

Short Note

Inflation - January 2014

February 12, 2014

Czech inflation: Weaker CZK against drop of energy prices

In January the Czech consumer prices rose by 0.1% mom. That means deceleration of the year-on-year inflation to 0.2% from 1.4% in the previous month. This was fully in line with our estimate and with the market median (Reuters). The uncertainty of the estimates, however, was visible in its high variance.

Behind the CPI development in January we see mainly the drop of the energy prices on the one hand, and a weaker currency and seasonal increases of some food prices on the other. Although some of the estimates on the market were higher than the reality we do not expect strong market reaction. Additionally the Czech National Bank is probably not surprised by the figure.

We expect that the CPI inflation will gradually accelerate during 2014 and in the fourth quarter it will rise slightly above the 2% CNB inflation target. By that time the CNB might think about abandoning the controlled EUR/CZK 27.0 FX floor.

We stick to our SELL recommendation on the Czech government bonds with maturities 5 years and higher.

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