Financial Market Inflation Expectations

11/2020

CNB CZECH NATIONAL BANK

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I. SUMMARY

Fourteen domestic and two foreign analysts sent in contributions to the November survey. The results reveal that the analysts expect a sharper fall in GDP this year and a slower pace of economic recovery next year due to deterioration in the pandemic situation. The one-year inflation forecast has moved slightly above the 2% level. At the three-year horizon, however, the forecast remains firmly at this level. Although most of the respondents expect the CNB's 2W repo rate to be left at the current level over the next 12 months, a quarter of them predict its increase of 25 basis points to 0.50%. As usual, the opinion on the future path of the koruna exchange rate was strongly influenced by the latest developments. Nevertheless, the long-term scenario of a gradual appreciation trend is unchanged. The second wave of the coronavirus pandemic has pushed most businesses into a very difficult situation providing little room for wage growth, so the average forecast for nominal wage growth has been lowered for both this year and the next.

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, Luboš Růžička, 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, Trinity Bank	+	+	+	+	+	+	+	+	+		+	
Michal Šoltés, RoklenFin	+	+	+	+	+		+		+	+	+	
Martin Janíčko, MND	+	+	+	+	+	+	+	+	+	+	+	
FOREIGN ANALYSTS												
Timon Dreyer, Kevin Daly, Goldman Sachs	+	+		+	+	+	+	+	+	+	+	
Alessandro Cugnasca, The Economist Intelligence	+	+	+	+	+	+	+	+	+	+	+	
Jose A. Cerveira, JP Morgan	+			+	+	+	+		+	+		

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

Prague, 23 November 2020

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

November 2020	CPI 1Y	CPI 3Y
minimum	1.1	1.5
average	2.1	2.0
maximum	2.6	2.3

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

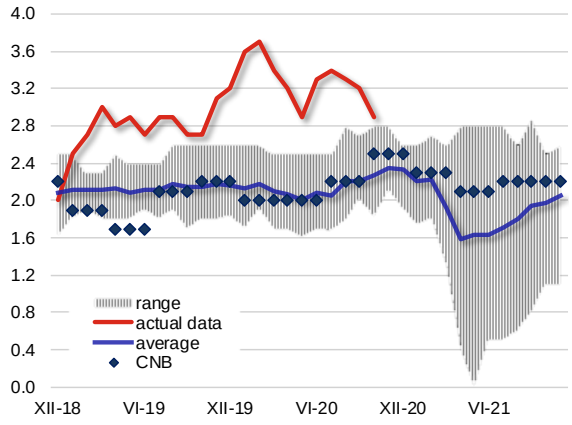
Date of Prediction	ANALYSTS 1Y	ANALYSTS 3Y	CNB (%) 1Y
XI.19	2.3	2.0	
XII.19	2.3	2.0	4Q: 2.5
II.20	2.2	2.0	1Q: 2.3
V.20	1.6	1.9	2Q: 2.1
VII.20	1.7	2.0	
VIII.20	1.8	2.0	3Q: 2.2
X.20	2.0	2.0	
XI.20	2.1	2.0	4Q: 2.2

The October consumer price index confirmed that inflation in the Czech Republic continued to slow. The annual index dropped into the CNB's tolerance band, reaching 2.9% compared to 3.2% in September. This was due chiefly to lower electricity and natural gas prices. In month-on-month terms, inflation increased by 0.2%. Despite falling actual annual inflation, the average annual inflation forecast in our survey increased by 0.1 pp to 2.1% compared with the previous month. By contrast, the three-year forecast remains at the CNB's 2% inflation target. The range of individual one-year estimates widened due to an increase in the maximum value, while the range of three-year forecasts narrowed due to a bigger decline in the maximum value.

Owing mainly to the weak economy and the impacts of the coronavirus pandemic, the analysts expect inflation to decline further in the first half of next year, approaching 2%. Food prices are also expected to grow at a slower pace, and fuel prices are predicted to slow inflation as well. By contrast, a higher excise duty on alcohol and tobacco will prevent faster disinflation. According to some of the respondents, the consumer price index will reflect a recovery in Czech and global aggregate demand in the form of strengthening inflationary pressures in the second half of next year. In the years ahead, the global economic recovery might also be reflected in growth in oil prices on world markets, which would subsequently affect consumer prices.

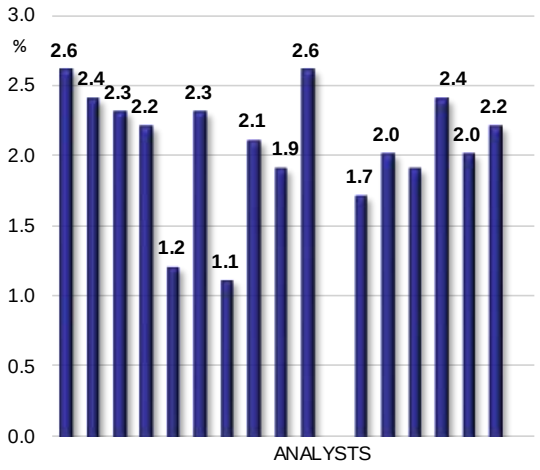
CONSUMER PRICE INDEX

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

(%)

November 2020	end of year	
	current	current + 1Y
minimum	-8.0	1.0
average	-7.4	3.2
maximum	-6.5	6.0

FORECAST FOR GDP GROWTH

(%)

Date of Prediction	end of year	
	current	current+1Y
XI.19	2.6	2.2
XII.19	2.5	2.1
II.20	2.1	2.3
V.20	-7.9	5.8
VII.20	-8.0	5.6
VIII.20	-7.2	5.0
X.20	-7.1	4.3
XI.20	-7.4	3.2

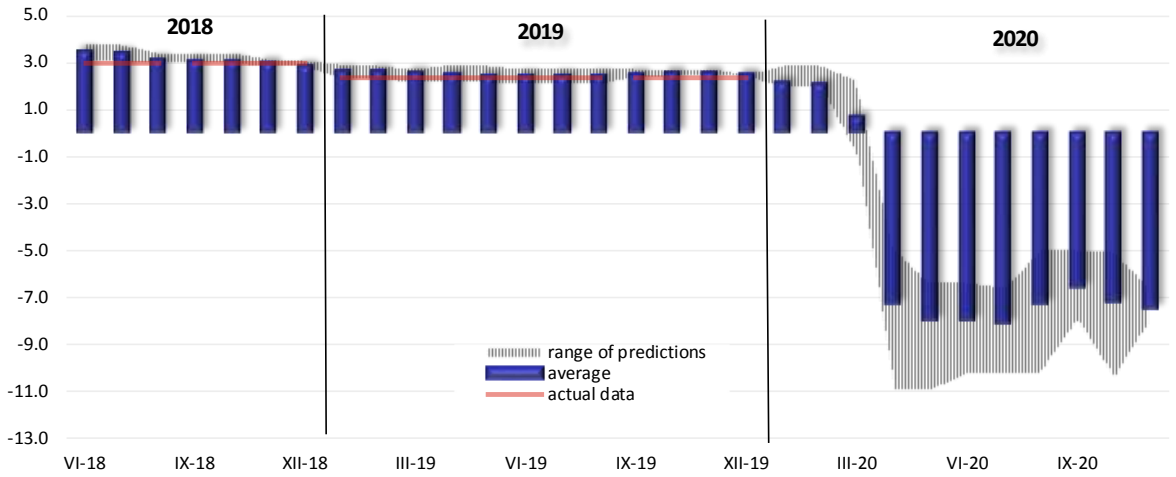
According to the flash estimate, Czech GDP grew by 6.2% quarter on quarter in Q3, partly offsetting the sharp fall recorded in the previous two quarters. In year-on-year terms, GDP declined by 5.8% (compared to a drop of 10.9% in 2020 Q2). The fall in GDP was due chiefly to a drop in investment and household consumption. Gross value added decreased in most sectors, mainly in industry, wholesale and retail trade, transport, accommodation and food services.

The analysts have worsened their estimate of the future development of the domestic economy compared to the previous survey. They expect an overall decline of 7.4% this year, which is 0.3 pp lower than estimated in the October survey. Next year's recovery is also expected to be much less intense, reaching 3.2% (compared to 4.3% a month ago). Analysts have been revising their estimates as new macroeconomic data becomes available and experience is gained with the impacts of government measures, so the range of their forecasts is narrowing significantly. This is due to an increase in the minimum estimates and a decrease in the maximum estimates in both monitored years.

Despite the economic recovery in Q3, the resurgence of the coronavirus and the reintroduction of restrictive measures (closures mainly in services and labour shortages in other sectors due to imposed quarantine) have led the analysts to revise the expected economic developments towards less optimistic outlooks. As businesses have already been considerably weakened by the first wave, the new restrictions might now have an even worse impact than in spring. Moreover, the pandemic situation abroad has also worsened markedly, which will be reflected in domestic economic performance through a drop in exports. If the second wave of the pandemic subsides soon and no new wave occurs, the analysts continue to assume that Czech GDP will return to growth next year, albeit at a slower pace than assumed in the ctober survey. However, the risks are tilted towards more pessimistic scenarios.

GDP GROWTH AT END OF CURRENT YEAR

AVERAGE AND RANGE OF PREDICTIONS



IV. INTERESTRATES – 2W REPO, PRIBOR, IRS

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

(%)

November 2020	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	0.25	0.25	0.35	0.40	0.55	0.80	0.80	1.00
average	0.25	0.31	0.41	0.54	0.69	0.97	0.95	1.22
maximum	0.25	0.50	0.46	0.91	0.80	1.22	1.05	1.40

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
XI.19	2.00	2.01	2.26	2.19	1.73	1.80	1.45	1.77
XII.19	2.00	2.00	2.28	2.25	1.81	1.89	1.52	1.75
II.20	2.25	2.15	2.47	2.32	2.00	2.06	1.72	1.98
V.20	0.19	0.16	0.41	0.42	0.44	0.60	0.56	0.74
VII.20	0.24	0.18	0.43	0.45	0.56	0.71	0.76	0.94
VIII.20	0.25	0.27	0.43	0.50	0.69	0.85	0.88	1.07
X.20	0.24	0.24	0.42	0.52	0.60	0.90	0.85	1.15
XI.20	0.25	0.31	0.41	0.54	0.69	0.97	0.95	1.22

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.11.	0.25	0.44	0.80	1.06

All the analysts agree on the results of the December CNB Bank Board meeting and expect rates to remain at their current levels, with the 2W repo rate at 0.25%. At the one-year horizon, there was a certain shift in the outlook for the future path of the CNB's key interest rates. Whereas in the October survey one respondent expected the 2W rate to drop to 0.05%, none of the analysts is expecting a decrease now. Although three-quarters of the respondents expect the key interest rates to remain stable (after all, Governor Jiří Rusnok also spoke in favour of leaving rates unchanged for an extended period), four respondents believe that renewed economic recovery next year will create conditions for a 25 basis point increase to 0.50%. However, the analysts point out that the CNB will not tighten monetary policy if the pandemic situation deteriorates again and might, on the contrary, discuss its easing.

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

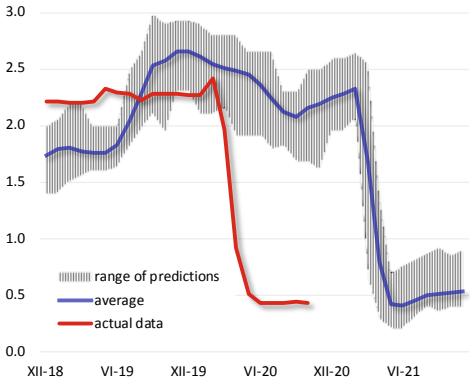
(%)

2W repo rate level in 1Y (%)	0.05	0.25	0.50	0.75	1	1.25
number of analysts - current survey	0	12	4	0	0	0
-previous survey	1	16	0	0	0	0

The PRIBOR reference rates remain very stable, as do their forecasts. However, the same cannot be said for swap rates. IRS rates on the global market have increased markedly, due mainly to the result of the US presidential elections and progress in the development of a coronavirus vaccine. As usual, this was reflected in the domestic swap rates (5Y +23 bp and 10Y +26 bp) and, to a lesser extent, in the analysts' forecasts, which shifted upwards by 6–11 basis points compared to the previous forecast.

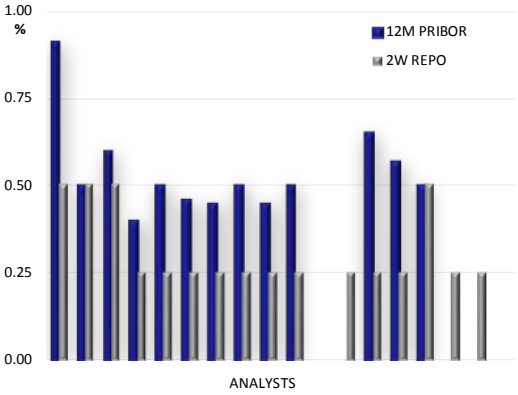
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



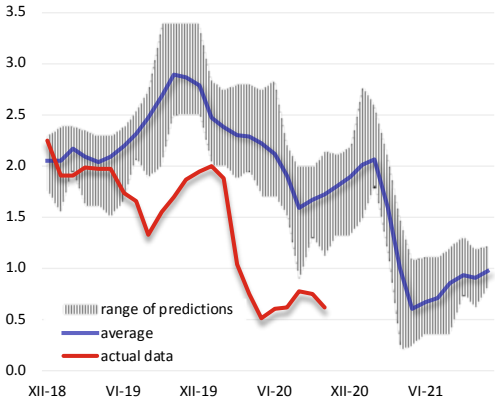
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



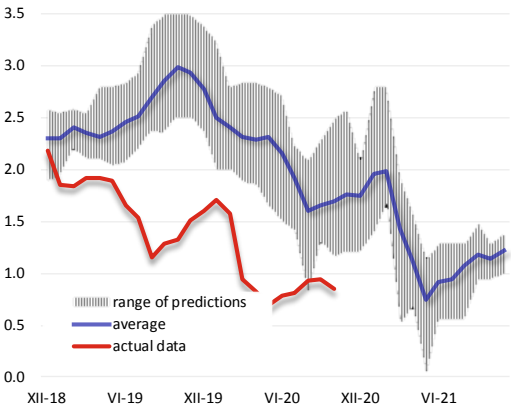
5Y IRS AT 1Y

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
XI.19	25.66	25.43
XII.19	25.57	25.36
II.20	25.05	24.93
V.20	27.28	26.20
VII.20	26.64	25.93
VIII.20	26.17	25.76
X.20	27.11	25.88
XI.20	26.63	25.75

EXCHANGE RATE FORECAST

November 2020	EUR/CZK 1M	EUR/CZK 1Y
minimum	26.10	25.20
average	26.63	25.75
maximum	27.00	26.20

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.11.	26.47

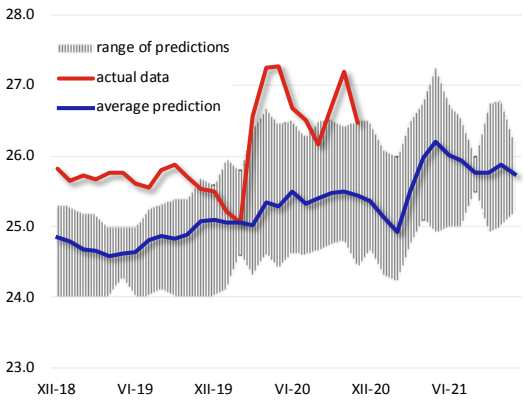
Last month, the exchange rate of the koruna against the euro erased some of this year's losses so far and it appreciated from CZK 27.34 to CZK 26.47 to the euro. The analysts on average responded to this by raising their forecasts, but to a much lesser extent. They probably believe that the appreciation of the koruna is too fast and the current situation will lead to a correction to CZK 26.63 to the euro at the one-month horizon. Next year, however, the koruna is again expected to appreciate in the long term and stand at around CZK 25.75 to the euro in the middle of November 2021.

Following the outbreak of the coronavirus pandemic in the Czech Republic, the koruna gradually depreciated against the euro to well above the CZK 27 level. It started to appreciate below CZK 26.50 to the euro in response to improved global sentiment due to the result of the US presidential election and progress in the development of a vaccine. Some of the analysts believe that, in addition to signs of an improvement in the epidemiological situation in the Czech Republic, this appreciation was also due partly to the result of the November CNB Bank Board meeting, from which part of the market anticipated a drop in interest rates.

In the next several months, the domestic exchange rate will be affected by the negative sentiment related to restrictive measures and their impacts, according to the analysts. Subsequently, however, an improvement in the domestic and global epidemiological situation, combined with an effective vaccine, should foster continuing appreciation of the koruna, albeit not as intense. In addition, a gradual increase in the CNB's key interest rates, or possibly even the prospect thereof, might also contribute to the appreciation of the koruna. Nevertheless, the risks are tilted towards less favourable developments in the form of a more serious and longer second wave of the pandemic, and hence a weaker koruna.

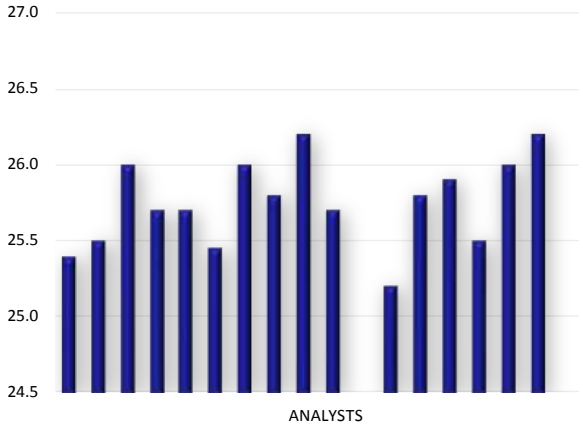
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

November 2020	year end	
	current	current+1Y
minimum	0.90	1.60
average	2.31	2.65
maximum	4.70	5.30

FORECAST FOR NOMINAL WAGE GROWTH

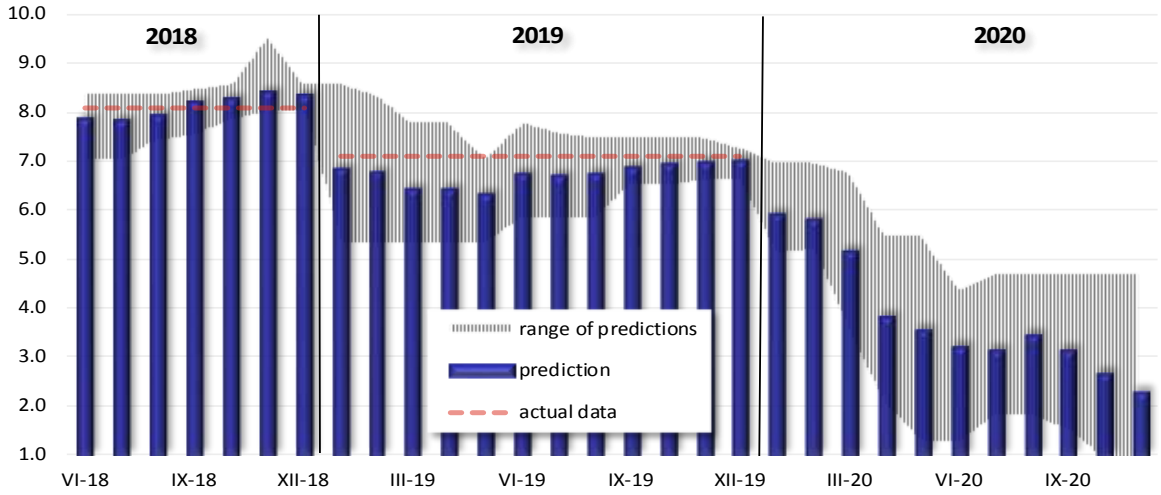
(%)

Date of Prediction	year end	
	current	current+1Y
XI.19	7.0	5.5
XII.19	7.0	5.7
II.20	5.8	4.9
V.20	3.5	2.8
VII.20	3.1	2.9
VIII.20	3.5	3.2
X.20	2.7	2.9
XI.20	2.3	2.7

After a drop in the average wage in 2020 Q2 due to the first wave of the pandemic – with bonus payments suspended in many cases and virtually no room for discussions on wage increases – the analysts expect the previous extreme trend to be partially offset in Q3. Data from industry are already signalling wage growth in Q3. However, the respondents are cautious in their views on future wage increases. Q4 saw the onset of a second wave of the pandemic, another economic shock and renewed growth in uncertainty. The second wave might not have such a strong impact on wages, as they were already reduced in Q2 and the economy was not shut down to the same extent as during the first wave. Despite this, the overall wage growth estimate for this year has been lowered by 0.4 pp to 2.3%. Next year, a slight increase in wage growth is expected. According to some of the analysts, this will be due to a rise in public sector wages. Wage growth in the private sector, however, will be very subdued despite a possible economic recovery. In year-on-year terms, nominal wages are expected to increase by 2.7%, which is 0.2 pp less than in the October survey.

NOMINAL WAGE GROWTH

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



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