Financial Market Inflation Expectations

1/2020

CNB CZECH NATIONAL BANK

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I. SUMMARY

Fifteen domestic and three foreign respondents took part in the first survey of 2020. The polled analysts slightly lowered the expected one-year inflation growth forecast in their January estimates overall. However, the medium-term – three-year – forecast remains at the 2% level. At the same time, the analysts slightly raised the expected rate of growth of the Czech economy and nominal wages this year. The number of respondents who believe that the 2W repo rate will rise over the next 12 months also increased. Nevertheless, most of them still expect the CNB's key interest rate to remain stable. The forecast for the koruna exchange rate also shifted to higher levels, probably due to foreign exchange market developments in the first half of January.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
J. Polanský, Česká spořitelna	+											
David Marek, Deloitte Czech Republic	+											
Jan Vejmělek, Komerční banka	+											
Patrik Rožumberský, Unicredit Global Research	+											
Helena Horská, Eliška Jelínková Raiffeisenbank	+											
Petr Dufek, ČSOB	+											
Petr Sklenář, J&T Banka	+											
Radomír Jáč, Generali Investments CEE	+											
Jaromír Šindel, Citi	+											
Kamil Kovář, Moody's Analytics	+											
Jan Kudláček, Tomáš Lébl, AXA	+											
Jakub Seidler, ING	+											
Lukáš Kovanda, Czech Fund	+											
Michal Šoltés, RoklenFin	+											
Martin Janíčko, MND	+											
FOREIGN ANALYSTS												
Timon Dreyer, Kevin Daly, Goldman Sachs	+											
Shivaan Tandon, The Economist Intelligence Unit	+											
Jose A. Cerveira, JP Morgan	+											

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

Prague, 29 January 2020

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

January 2020	CPI 1Y	CPI 3Y
minimum	1.7	1.8
average	2.2	2.0
maximum	2.6	2.2

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

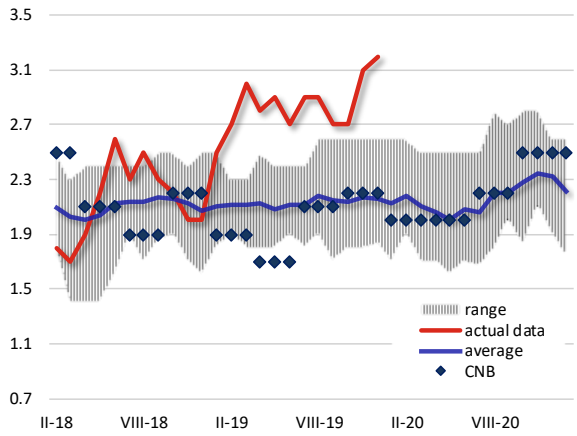
Date of Prediction	ANALYSTS 1Y	ANALYSTS 3Y	CNB (%) 1Y
I.19	2.1	2.0	
II.19	2.2	2.0	1Q: 2.0
IV.19	2.1	2.0	2Q: 2.0
VII.19	2.1	2.0	
IX.19	2.2	2.0	3Q: 2.2
X.19	2.3	2.0	
XII.19	2.3	2.0	4Q: 2.5
I.20	2.2	2.0	

Although the annual growth in the consumer price index accelerated by 0.1 pp to 3.2% in December, the analysts contributing to our survey lowered the average one-year forecast for the growth by 0.1 pp. The analysts thus expect annual inflation to reach 2.2% in January next year. At the three-year horizon, the analysts' opinion remains unchanged and the average inflation forecast remains at the CNB's 2% inflation target. The range of the one-year estimates widened owing to a decrease in the minimum value, while the range of the three-year forecasts narrowed due to a drop in the maximum value.

Inflation is currently above the upper boundary of the tolerance band. However, the analysts expect the growth to peak within a few months and slow gradually in the rest of this year. Anti-inflationary factors are seen in weakening GDP growth, a stronger koruna, disinflation pressures from abroad and the latest producer price developments. Core inflation could be (with a potential lag behind the slowdown in economic growth) dampened by lower growth in nominal wages and household consumption than that observed last year.

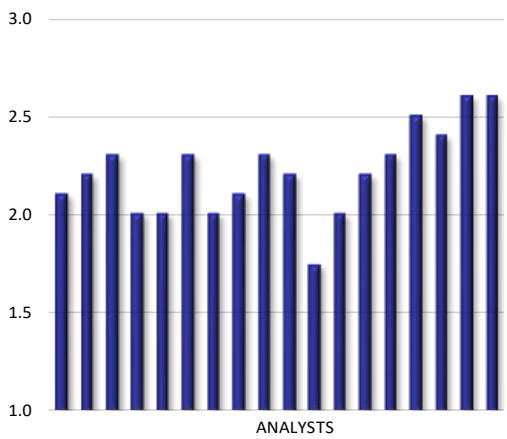
CONSUMER PRICE INDEX

ACTUAL DATA AND 1Y PREDICTIONS OF ANALYSTS (AVERAGE) AND OF CNB (%)



CONSUMER PRICE INDEX AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS (%)



III. GROSS DOMESTIC PRODUCT

FORECAST FOR GDP GROWTH

(%)

January 2020	end of year	
	current	current + 1Y
minimum	1.9	1.7
average	2.2	2.3
maximum	2.9	3.1

FORECAST FOR GDP GROWTH

(%)

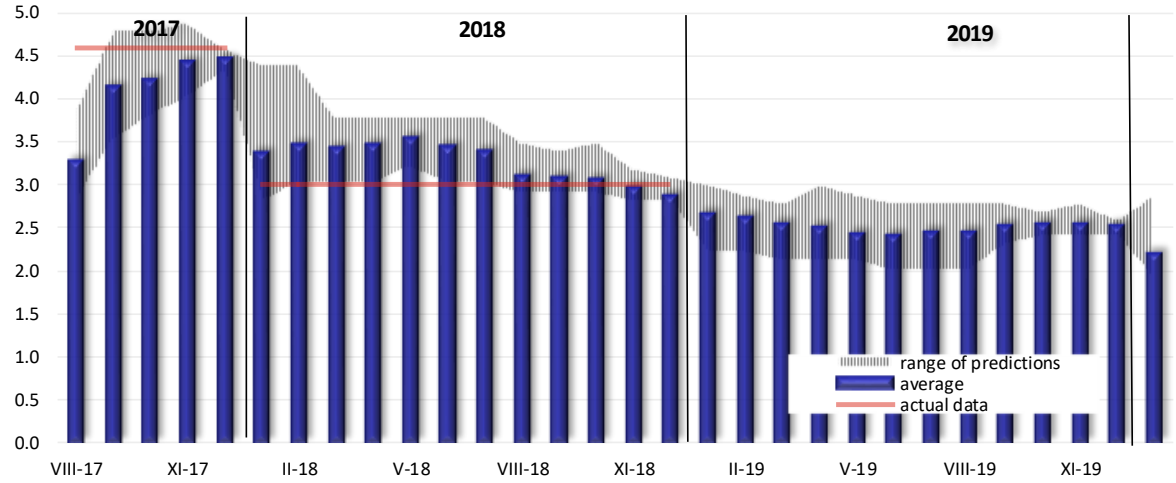
Date of Prediction	end of year	
	current	current+1Y
I.19	2.7	2.5
II.19	2.6	2.6
IV.19	2.5	2.5
VII.19	2.5	2.4
IX.19	2.5	2.3
X.19	2.6	2.3
XII.19	2.5	2.1
I.20	2.2	2.3

The CZSO's revised GDP growth estimate, published in quarterly national accounts in the first half of January 2020, confirmed that Czech GDP grew by 2.5% year on year in Q3 2019. However, the analysts have revised their view on Czech economic growth slightly upwards since the December survey. They expect GDP to grow by 2.2% on average in 2020, up by 0.1 pp from a month earlier. In 2021, economic growth should accelerate slightly to 2.3%. The range of the individual forecasts for this year widened due to higher growth of the maximum value.

According to some comments, the downturn in German industry could be reflected, with a delay, in the Czech industry and subsequently also in the Czech economy as a whole. Leading indicators (PMI) are signalling weak external and domestic demand. Investment activity will probably continue to be limited by weaker business confidence and consumer demand by slower nominal wage growth in the quarters ahead. However, the situation could turn around in the second half of this year. The economic recovery abroad could spill over to the Czech Republic and help the Czech economy to grow above its potential. The government's continued expansionary fiscal policy and investment financed from EU funds (the effect of the drawdown of EU funds for the 2014–2020 programme period) will also contribute to a pick-up in economic growth in the Czech Republic.

GDP GROWTH AT END OF CURRENT YEAR

AVERAGE AND RANGE OF PREDICTIONS



IV. INTERNEST RATES – 2W REPO, PRIBOR, IRS

FORECASTS: MINIMUM, AVERAGE AND MAXIMUM 2W REPO, 12M PRIBOR, 5Y AND 10Y IRS

(%)

January 2020	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	2.00	1.75	2.26	1.95	1.20	1.46	1.30	1.38
average	2.01	2.07	2.28	2.27	1.99	2.02	1.75	1.96
maximum	2.25	2.75	2.30	2.60	2.25	2.80	2.00	2.80

FORECAST FOR 2W REPO, 12M PRIBOR AND 5Y AND 10Y IRS

(%)

Date of Prediction	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
I.19	1.91	2.28	2.30	2.61	2.04	2.48	2.00	2.50
II.19	1.81	2.22	2.25	2.54	1.99	2.38	1.96	2.41
IV.19	1.87	2.17	2.27	2.48	2.03	2.28	1.97	2.29
VII.19	2.00	2.03	2.29	2.24	1.73	1.91	1.65	1.92
IX.19	2.00	1.93	2.19	2.07	1.55	1.67	1.39	1.66
X.19	2.00	1.99	2.24	2.15	1.64	1.73	1.35	1.69
XII.19	2.00	2.00	2.28	2.25	1.81	1.89	1.52	1.75
I.20	2.01	2.07	2.28	2.27	1.99	2.02	1.75	1.96

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.1.	2.00	2.28	2.08	1.79

Almost all of the respondents believe that the key interest rate will remain unchanged at the CNB Board meeting in February. The exception is just one respondent who thinks that the CNB Board will raise the 2W repo rate by 25 bp. The average forecast for the key interest rate at the one-year horizon was also revised. Although most of the respondents still expect the 2W repo rate to remain at the current 2% level in the next 12 months, the number of the respondents anticipating a rise has increased (see the table below). Three respondents are now estimating a 25 bp rise, compared to only one in the December survey. Moreover, one respondent assumes that the 2W repo rate could rise to 2.75% by January next year. Unlike the previous survey, the respondents who expect a rise in the key interest rate now outnumber those expecting its decrease.

ANALYSTS' FORECAST – 2W REPO RATE LEVEL IN 1Y

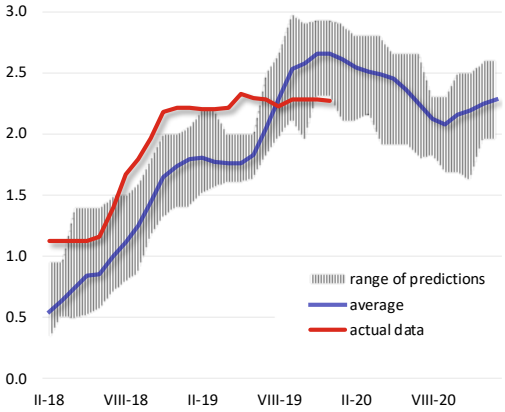
(%)

uroveň 2T repo sazby za 1Y (%)	1.75	2	2.25	2.5	2.75
počet analytiků - aktuální šetření	3	10	3	1	1
- minulé šetření	3	12	1	1	0

The one-year forecast for the 12M PRIBOR reference interbank interest rate also increased slightly. However, the one-month forecast was unchanged from the previous survey. The continued rise in swap rates on the market (5Y IRS has risen by 12 bp and 10Y IRS by 15 bp since the last survey) was reflected in the analysts' average forecasts, which shifted 12–23 bp higher. A larger shift was this time recorded for one-month forecasts, which probably correct the analysts' distrust of more sustained growth in IRS rates predominant in the previous survey. An inverted swap curve continues to be expected in the 5–10Y range at both the one-month and one-year horizons.

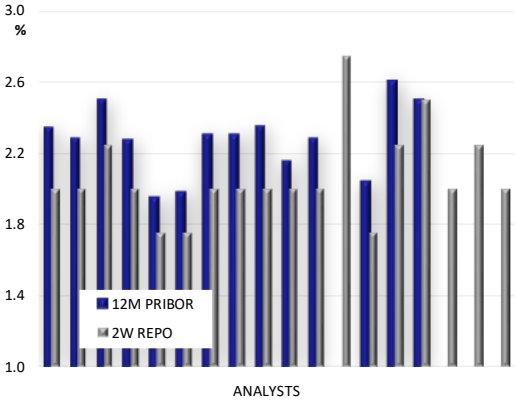
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



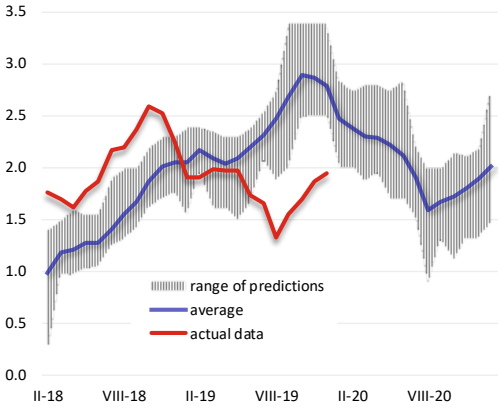
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



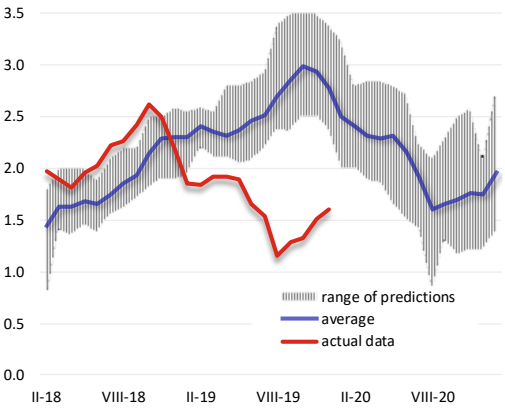
5Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



10Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



V. EXCHANGE RATE

1M AND 1Y EXCHANGE RATE FORECAST

Date of Prediction	EUR/CZK	
	1M	1Y
I.19	25.55	25.05
II.19	25.63	25.07
IV.19	25.61	25.34
VII.19	25.59	25.33
IX.19	25.74	25.47
X.19	25.78	25.50
XII.19	25.57	25.36
I.20	25.26	25.14

EXCHANGE RATE FORECAST

January 2020	EUR/CZK	
	1M	1Y
minimum	25.10	24.30
average	25.26	25.14
maximum	25.40	26.10

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

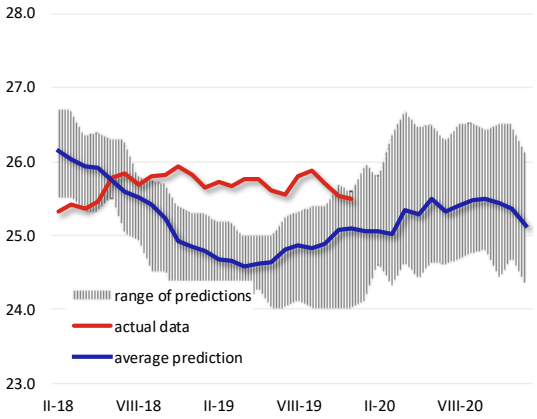
15.1.	25.15

The koruna continued to appreciate against the euro, especially in the first half of January, and thus hit the strongest level since 2012. This was also reflected in analysts' forecasts, which shifted to stronger levels. The analysts expected the koruna to correct from CZK 25.15 to the euro, at which it stood as of the deadline for submitting forecasts, to CZK 25.26 to the euro, at the one-month horizon. At the one-year horizon, the koruna should return to the level observed in mid-January and stabilise close to CZK 25.14 to the euro for an extended period.

Some analysts think that, given the economic developments, the koruna should be stronger now than is its current exchange rate on the foreign exchange market. According to some respondents, a fundamental factor behind the koruna's undervaluation is its overboughtness, i.e. the presence of speculative capital which flew into the Czech Republic at the time of the CNB's exchange rate commitment. This makes koruna more sensitive to global factors and hinders its appreciation to the levels consistent with the Czech economy's convergence towards Western countries. The degree of global uncertainty will thus be an important factor determining the koruna's path in the near future in addition to slowing economic growth and the closing of speculative positions.

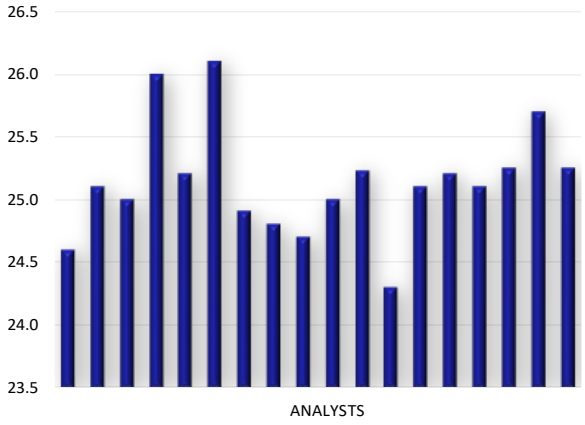
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

January 2020	year end	
	current	current+1Y
minimum	5.10	4.00
average	5.89	4.92
maximum	7.00	6.20

FORECAST FOR NOMINAL WAGE GROWTH

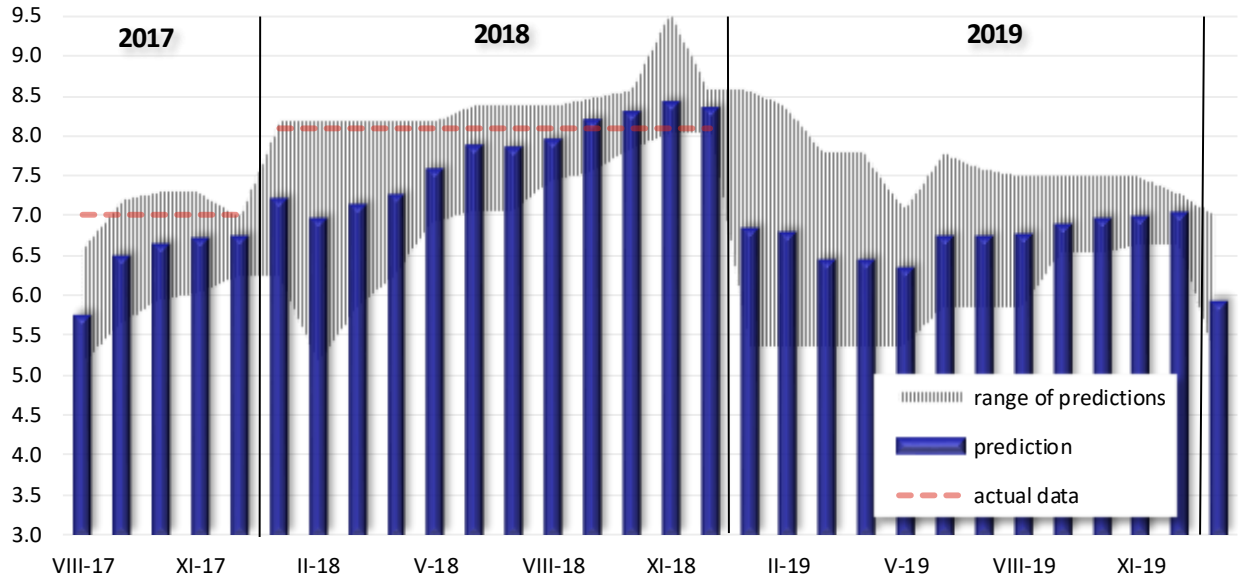
(%)

Date of Prediction	year end	
	current	current+1Y
I.19	6.8	5.2
II.19	6.8	5.3
IV.19	6.4	4.9
VII.19	6.7	5.2
IX.19	6.9	5.4
X.19	6.9	5.5
XII.19	7.0	5.7
I.20	5.9	4.9

Although the analysts have long estimated that domestic economic activity will decline in 2020, optimism slightly predominates in the results of this survey. GDP data show that the deceleration in economic growth could be slower this year than the December survey indicated. At the same time, there was an increase in the number of the respondents who expect the CNB's key interest rates to grow over the one-year horizon. The same is true of the labour market. Here the analysts also expect on average that wage growth will not slow as fast as they estimated in last year's surveys. In the spring surveys, for example, they expected nominal wages to grow by less than 5% in 2020 (more specifically, by 4.7% in the March 2019 survey), but now the results indicate a 5.9% growth rate. This assumes a relatively robust rise in real wages amid the expected growth in the price level. According to some respondents, the higher wage growth will be also largely due to the planned rise in public sector wages. However, the trend of the easing of the tight labour market conditions should be maintained (although at a slower pace than were the original estimates). According to an aggregate estimate, it should continue into 2021, when the analysts expect wage growth to slow to 4.9%.

NOMINAL WAGE GROWTH

END OF CURRENT YEAR: AVERAGE AND RANGE OF PREDICTIONS (%)



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