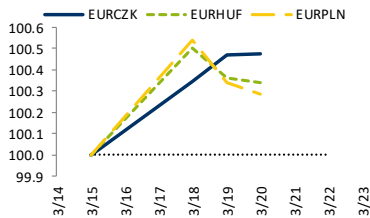


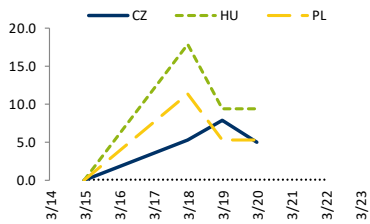
Wednesday, 20 March 2024

Forex markets (index)



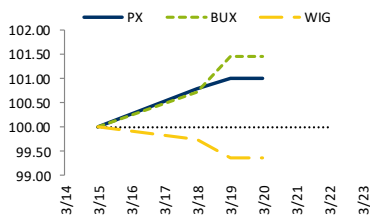
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.27	25.26	0.01
EURHUF	394.5	394.5	-0.02
EURPLN	4.313	4.316	-0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.874	3.902	-2.8
HUGB 10Y	6.59	6.59	0.0
PLGB 10Y	5.49	5.49	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1495.4	1495.4	0.00
BUX	65934	65934	0.00
WIG	79699	79699	0.00

Our regional insights:

The CNB might deliver a cautious 50bps rate cut

The Czech National Bank must have been happy with the numbers coming out of the Czech economy in recent weeks. Most of them indicated that inflation was slowly coming under control. Both January and February inflation ended below the market's estimate and in February the inflation numbers exactly hit the central bank's 2% target. Even so, **we still expect a cautious approach to prevail in the Bank Board, so the repo rates to go down 'just' another 50bps today. Why?**

First, part of the Bank Board will be concerned about the inflation structure. While headline inflation is low and will get even lower over the summer (we expect a reading of around 1.5% in August), this is largely due to food becoming significantly cheaper year-on-year. Moreover, although core inflation is also weakening more markedly, inflation momentum in the services segment remain relatively strong.

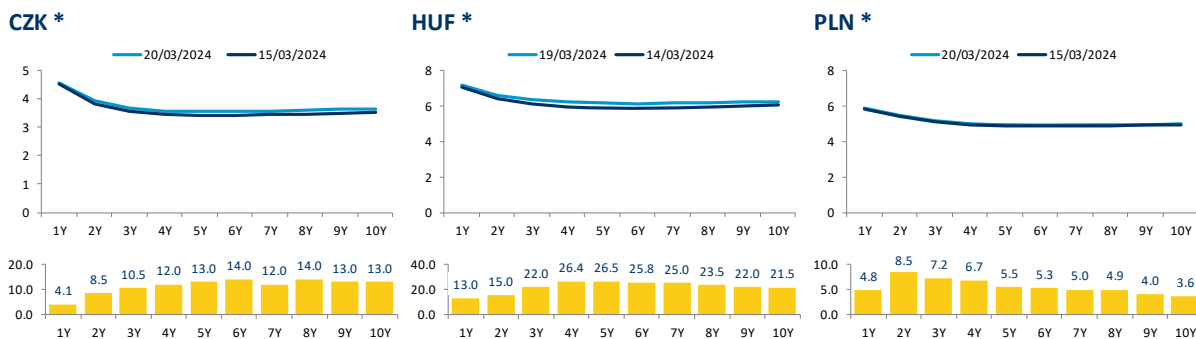
Second, inflation in the services segment may remain sticky if elevated wage growth and higher inflation expectations persist in the economy. The risk of unanchored inflation expectations should fade over-time but it may still be an argument for "caution" at today's CNB meeting.

Thirdly, although inflation was lower than the staff forecast in February, the central exchange rate has been visibly weaker than the implied one in the staff forecast (by 2.5%). At the same time, the implied path of EURIBOR rates had probably shifted higher, which might in turn push the implied path of domestic rates upwards too.

In addition to the above arguments, a significant part of the Bank Board is concerned that the long-run equilibrium interest rate has moved higher (from 3% to 3.5-4.0%) following the pandemic and the energy crisis. An analytical "review" of the natural interest rate should be completed by the May CNB meeting. Should central bankers' concerns be confirmed, the May staff forecast may indicate a more cautious approach to rate cuts than the February projection indicated.

Conversely, if all remains as it was, a more significant 75bps rate cut could occur in May. At that time there will be more clarity on the strength of the economic recovery in 2024. Recall that the CNB remains one of the biggest pessimists in the market with its GDP outlook, and the January numbers have not yet given a clear answer on whether the market (1.6%) or the central bank (0.6%) is right in its outlook for Czech economic growth. Hence, the CNB should decide play safely in March, but it could be more aggressive in the May meeting.

Interest-rate Swap Curves



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday). Source for all market data: Bloomberg

Calendar

Country	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	03/20	10:00	Wages	%	02/2024		2.7	12.9	1.4	11.3	-3.3	12.8
PL	03/20	10:00	Industrial output	%	02/2024		0.7	3.3	0.5	2.5	2.3	1.6
PL	03/20	10:00	PPI	%	02/2024		0.1	-10.1	-0.1	-8.7	-0.2	-9.0
CZ	03/20	12:00	CZ bond auction 2022-2035, 2.50%	CZK B	03/2024				4			
CZ	03/20	12:00	CZ bond auction 2021-2037, 1.95%	CZK B	03/2024				2			
CZ	03/20	14:30	Repo rate	CNB	03/2024	5.75			5.75		6.25	
PL	03/21	10:00	Retail sales	%	02/2024				-0.9	4.9	-19.5	3.0
PL	03/22	14:00	Money supply M3	%	02/2024				0.9	7.1	-0.5	7.7

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