-0.3	-0.3
Consumer prices (% yoy)	3.2	3.5	3.5

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

In September, Czech consumer prices declined below the market expectation as well as below the CNB forecast. Apart from seasonal changes, this was mainly caused by lower prices of food. For the coming months, we expect inflation to continue subsiding. The CNB will wait and see while the financial market speculates on rate cuts.

In September, Czech consumer prices declined 0.6% mom, i.e. twice as fast as expected by the market or our estimate. Year-on-year inflation decelerated to 3.2% from the previous 3.3% yoy.

The monthly price decline was mostly caused by recreation and culture, which is mostly a seasonal matter. Compared with estimates, the price decline was mainly lower in the case of food prices, where for example prices of vegetables were 4.1% lower mom. On the contrary, the price decline in the prices of fuel was milder than expected. In year-on-year terms, rent prices were up 2.0% after 2.6% in the previous month. Prices for education were seasonally higher. Overall, the prices of goods declined 0.1% mom and prices of services increased 1.3% mom. Prices of goods are up 3.5% yoy while prices of services are up 2.7% yoy.

Price growth according to items in the consumer basket ...

	mom	yoy
Total	-0.6%	3.2%
Food and non-alcoholic beverages	-1.2%	3.4%
Alcoholic beverages, tobacco	0.8%	10.3%
Clothing and footwear	1.6%	4.6%
Housing, water, energy, fuel	0.0%	2.5%
Furnishings, household equipment	0.1%	3.2%
Health	0.6%	3.1%
Transport	-0.1%	0.0%
Post and telecommunications	0.3%	-3.5%
Recreation and culture	-5.9%	2.6%
Education	2.5%	3.0%
Restaurants and hotels	0.5%	4.7%
Miscellaneous goods and services	-0.1%	3.4%

Source: CZSO, Economic & Strategy Research, Komerční banka

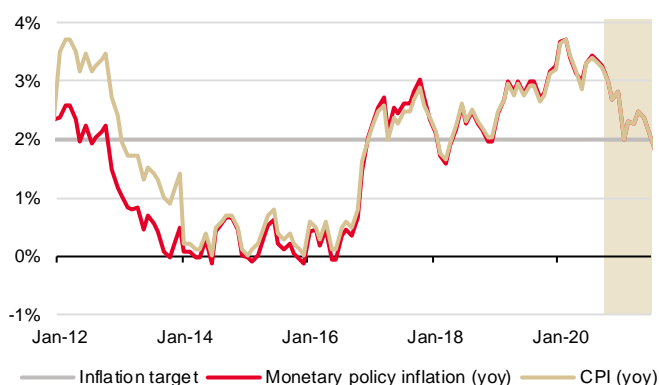
... and their contribution to overall inflation

Contribution to inflation in p.p.	mom	yoy
Total	-0.6%	3.2%
Food and non-alcoholic beverages	-0.2	0.6
Alcoholic beverages, tobacco	0.1	0.9
Clothing and footwear	0.1	0.2
Housing, water, energy, fuel	0.0	0.6
Furnishings, household equipment	0.0	0.2
Health	0.0	0.1
Transport	0.0	0.0
Post and telecommunications	0.0	-0.1
Recreation and culture	-0.6	0.2
Education	0.0	0.0
Restaurants and hotels	0.0	0.3
Miscellaneous goods and services	0.0	0.2

Source: CZSO, Economic & Strategy Research, Komerční banka

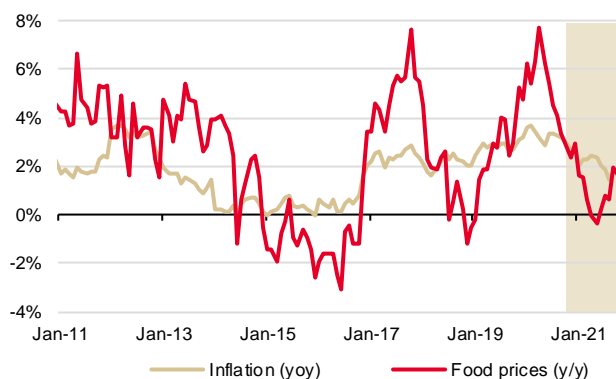
Inflation for September was 0.4 percentage points below the forecast of the Czech National Bank. From the market's point of view, this was a surprise on the downside. But it should not be a strong impulse for CZK. Here the epidemic situation is more substantial, and it is important for the CNB, as well. We think the CNB will maintain its wait-and-see approach for the near term while the market speculates on a rate cut. The inflation deceleration in September was mainly caused by food prices, but according to our calculations core inflation was also slower.

Inflation should decelerate further



Source: CZSO, Economic & Strategy Research, Komerční banka

Food inflation subsidies



Source: CZSO, Economic & Strategy Research, Komerční banka

Our latest forecast expected inflation deceleration on the one-year horizon mainly due to the weak economy, which means weak domestic demand in a situation of missing inflation abroad. But in the fourth quarter, the Czech economy is going through an additional negative shock, the magnitude of which is hard to estimate and the policy reaction hard to forecast. Inflation could potentially decelerate faster. Disinflation will be supported by the already announced energy price cuts. On the contrary, weaker CZK will keep inflation higher and there is a risk of renewed difficulties in supply chains due to the pandemic development. All in all, we expect continuing inflation deceleration to below 3% yoy by the end of the year and next year a decline below 2% yoy.

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 Libacor
(40) 213 016 869
florian.libacor@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



Bertrand Delgado
(1) 212 278 6918
bertrand.delgado-calderon@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 may from time to time have a position in or be holding any of the investments or related derivatives mentioned in this document. The authors of this document are not authorized to acquire the investment instruments mentioned in this document. This does not apply to cases when the investment recommendation mentioned in this document represents dissemination of an investment recommendation earlier produced by third parties according to Chapter III of regulation (EU) 2016/958. 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 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.