



FINANCIAL MARKET INFLATION EXPECTATIONS – JUNE

Financial Markets Department
Operations Analyses Division

2014

Nine domestic and one foreign analyst sent in their contributions to the June survey. The one-year forecast for growth in the CPI increased slightly, while at the three-year horizon inflation remains anchored at the CNB's inflation target. The GDP growth estimate for this year rose significantly and higher economic growth is also expected next year. The forecast for the koruna-euro exchange rate was broadly unchanged. The analysts are concentrating mainly on the date and manner of exit from the CNB's foreign exchange commitment. Nominal wages are expected to grow faster this year, but the view on their growth next year was unchanged.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
David Navrátil, 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												
Magdalena Polan, Goldman Sachs	+	+		+	+							
Joan Hoey, The Economist Intelligence Unit	+	+		+	+							
Nicolaie Alexandru, JP Morgan		+	+	+	+	+						

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

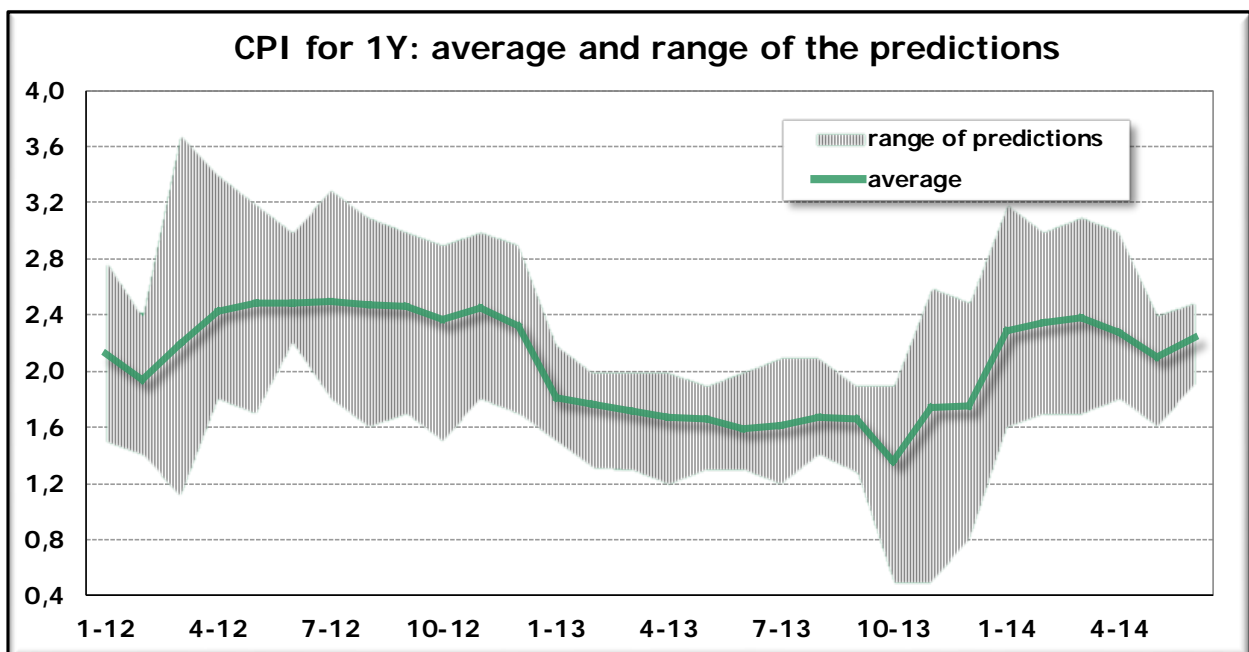
Prague, 23 June 2014

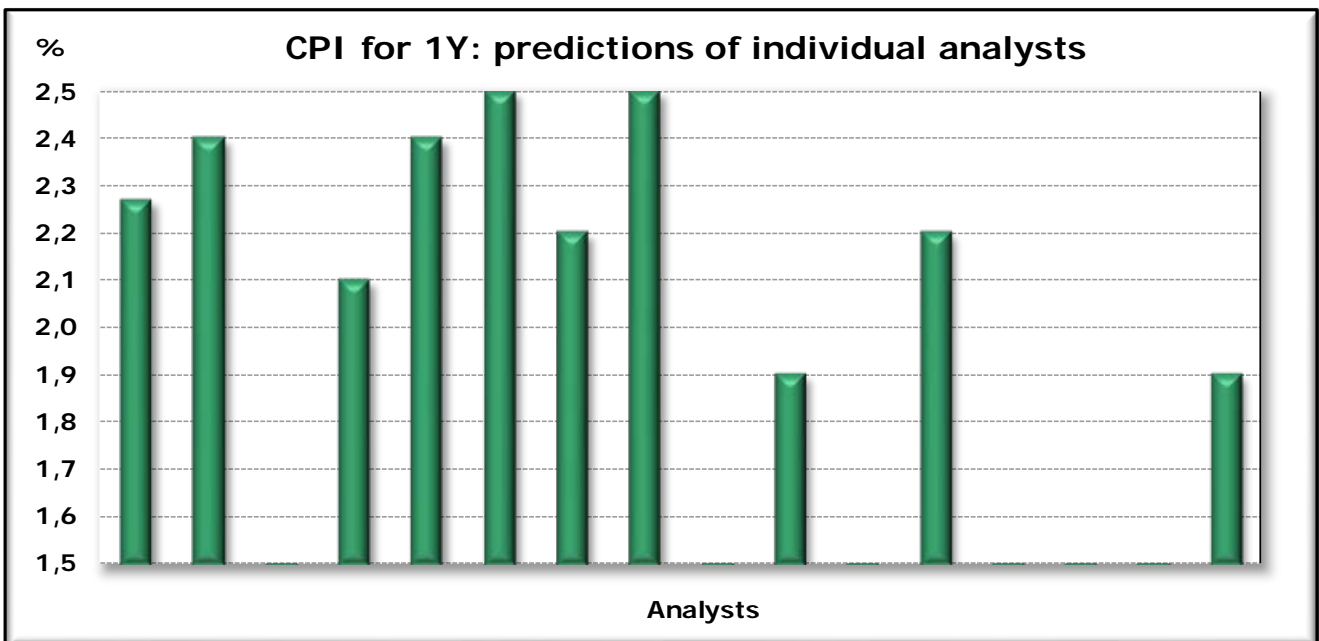
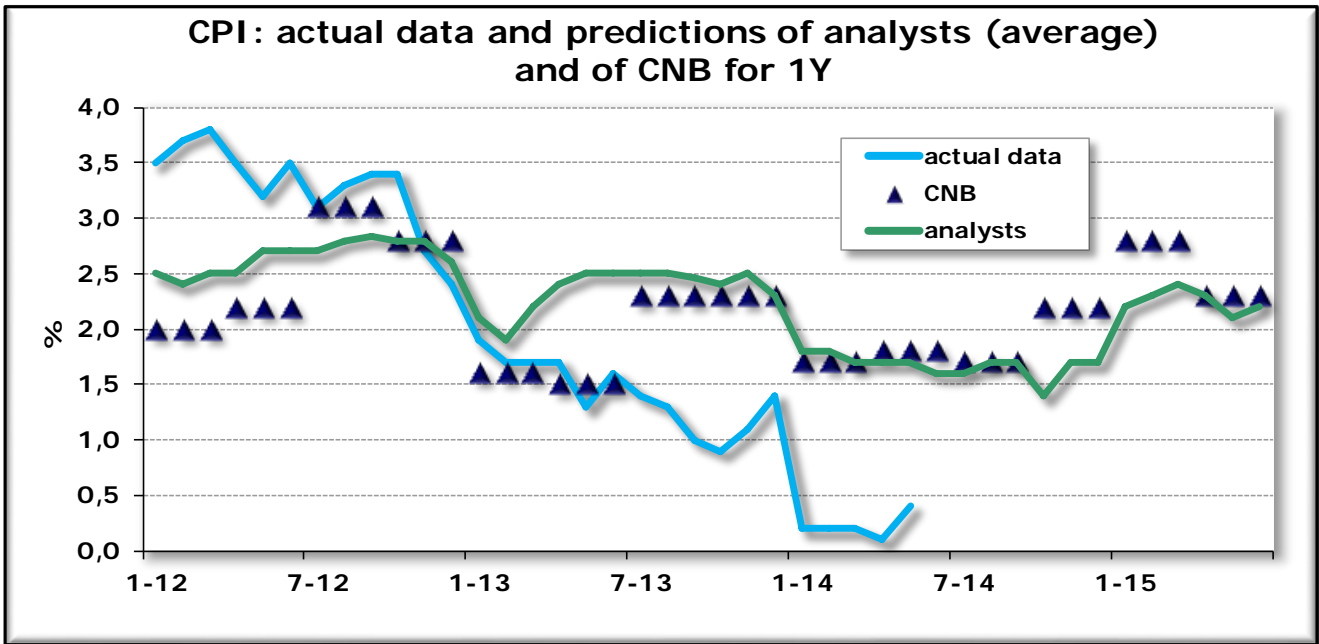
June 2014	1Y CPI y/y %	3Y CPI y/y %
minimum	1,9	1,5
average	2,2	2,0
maximum	2,5	2,7

Prediction Horizon Date of Prediction	1Y y/y CPI %	3Y y/y CPI %	1Y CNB %
6.13	1,6	2,1	2Q: 1,8
8.13	1,7	2,0	
10.13	1,4	2,1	3Q: 1,7
12.13	1,7	2,1	4Q: 2,2
2.14	2,3	2,1	1Q: 2,8
4.14	2,3	2,1	
5.14	2,1	2,0	2Q: 2,3
6.14	2,2	2,0	

The one-year inflation forecast increased slightly compared to the previous survey (by 0.1 pp to 2.2%), partly reversing the decline recorded in May. The three-year outlook saw no change and expectations thus remain anchored at the CNB's 2% inflation target. The range of the one-year forecasts narrowed owing mainly to a larger increase in the minimum value, while the range of the three-year forecasts was unchanged.

Most of the analysts believe that inflation will gradually pick up and converge to the CNB's inflation target in late 2014 or early 2015. Nevertheless, according to the analysts, demand-pull inflation pressures remain subdued and may only start to emerge next year. In addition, according to some of the analysts, a recovery in domestic demand will translate first of all into higher imports. This probably explains why the expectation of faster economic growth (see the next section) is not accompanied by a significant increase in the inflation forecast.



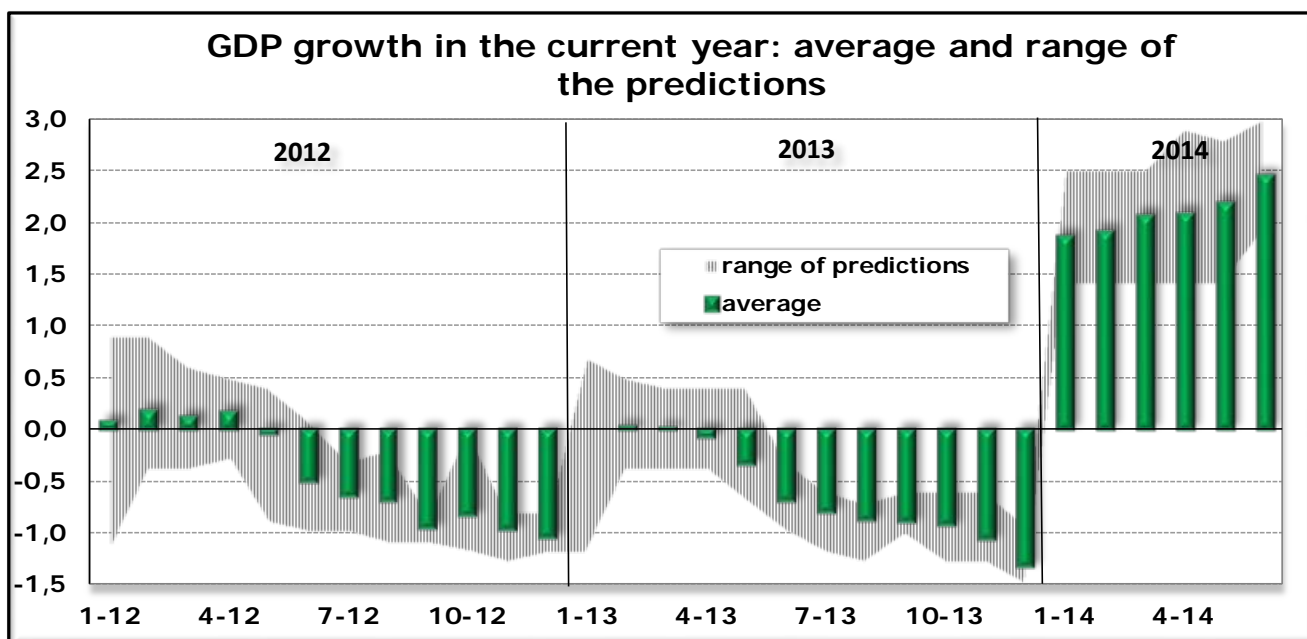


June 2014	end of year	
	current	+1Y
	GDP %	
minimum	1,9	2,4
average	2,5	2,7
maximum	3,0	3,4

Prediction Horizon Date of Prediction	end of year	
	current	current +1Y
	% GDP Growth	
6.13	-0,7	1,8
8.13	-0,9	1,8
10.13	-0,9	1,8
12.13	-1,3	1,9
2.14	1,9	2,5
4.14	2,1	2,5
5.14	2,2	2,6
6.14	2,5	2,7

According to an updated CZSO estimate, the domestic economy grew faster in 2014 Q1 (2.5%) than indicated by the preliminary estimate (2.0%). The analysts' average forecast for this year also recorded a sizeable increase, rising to 2.5%, i.e. 0.3 pp higher than a month ago. The outlook for next year also shifted slightly upwards (by 0.1 pp to 2.7%). The range of forecasts for this year narrowed owing to a larger increase in the minimum value, while that for next year widened owing to a larger rise in the maximum value.

The analysts view the newly published data on the GDP structure very positively. As regards the supply side, almost all sectors¹ contributed to the GDP growth in 2014 Q1. According to the analysts this makes the economic recovery more robust. On the supply side the analysts were pleasantly surprised by growth in household consumption, government expenditure and net exports, while fixed investment – inventories in particular – fell short of expectations.



¹ The quarterly decline in industry is regarded as a partial reversal of the sizeable growth observed at the end of 2013.

June 2014	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0,05	0,05	0,50	0,53	0,80	1,15	1,50	1,80
average	0,05	0,12	0,53	0,70	0,83	1,43	1,52	2,08
maximum	0,05	0,50	0,55	0,95	0,90	1,80	1,60	2,30

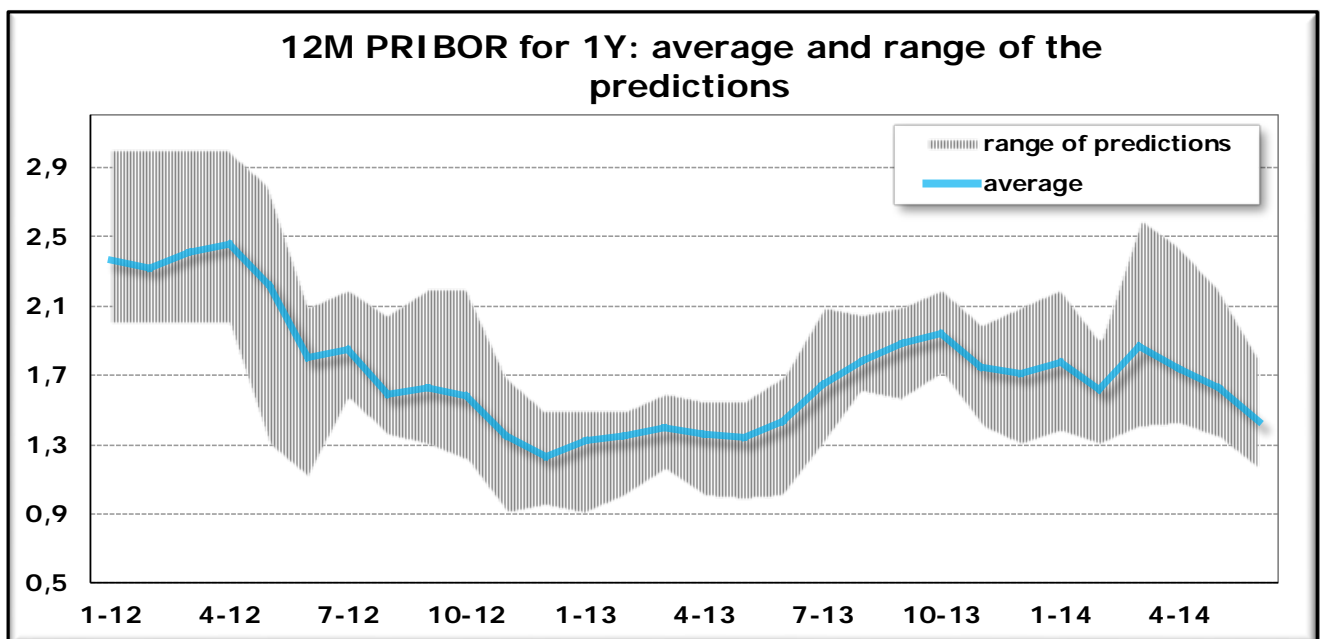
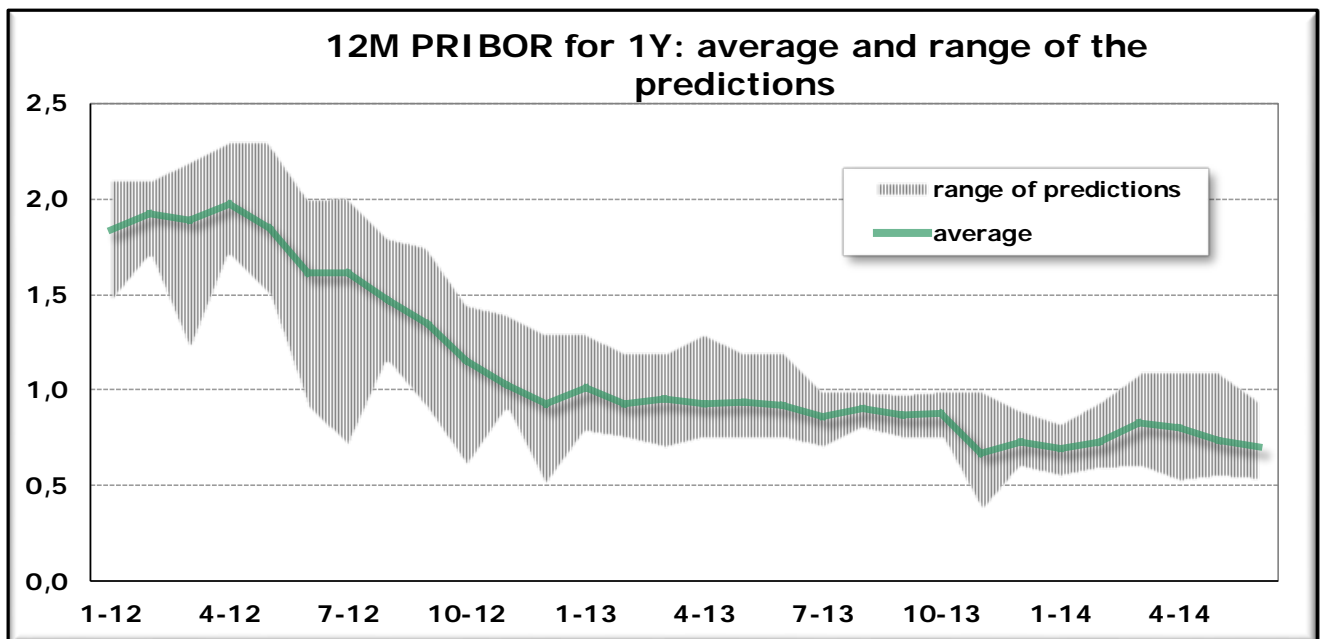
Prediction Horizon	2W Repo Rate %		12M PRIBOR %		5Y IRS %		10Y IRS %	
Date of Prediction	1M	1Y	1M	1Y	1M	1Y	1M	1Y
6.13	0,05	0,10	0,76	0,92	1,12	1,44	1,63	2,03
8.13	0,05	0,10	0,76	0,90	1,48	1,78	2,10	2,40
10.13	0,05	0,07	0,73	0,87	1,48	1,94	2,11	2,46
12.13	0,05	0,05	0,60	0,73	1,21	1,71	2,02	2,44
2.14	0,05	0,14	0,56	0,73	1,17	1,61	1,96	2,46
4.14	0,05	0,12	0,57	0,80	1,20	1,74	1,90	2,41
5.14	0,05	0,13	0,52	0,73	0,92	1,62	1,62	2,28
6.14	0,05	0,12	0,53	0,70	0,83	1,43	1,52	2,08

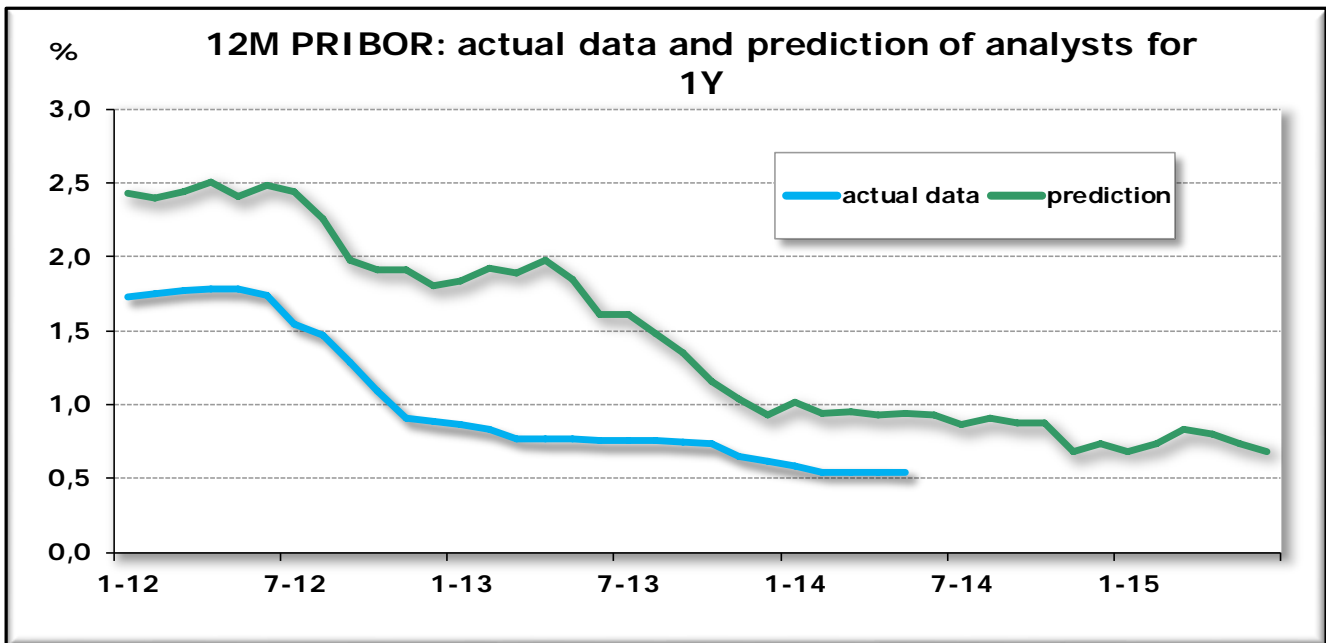
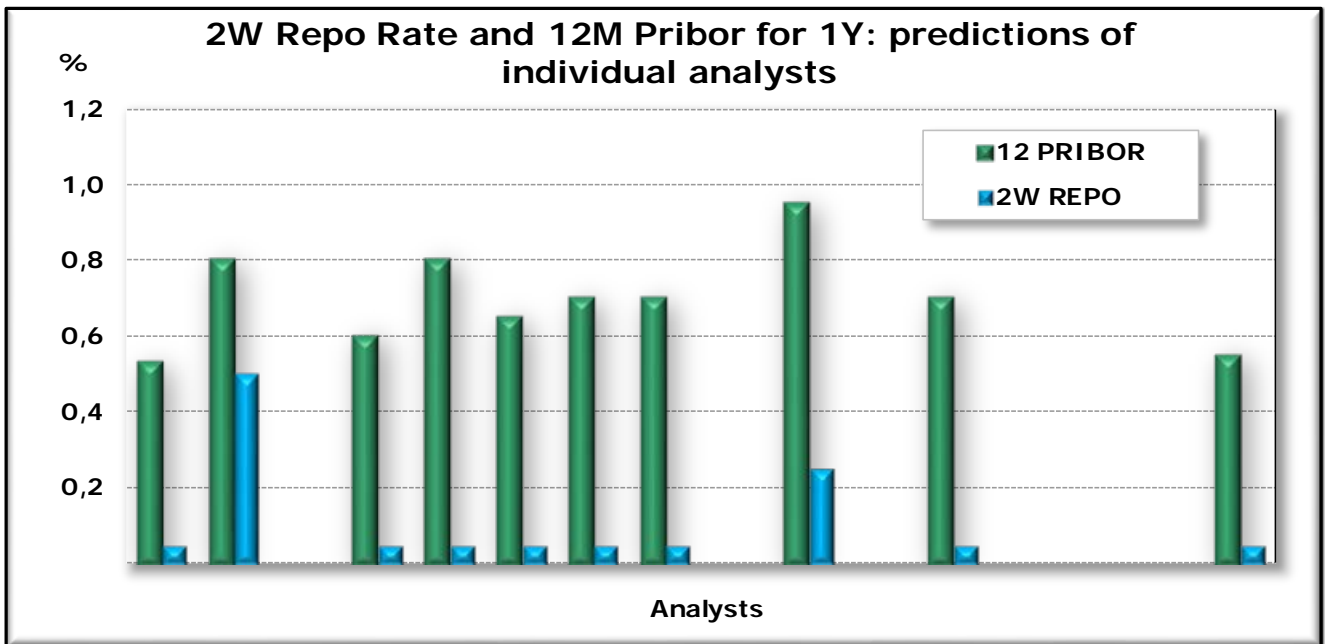
Actual indicator values as of forecast deadline

	2W Repo Rate	12M PRIBOR	5Y IRS	10Y IRS
13.6.	0,05%	0,53%	0,81%	1,52%

Only two respondents expect the 2W repo rate to rise at the one-year horizon, one of them expecting it to increase to 0.25% and the other to 0.50%. The other analysts still expect this key rate to stay at technical zero, i.e. 0.05%.

The forecasts for 12M reference rates on the interbank market (PRIBOR) saw only relatively small changes, while the expected swap rates (IRS) recorded sizeable declines again. The 9–20 bp shifts in the IRS forecasts are probably due to a change in the relevant market rates, which responded to the ECB's June decision indirectly via European rates. European IRS rates are an important determinant of domestic rates and their slower growth outlook is thus reflected in the outlook for Czech rates.





Prediction Horizon	1M	1Y
Date of Prediction	Exchange Rate EUR/CZK	
6.13	25,75	25,13
8.13	25,91	25,31
10.13	25,71	25,06
12.13	27,45	26,94
2.14	27,42	26,95
4.14	27,40	26,96
5.14	27,37	26,96
6.14	27,41	26,98

June 2014	1M	1Y
	Exchange Rate CZK/EUR	
minimum	27,30	26,20
average	27,41	26,98
maximum	27,50	27,50

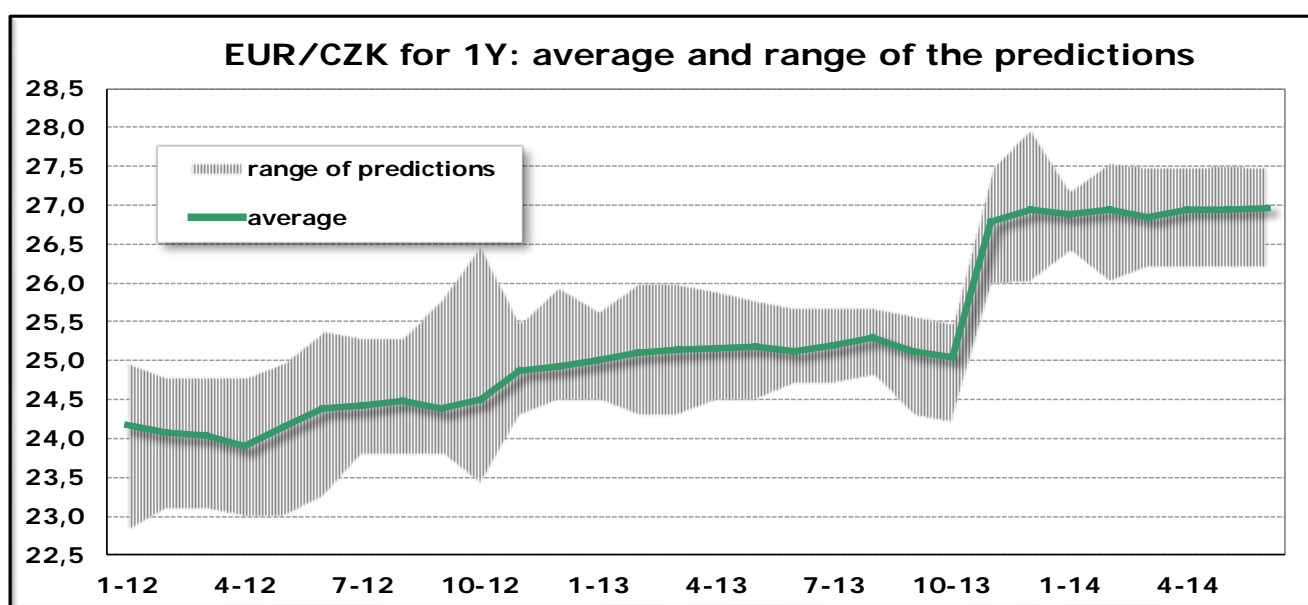
Actual EUR/CZK as of forecast deadline

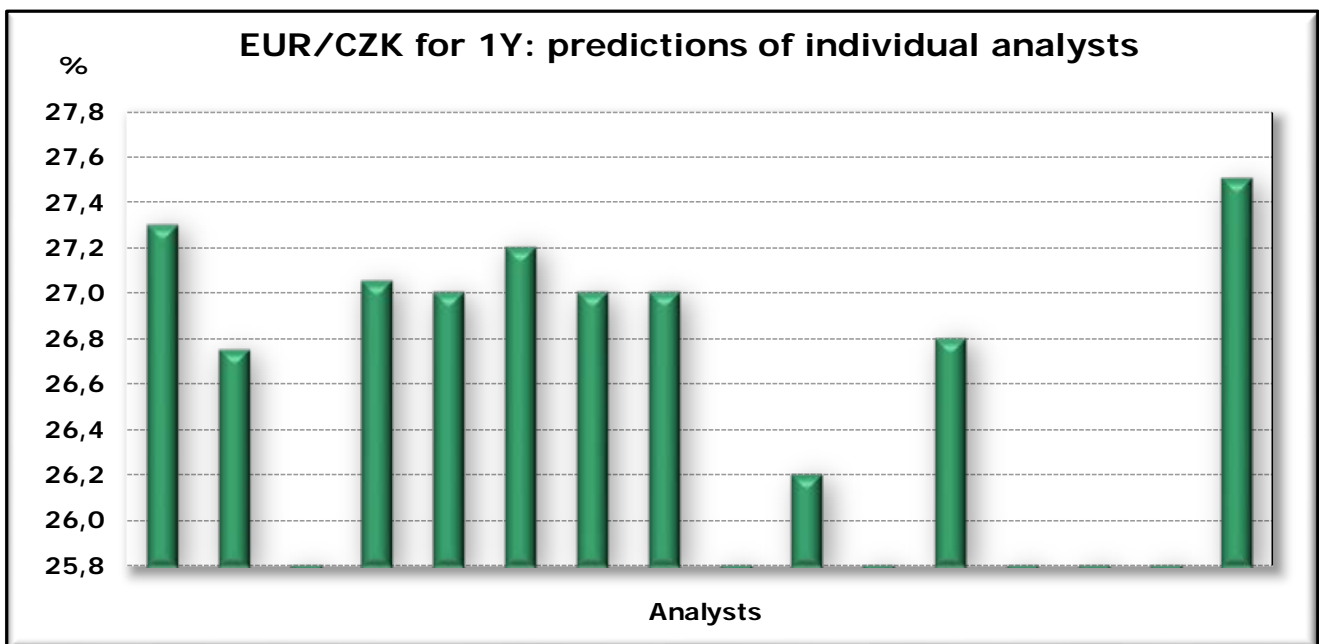
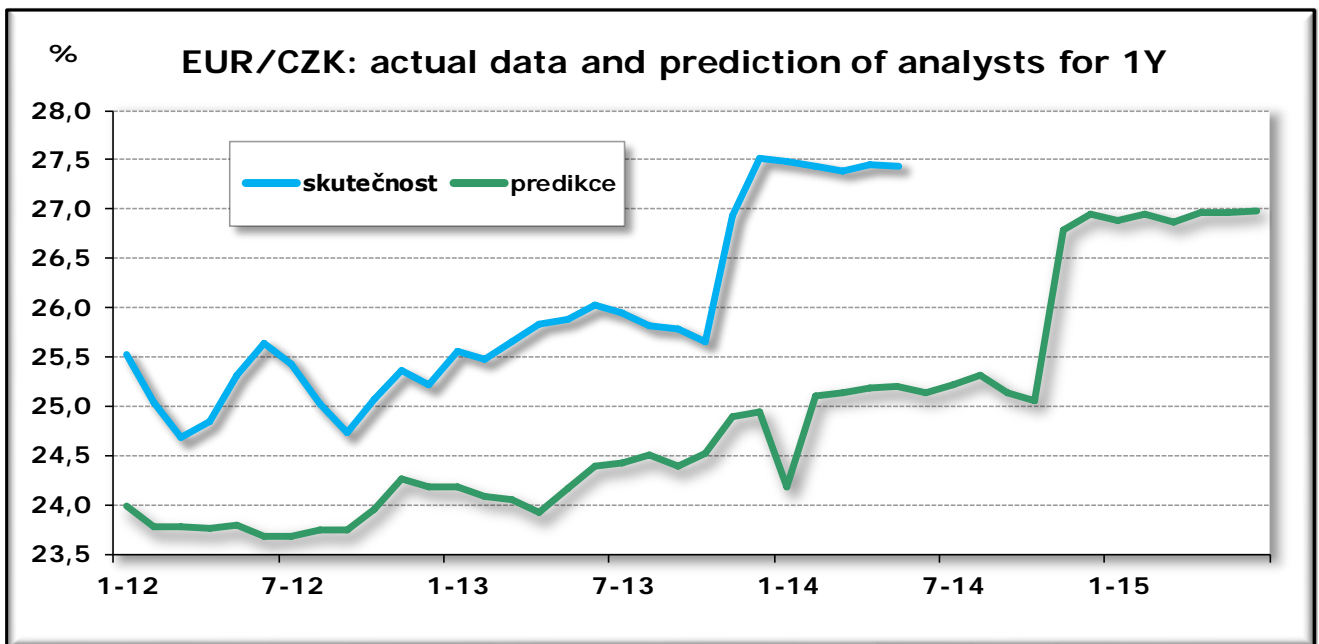
13.6.	27,44
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The koruna-euro exchange rate remains relatively stable. The analysts' average forecasts saw no major changes either. The analysts on average expect the koruna to be around CZK 27.4 to the euro in mid-July and CZK 27.0 in one year's time.

The currently most discussed topic of domestic monetary policy is the timing and manner of exit from the CNB's commitment to maintain the koruna's exchange rate close to CZK 27 to the euro. Most respondents believe that this will happen in the second half of 2015 (see the table). According to the analysts, there are several exit strategies, depending on how large a fluctuation of the koruna's exchange rate the CNB will be willing to tolerate. Given Governor Singer's statement, however, two variants are being discussed most of all: occasional direct interventions to maintain the appreciation at the required rate, and a gradual shift in the target level of the minimum exchange rate. In any event, the analysts estimate that the CNB will accompany the whole process with extensive verbal communication.

Expected exit	Number of analysts
1H 2015	4
2H 2015	5
2017	1





June 2014	end of year	
	current	+1Y
	Wages %	
minimum	2,00	1,50
average	2,39	2,92
maximum	3,00	4,00

Prediction Horizon Date of Prediction	end of year	
	current	current+1Y
	% Wage Growth	
6.13	1,5	2,8
8.13	1,0	2,5
10.13	0,7	2,5
12.13	0,8	2,3
2.14	2,1	2,8
4.14	2,2	3,1
5.14	2,0	2,9
6.14	2,4	2,9

The more optimistic economic outlook and the decline in the unemployment rate seem to have fostered an increase in the estimated nominal wage growth rate this year from 2.0% in May to 2.4% in June. By contrast, the average forecast for next year saw no change, remaining at 2.9%. Owing to the low inflation rate, real wages are expected to rise in both monitored years.

