

Instant Reaction

EcoAlert

Inflation below 3% thanks to lower energy prices



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

Consumer price index (October 2020)

| | Current | KB forecast | Consensus |
|-------------------------|---------|-------------|-----------|
| Consumer prices | | | |
| Consumer prices (% mom) | 0.2 | 0.1 | 0.2 |
| Consumer prices (% yoy) | 2.9 | 2.8 | 3.0 |

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

In October, Czech consumer prices decelerated due to lower prices of energy. Inflation declined slightly below the market expectation as well as below the CNB forecast. However, the surprise was small while core inflation remained elevated at 3.7% yoy. Monetary policy has no reason for change, and the central bank will wait for further development.

In October, Czech consumer prices increased 0.2% mom. Year-on-year inflation decelerated to 2.9% from the previous 3.2% yoy. For the first time since May inflation returned to the level of the CNB tolerance band. The market and the central bank expected 3.0% yoy. We expected 2.8%; however, the surprise is minor on both sides.

Compared with our expectations, the prices of food and fuel were slightly higher. Nevertheless, here the price decline was quite strong in the previous month. Inflation decelerated mainly due to lower energy prices (electricity was down 2.6% mom and gas 4.3% mom).

Price changes in the consumer basket ...

| | mom | yoy |
|----------------------------------|-------------|-------------|
| Total | 0.2% | 2.9% |
| Food and non-alcoholic beverages | 0.6% | 3.2% |
| Alcoholic beverages, tobacco | -0.9% | 9.4% |
| Clothing and footwear | 2.8% | 4.2% |
| Housing, water, energy, fuel | -0.6% | 1.6% |
| Furnishings, household equipment | 0.8% | 3.2% |
| Health | -0.4% | 2.8% |
| Transport | 0.6% | 0.5% |
| Post and telecommunications | 0.0% | -3.2% |
| Recreation and culture | 0.2% | 2.4% |
| Education | 0.0% | 2.9% |
| Restaurants and hotels | 0.1% | 4.5% |
| Miscellaneous goods and services | 0.5% | 3.4% |

Source: CZSO, Economic & Strategy Research, Komerční banka

... and their contribution to overall inflation

| Contribution to inflation in p.p. | mom | yoy |
|-----------------------------------|-------------|-------------|
| Total | 0.2% | 2.9% |
| Food and non-alcoholic beverages | 0.1 | 0.5 |
| Alcoholic beverages, tobacco | -0.1 | 0.8 |
| Clothing and footwear | 0.1 | 0.2 |
| Housing, water, energy, fuel | -0.2 | 0.4 |
| Furnishings, household equipment | 0.1 | 0.2 |
| Health | 0.0 | 0.1 |
| Transport | 0.1 | 0.1 |
| Post and telecommunications | 0.0 | -0.1 |
| Recreation and culture | 0.0 | 0.2 |
| Education | 0.0 | 0.0 |
| Restaurants and hotels | 0.0 | 0.3 |
| Miscellaneous goods and services | 0.1 | 0.2 |

Source: CZSO, Economic & Strategy Research, Komerční banka

Inflation confirmed a further deceleration, but in October that was mainly due to lower energy prices and in September due to cheaper food. Core inflation remained elevated at 3.7% yoy. As in the first pandemic wave, there might be a problem with the overestimation of price development for those services that cannot operate. For example, consumers are only

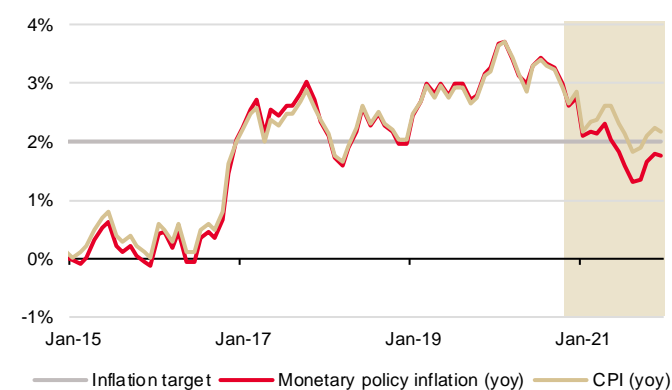
barely impacted by higher prices of tickets for cultural or sporting events. It is therefore possible that estimated core inflation is higher than in reality.

In a year-on-year comparison, price growth has been mainly driven by more expensive tobacco and alcohol products as a result of higher excise taxes. Food prices are still higher, but their year-on-year increase has decelerated.

In our forecast, we expect inflation deceleration on the one-year horizon mainly due to the weak economy. We expect limited price increases of food and fuel prices should act slightly disinflationary. A faster decline in inflation will be hindered by excise tax hikes on tobacco and alcohol next year. For 2020, we expect inflation at 3.2% on average and next year at 2.3%.

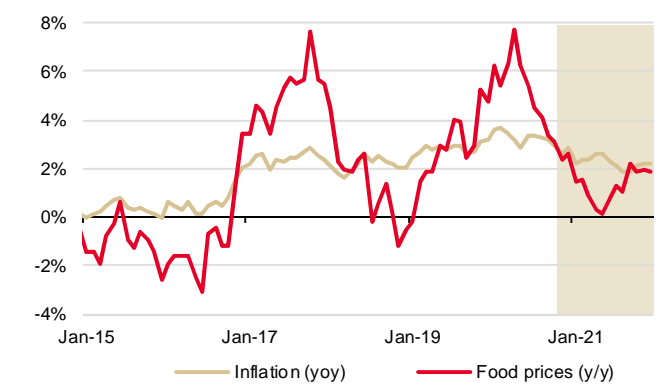
For the financial market, today's figures bring no surprise and CZK has no reason to react. Also from the point of view of the CNB inflation lower by 10bp does not mean much, while still-higher core inflation is rather an argument against further monetary policy easing. The CNB will therefore wait on further developments. A potential problem could be further significant CZK strengthening.

Inflation should decelerate further



Source: CZSO, Economic & Strategy Research, Komerční banka

Food inflation subsides



Source: CZSO, 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 Brožka
 (420) 222 008 569
 michal_brozka@kb.cz

Equity Analyst
Bohumil Trampota
 (420) 222 008 560
 bohumil_trampota@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

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

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

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

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

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

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

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

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

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

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

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

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

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Economics, Cross-Asset & Quant Research
Kokou Agbo Bloua
 +44 20 7762 5433
 kokou.agbo-bloua@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

Bertrand Delgado
 (1) 212 278 6918
 bertrand.delgado-calderon@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

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.