

# Short Note

## Inflation - March 2014

Apr 9, 2014

### **Czech inflation: food prices up, recreation services down**

In March the Czech monthly consumer prices stagnated leaving the annual inflation at 0.2% yoy. After accounting for the rounding effects the inflation came in a 0.1% below the market consensus. The prices of food and clothing went up while the prices for recreation services and fuels were down. Despite a seasonal price drop for recreation services during March is fairly normal, this time the decline was somewhat bigger than usual. Partially the declining prices for recreation could have been a result of extremely mild winter conditions.

In our baseline scenario we expect the Czech National Bank to abandon the regime of targeting the exchange rate above EUR/CZK 27.0 by the end of 2014. In Q1 the resulting Czech CPI inflation remained 20 basis points below our inflation forecast. Nevertheless, if the inflation development will surprise on the downside we would expect the Czech national bank to postpone the exit from FX/CZK targeting regime to 2015. Positively March inflation delivered smaller surprise so we see no reason to change our baseline scenario at this stage.

In the meantime we recommend holding 5-year Czech government bonds in perspective of 1-3 months assuming no changes in the monetary policy and low inflation to keep CZK yields down.

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

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**Please see disclaimer on page 2**

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