

# Short Note

## Inflation - September 2013

10/05/ 2012

### Inflation further decelerates – higher risk of FX intervention

In September the Czech consumer prices decreased by 0.4% mom. This was surprising for us and for most of the analysts (consensus and our estimate was -0.2% mom). **The year-on-year inflation further decelerated to 1.0%** (lowest value since March 2010) from 1.3% in August.

The main driver of the month-on-month decline was recreation and culture (decline by 13.4% mom, contributing -0.3 p.p.). We can observe a seasonal decline of prices in recreations every September but the decline is deeper than usual this year. Food prices were the second driver of lower inflation.

The year-on-year inflation now stands on the lower boundary of the toleration band of the inflation target and the risk that inflation will further decline below 1.0% yoy at the beginning of 2014 is very high. We currently project that average annual inflation will be around 1.4% this year.

The question is how the CNB will react. Decelerating inflation would speak for outright FX intervention but economic recovery does not. So we still think that the CNB will only verbally intervene against possible CZK appreciation in the future and will allow only mild appreciation. CZK reacted to today's inflation data by depreciating to almost EUR/CZK 25.60 from EUR/CZK 25.48 before the publication.

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