

Short Note

CNB– July 2014

July 31, 2014

■ **Central bank sounds more dovish, but monetary policy setting is unchanged**

As widely expected at today's monetary policy meeting the Czech National Bank left the key interest rate unchanged at 0.05% and also did not change the EUR/CZK 27.0 floor of its FX intervention regime.

The surprise in the monetary council meeting, however, was the new expectation of the central bank regarding the implicit need for monetary policy tightening. This has moved from Q1 2015 to Q4 2015 in line with the expected inflation trajectory. Furthermore, the CNB said it does not expect to end its intervention regime before 2016. Another surprise, as most market participants expected only a shift into H2 2015.

Accordingly the CZK weakened to EUR/CZK 27.63 from EUR/CZK 27.53 following the announcement. We continue to expect that the CNB will leave the CZK to appreciate in Q4 2015.

We currently have a HOLD recommendation for Czech government bonds all maturities.

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