FINANCIAL MARKET INFLATION EXPECTATIONS – NOVEMBER

Financial Markets Department
Operations Analyses Division

2013

CNB CZECH NATIONAL BANK

Ten domestic and three foreign analysts sent in their contributions to the November survey. The results reveal that the one-year inflation forecast increased significantly, returning to its September level. The domestic economy is expected to contract even more this year, but a faster recovery is expected next year. The forecasts for PRIBOR reference rates and swap rates shifted noticeably downwards. The expected koruna developments were understandably significantly affected by the CNB's intervention in the foreign exchange market. However, not all the analysts are fully convinced yet that the CNB will maintain the koruna at CZK 27 against the euro until the end of 2014. The forecast for nominal wages remained unchanged for this year while declining slightly for next year.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Martin Lobotka, Česká spořitelna	+	+	+	+	+	+	+		+		+	
David Marek, PATRIA Finance	+	+	+	+	+	+	+	+	+	+	+	
Jan Vejmělek, Komerční banka	+	+	+	+	+	+	+	+	+	+	+	
Pavel Sobíšek, Unicredit Global Research	+	+	+	+	+	+	+	+	+	+	+	
Michal Brožka, Helena Horská, Raiffeisenbank	+	+	+	+	+	+	+	+	+	+	+	
Petr Dufek, ČSOB	+	+	+	+	+	+	+	+		+	+	
Petr Sklenář, J&T Banka	+	+	+	+	+	+	+	+		+	+	
Radomír Jáč, Generali PPF	+	+	+	+	+	+	+	+	+	+	+	
Jaromír Šindel, Citi		+		+					+	+		
Tomáš Holinka, Moody's Analytics	+	+	+	+	+	+		+	+	+	+	
Jan Kudláček, AXA					+	+	+	+	+	+	+	
FOREIGN ANALYSTS												
Mateusz Szczurek, ING Bank				+	+	+	+					
Magdalena Polan, Goldman Sachs	+		+	+	+			+		+	+	
Katya Kocourek, The Economist Intelligence Unit	+	+	+	+	+	+	+	+	+	+	+	
Nicolaie Alexandru, JP Morgan	+	+			+	+	+		+	+	+	

We would like to thank everyone who contributed to this survey of financial market inflation expectations.

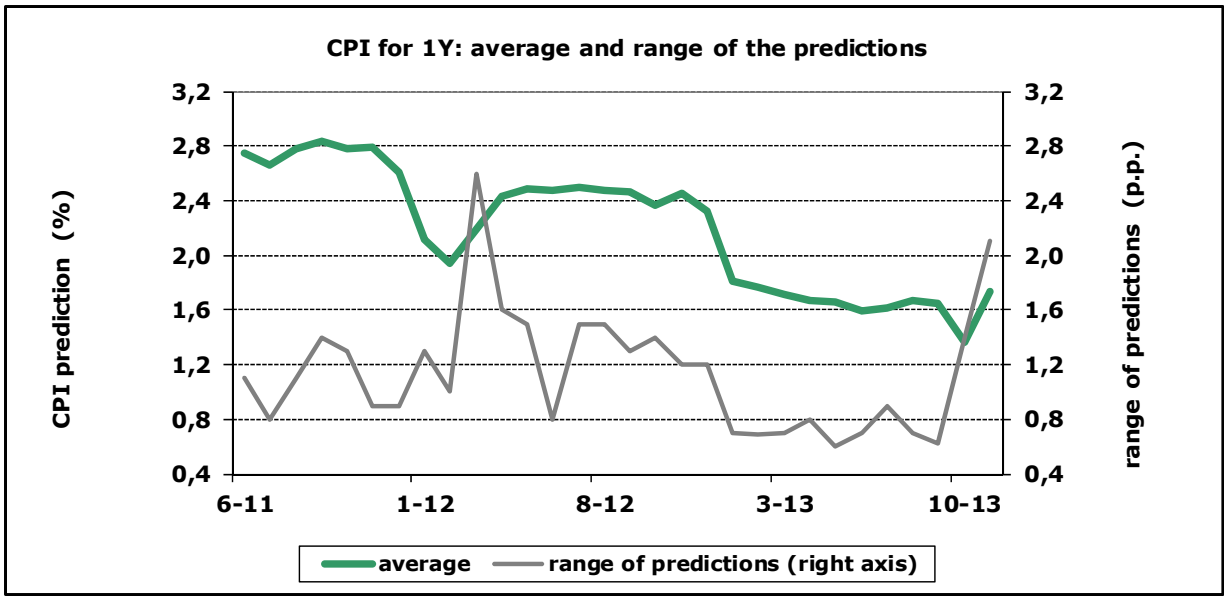
Prague, 20 November 2013

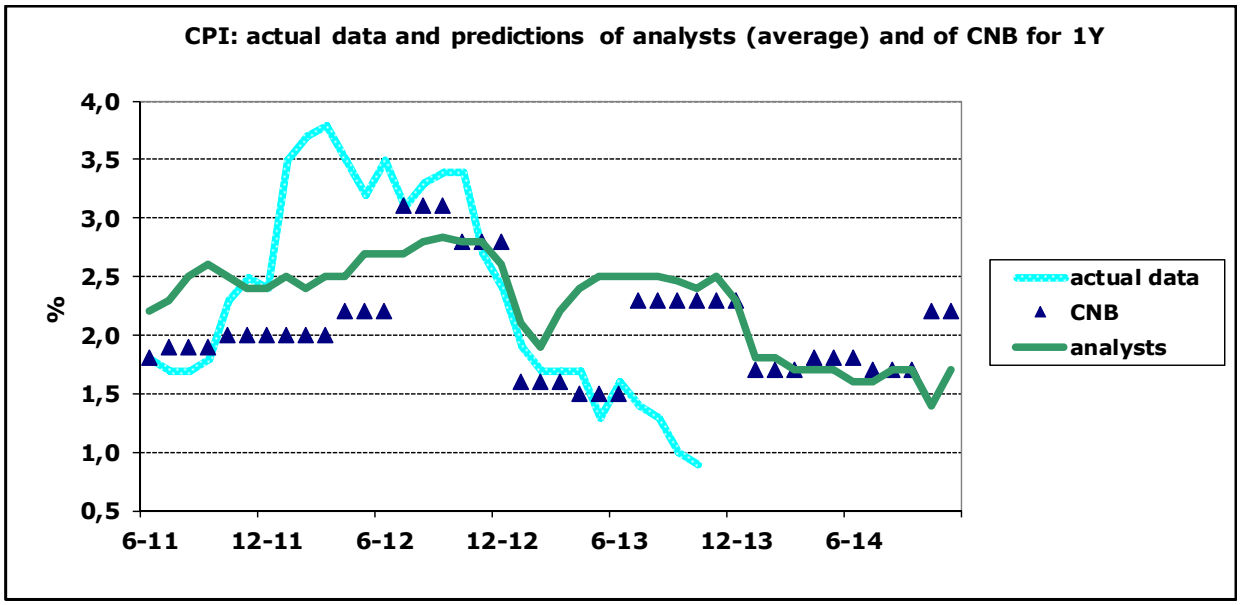
November 2013	1Y	3Y
	CPI y/y %	
minimum	0,5	1,5
average	1,7	2,1
maximum	2,6	2,9

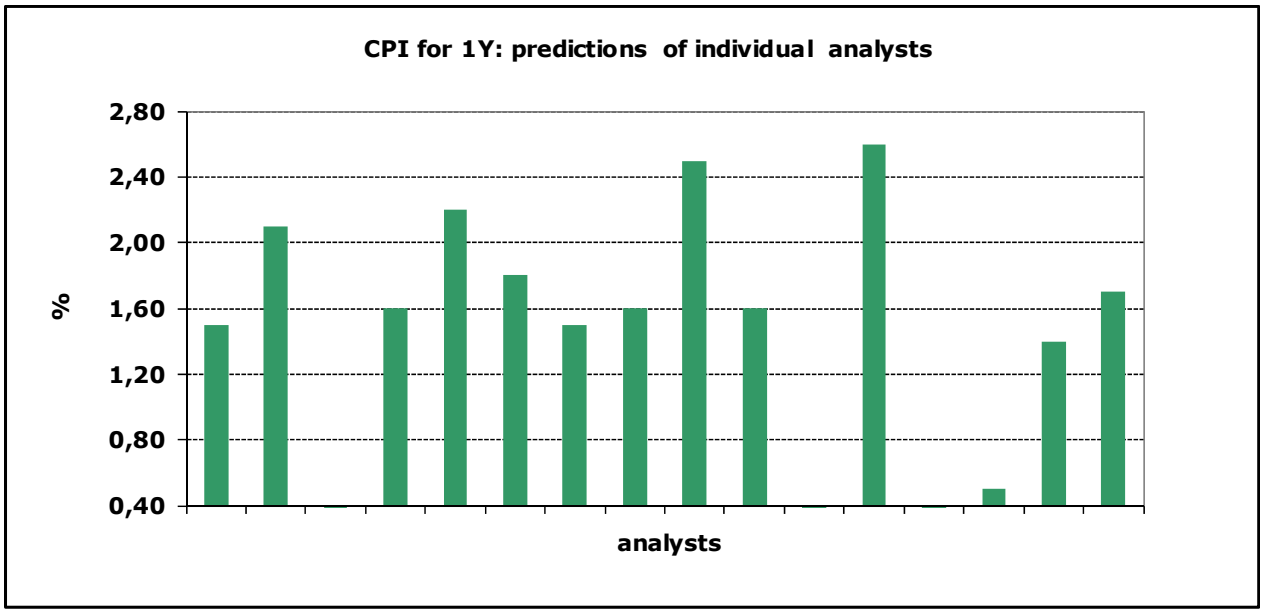
Prediction Horizon / Date of Prediction	1Y	3Y	1Y CNB %
	y/y CPI %		
11-12	2,5	2,2	3Q: 2,3
12-12	2,3	2,1	4Q: 2,3
1-13	1,8	2,0	1Q: 1,7
3-13	1,7	1,9	
6-13	1,6	2,1	2Q: 1,8
8-13	1,7	2,0	
10-13	1,4	2,1	3Q: 1,7
11-13	1,7	2,1	4Q: 2,2

At 1.7%, the average forecast for inflation at the one-year horizon was 0.3 pp higher than in the previous survey. The forecast remains unchanged at the three-year horizon, still standing at 2.1%. The range of the one-year forecasts widened significantly due to a rapid increase in the maximum value, while at the three-year horizon the maximum value increased only marginally and so the range widened only slightly.

The sharp rise in expected inflation is due to the CNB's foreign exchange market interventions. The analysts expect the weaker exchange rate of the koruna to be reflected in a rise in import prices, which will subsequently pass through to food and fuel prices. Although demand-pull inflation will be affected by the increase in import prices, according to some analysts it will be under contrary pressure from subdued demand of households. Moreover, the imported inflation caused by the koruna's depreciation will be mitigated by slowing growth in consumer prices in the EMU.




CPI: actual data and predictions of analysts (average) and of CNB for 1Y
4,0
3,5
3,0
2,5
2,0
1,5
1,0
0,5
%
6-11
12-11
6-12
12-12
6-13
12-13
6-14
actual data
CNB
analysts

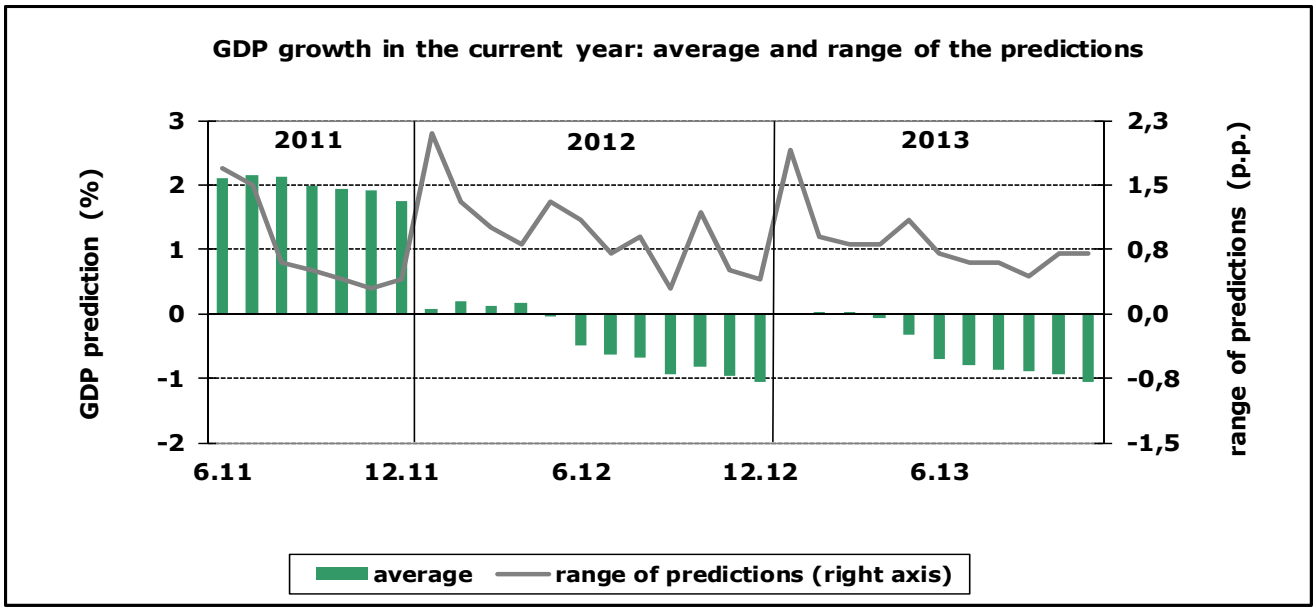

CPI for 1Y: predictions of individual analysts
2,80
2,40
2,00
1,60
1,20
0,80
0,40
%
analysts

November 2013	end of year current GDP %	+1Y
minimum	-1,3	1,2
average	-1,1	1,9
maximum	-0,6	2,4

Prediction Horizon / Date of Prediction	end of year current % GDP Growth	current+1Y
11-12	-1,0	0,7
12-12	-1,0	0,1
1-13	0,0	1,7
3-13	0,0	1,7
6-13	-0,7	1,8
8-13	-0,9	1,8
10-13	-0,9	1,8
11-13	-1,1	1,9

The analysts' average view of GDP growth worsened further. The Czech economy is thus expected to contract by 1.1% this year, i.e. 0.2 pp less than in October. Next year, though, Czech GDP is expected to rise by 1.9%, i.e. 0.1 pp more than in the previous survey. The range of this year's forecasts remained unchanged and that of the forecasts for next year widened slightly.

The surprisingly large fall in GDP in 2013 Q3 is so far offset in the outlook for domestic economic growth by the positive effect of the foreign exchange interventions, which should boost Czech exports and conversely dampen imports. Investment activity might also be slightly higher, but the analysts do not have a unanimous opinion on household consumption. The question is whether the current low consumption stems from consumers waiting for even lower prices and the rise in the price level in reaction to the koruna's depreciation will move them finally to make long-postponed purchases, or whether the previous weak consumption stemmed from households' caution and concerns about the future or a decline in aggregate income. If so, higher import prices would probably have a negative impact on household consumption. Moreover, consumers might be speculating that the koruna will appreciate quickly and import prices will fall after the interventions end, which would motivate them to defer consumption further.



November 2013	1M	1Y	1M	1Y	1M	1Y	1M	1Y
	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
minimum	0,05	0,05	0,35	0,37	1,20	1,40	1,90	1,95
average	0,05	0,05	0,58	0,68	1,29	1,74	2,05	2,38
maximum	0,05	0,05	0,70	1,00	1,50	2,00	2,20	2,80

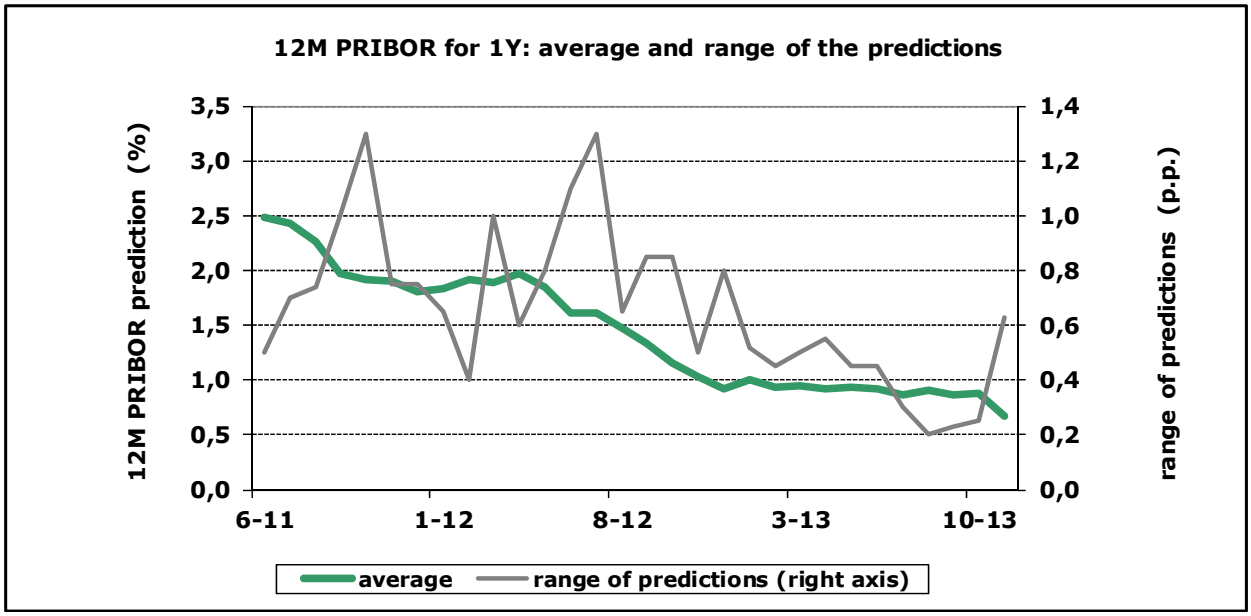
Prediction Horizon	1M	1Y	1M	1Y	1M	1Y	1M	1Y
Date of Prediction	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
11-12	0,05	0,13	0,90	1,03	0,95	1,35	1,48	1,85
12-12	0,05	0,09	0,83	0,93	0,89	1,24	1,44	1,79
1-13	0,05	0,12	0,87	1,01	0,88	1,33	1,44	1,90
3-13	0,05	0,10	0,81	0,95	1,00	1,39	1,51	2,01
6-13	0,05	0,10	0,76	0,92	1,12	1,44	1,63	2,03
8-13	0,05	0,10	0,76	0,90	1,48	1,78	2,10	2,40
10-13	0,05	0,07	0,73	0,87	1,48	1,94	2,11	2,46
11-13	0,05	0,05	0,58	0,68	1,29	1,74	2,05	2,38

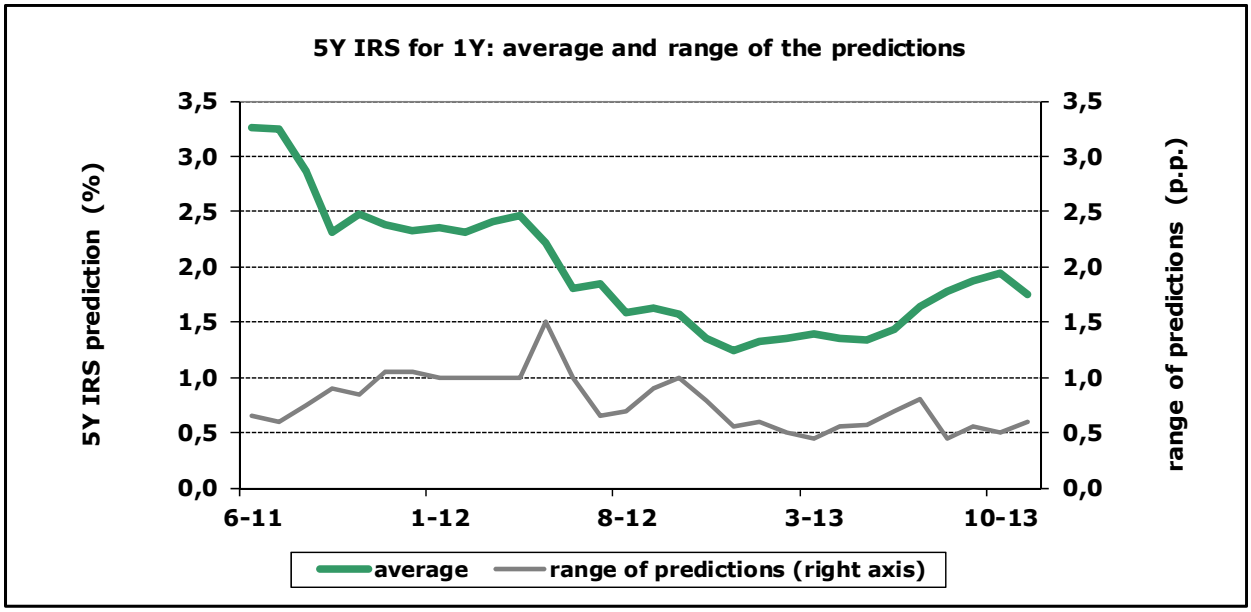
Actual indicator values as of forecast deadline

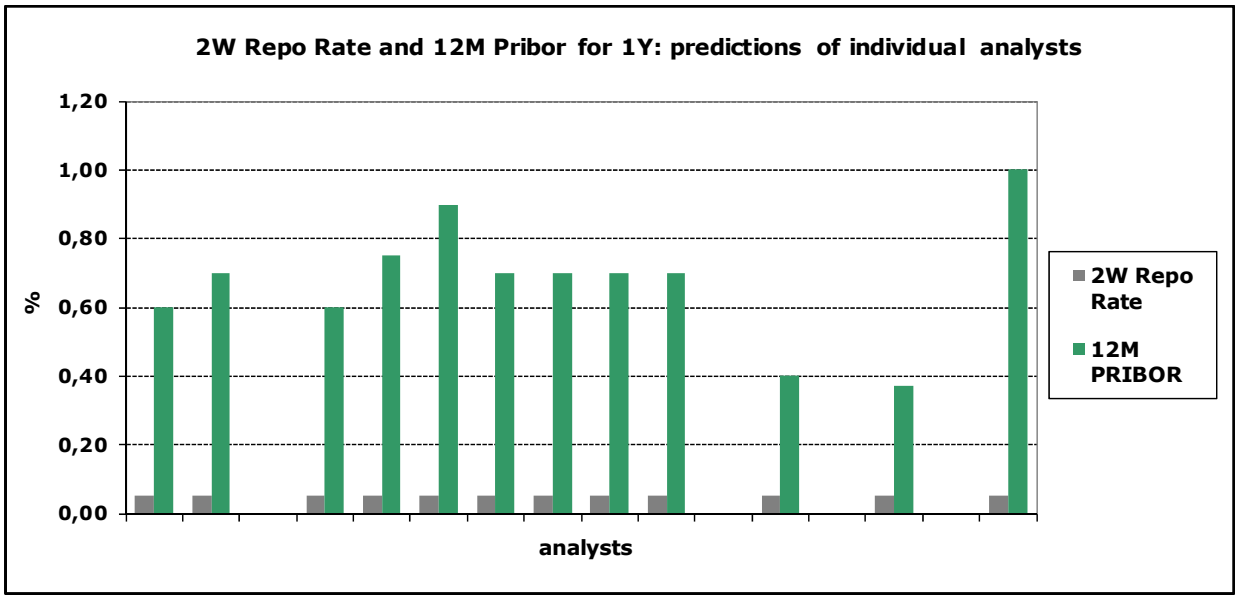
	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
14.11.	0,05%	0,64%	1,20%	1,97%

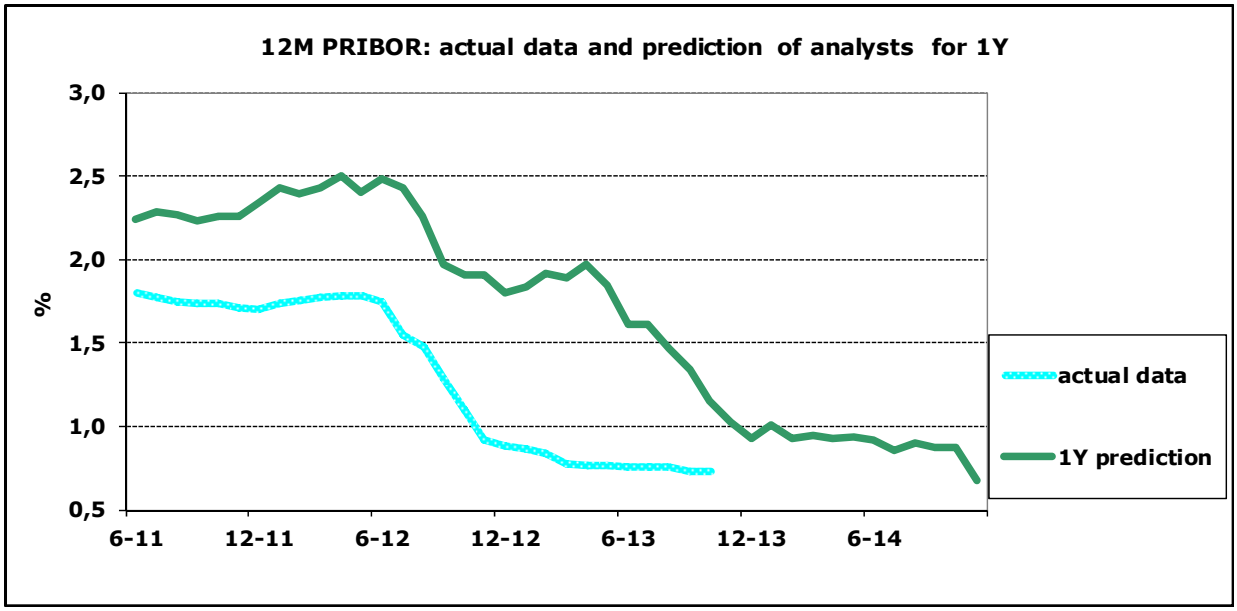
The view of the future path of key interest rates also recorded a slight change; this time, none of the respondents expects the Bank Board to increase interest rates in the coming 12 months. All of them thus expect the 2W repo rate to remain at 0.05%.

The forecast for the 12M PRIBOR reference rate responded to the sharp decline in the corresponding market rates linked with the CNB's intervention in the foreign exchange market. This forecast decreased by 15 bp at the one-month horizon and by 19 bp at the one-year horizon. Similarly, the forecasts for swap rates followed the fall in market rates and shifted downwards – by 18–19 bp for 5Y maturities and by 6–8 bp for 10Y maturities.


12M PRIBOR for 1Y: average and range of the predictions
12M PRIBOR prediction (%)
range of predictions (p.p.)
3,5
3,0
2,5
2,0
1,5
1,0
0,5
0,0
1,4
1,2
1,0
0,8
0,6
0,4
0,2
0,0
6-11
1-12
8-12
3-13
10-13
average
range of predictions (right axis)


5Y IRS for 1Y: average and range of the predictions
5Y IRS prediction (%)
range of predictions (p.p.)
3,5
3,0
2,5
2,0
1,5
1,0
0,5
0,0
6-11
1-12
8-12
3-13
10-13
average
range of predictions (right axis)


2W Repo Rate and 12M Pribor for 1Y: predictions of individual analysts
1,20
1,00
0,80
0,60
0,40
0,20
0,00
%
analysts
2W Repo Rate
12M PRIBOR


12M PRIBOR: actual data and prediction of analysts for 1Y
3,0
2,5
2,0
1,5
1,0
0,5
%
6-11
12-11
6-12
12-12
6-13
12-13
6-14
actual data
1Y prediction

Prediction Horizon Date of Prediction	1M	1Y
	Exchange Rate EUR/CZK	
11-12	25,35	24,89
12-12	25,37	24,93
1-13	25,57	25,02
3-13	25,49	25,14
6-13	25,75	25,13
8-13	25,91	25,31
10-13	25,71	25,06
11-13	27,00	26,79

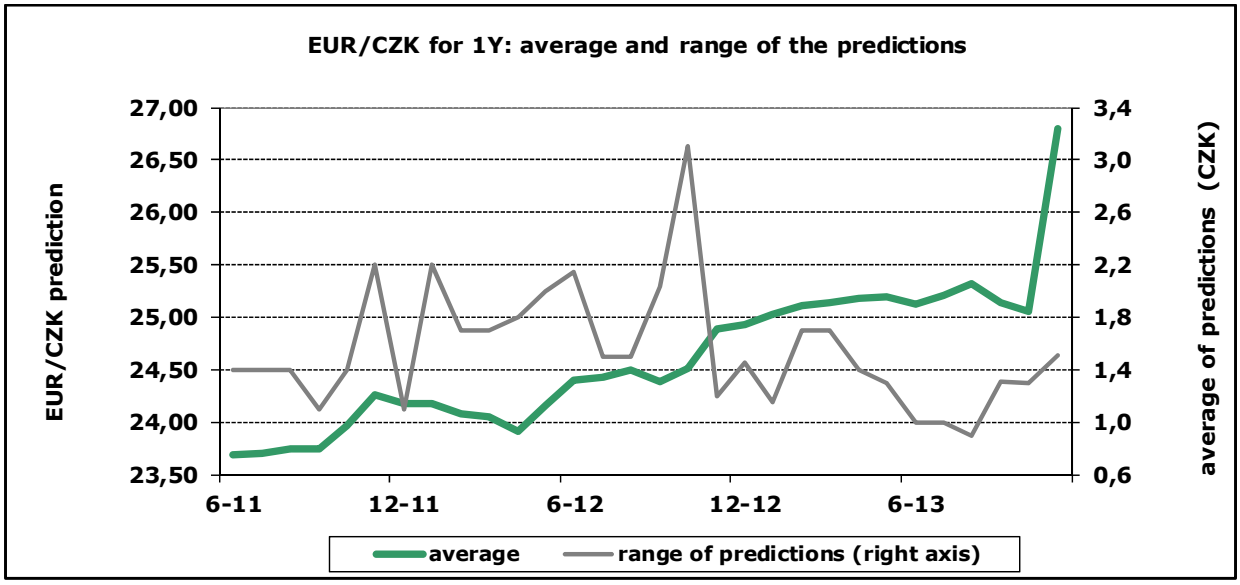
November 2013	1M	1Y
	Exchange Rate CZK/EUR	
minimum	26,85	25,99
average	27,00	26,79
maximum	27,10	27,50

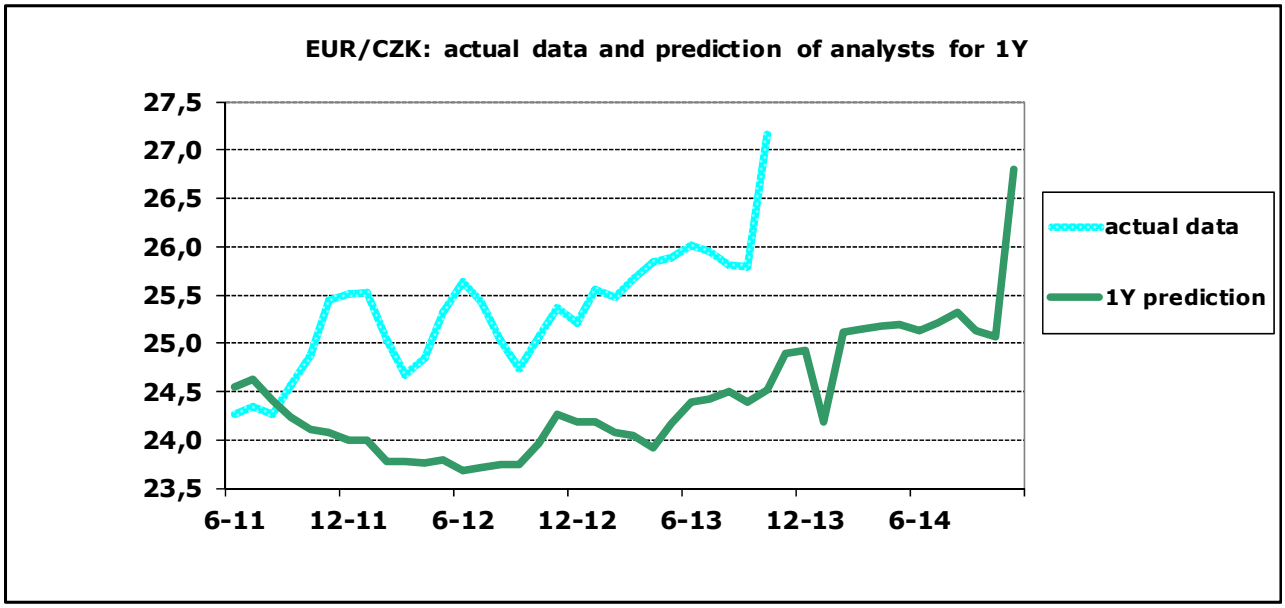
Actual EUR/CZK as of forecast deadline

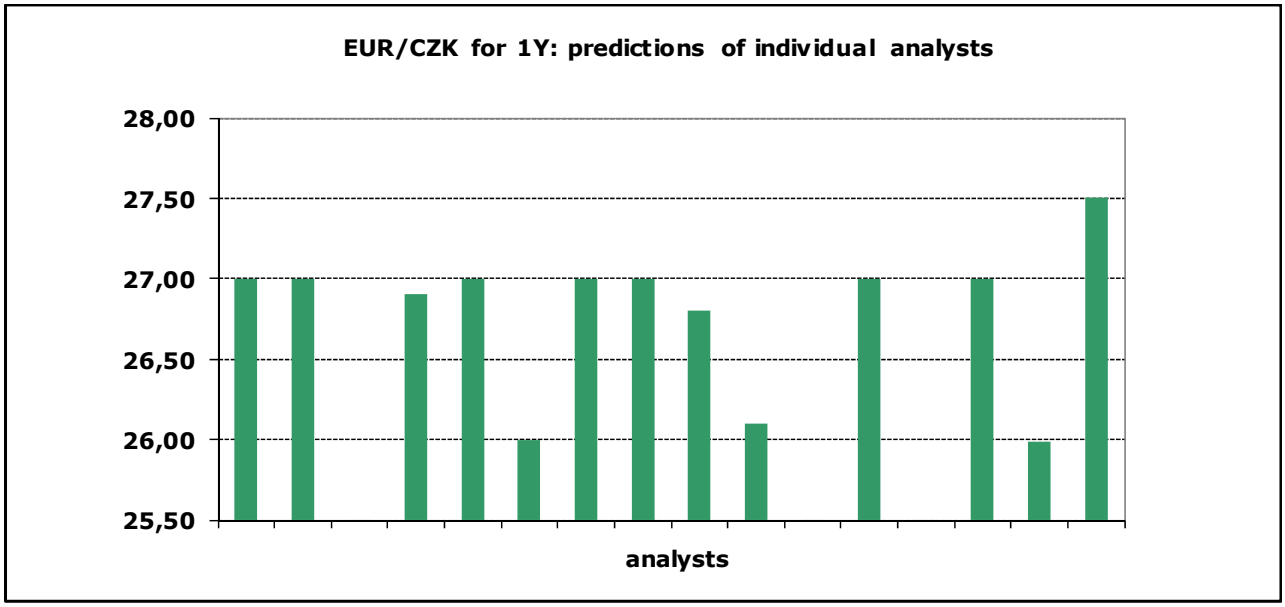
14.11.	27,17

The koruna depreciated to CZK 27.00 against the euro after the foreign exchange interventions. The CNB's intervention significantly affected the analysts' expectations, which naturally responded to it. At the time of the survey, the analysts were expecting the koruna to stand at CZK 27.00 against the euro in mid-December and close to CZK 26.79 against the euro in November 2014.

The one-year forecasts suggest that not all the analysts fully believe that the CNB will keep the koruna's exchange rate at CZK 27.00 against the euro until the end of 2014 in line with the statement made by Governor Singer. Similarly, few of the analysts expect the koruna to depreciate or to be weakened above this level. One respondent expects the koruna to be at CZK 27.50 against the euro at the one-year horizon.

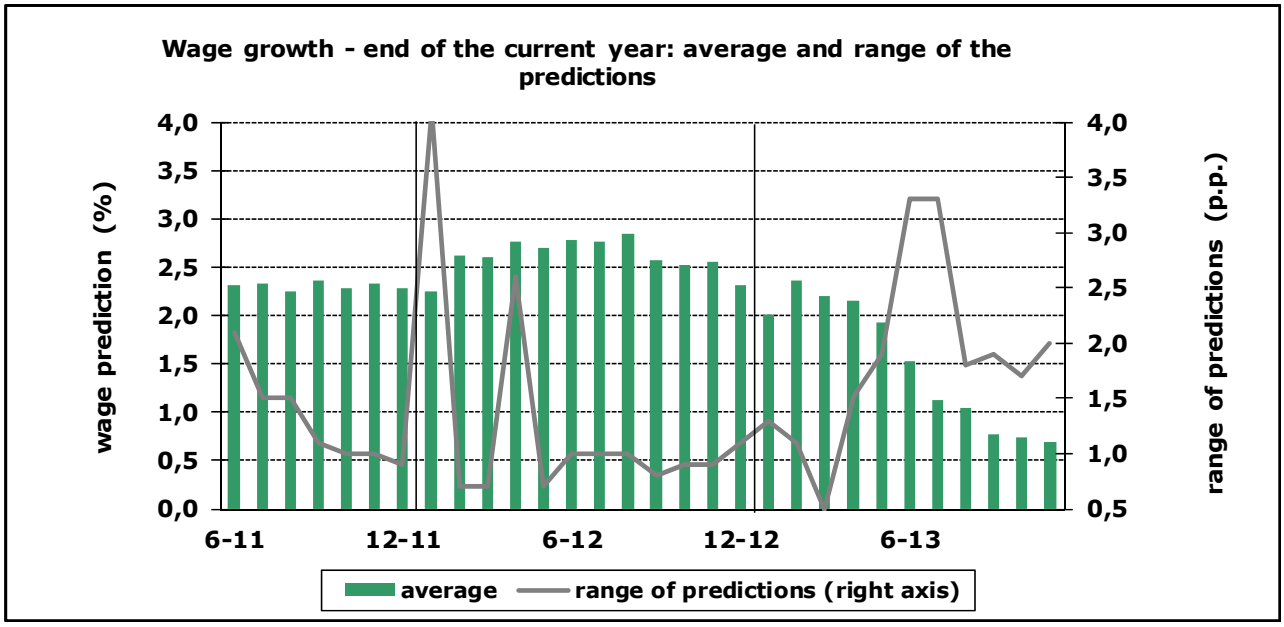



EUR/CZK: actual data and prediction of analysts for 1Y
27,5
27,0
26,5
26,0
25,5
25,0
24,5
24,0
23,5
6-11
12-11
6-12
12-12
6-13
12-13
6-14
actual data
1Y prediction


EUR/CZK for 1Y: predictions of individual analysts
28,00
27,50
27,00
26,50
26,00
25,50
analysts

November 2013	end of year current	+1Y
	Wages %	
minimum	-0,50	1,80
average	0,68	2,39
maximum	1,50	3,00

Prediction Horizon / Date of Prediction	end of year current	current+1Y
	% Wage Growth	
11-12	2,6	2,7
12-12	2,3	2,3
1-13	2,0	2,6
3-13	2,2	2,9
6-13	1,5	2,8
8-13	1,0	2,5
10-13	0,7	2,5
11-13	0,7	2,4

At 0.7%, the average estimate for nominal wage growth was the same as in the previous survey. Conversely, expected wage growth next year has declined by 0.1 pp since November, to 2.4%. Paradoxically, this occurred despite an increase in the expected rise in inflation next year.

The analysts who made a distinction between the forecast for wage growth in the business sector and that in the non-business sector estimate that wages in the business sector will grow by 0.6% this year and by 2.7% in 2014. Wages in the non-business sector should rise by 1.3% and 2.9% in 2013 and 2014 respectively.