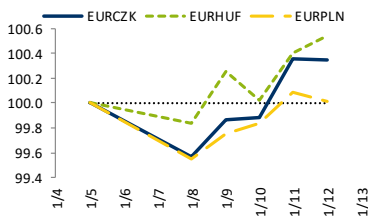


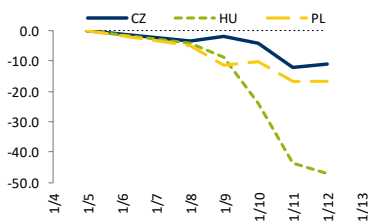
Friday, 12 January 2024

**Forex markets (index)**



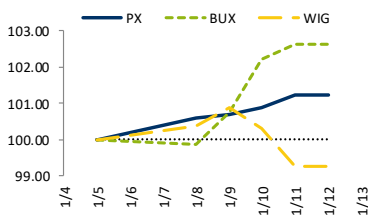
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.70	24.70	-0.02
EURHUF	380.0	379.4	0.14
EURPLN	4.353	4.356	-0.07

**Gov. bonds 10 Y (bps change)**



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.811	3.798	1.3
HUGB 10Y	5.54	5.57	-0.6
PLGB 10Y	5.08	5.08	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1456.3	1456.3	0.00
BUX	63067	63067	0.00
WIG	76043	76043	0.00

## Regional insights

### Czech inflation falls faster; a 50bps rate cut looms

Czech consumer prices fell by 0.4% month-on-month in December, well below both our estimate (+0.1%) and the market's (0%). Thus, annual inflation slowed to 6.9% YoY from 7.3% YoY in November. In terms of the latest forecast, this was undoubtedly a dovish surprise. Moreover, in contrast to November, not only core but also headline inflation is already below the latest CNB staff forecast (7.0%). From this perspective, the Czech central bank should not hesitate to start the easing cycle at its February meeting – hence, **we expect a 50bps cut in early February, followed by 50bps cuts at each meeting in the first half of the year.**

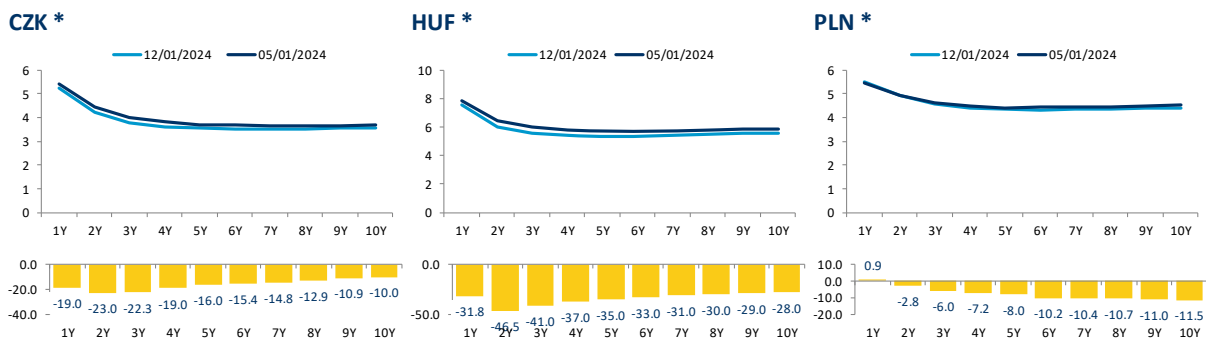
The December inflation surprise was largely due to food, which deviated more from the monthly Statistical Office surveys (prices fell in all categories, especially fruit and meat). It is possible that the already expected VAT cut (at the beginning of the year) had some impact on food. We were also surprised to see a more pronounced fall in the prices of alcoholic beverages and textiles, which are not usually significantly cheaper in December. On the contrary, the other major categories of the consumer basket - housing (up) and transport (down) - developed in line with our expectations.

Following yesterday's figures, we are revising our estimates for inflation in January and for 2024 as a whole slightly downwards. The first quick revision points to a January figure close to 3% (instead of 3.4%) due to cheaper food, and a 2024 headline inflation of 2.6% instead of the 2.9% originally expected. This would be in line with the central bank's latest forecast. Undoubtedly, the uncertainty surrounding the January figure remains very high - mainly due to the effect of the January menu changes, the impact of tax changes and significant changes in the energy prices.

From the perspective of the CNB's policy decision in 2024 - both – the headline and core inflation will be important. In this respect, the latest December figures point to relatively favourable inflationary trends. After several months, (imputed) rent growth has slowed again (it has a significant weight in core inflation), and apparel prices, for example, remain below expectations too. While core inflation has picked up slightly (2.6%) and it will be higher than headline inflation in 2024, central bankers will not be concerned about this in the coming months. Rather, in the second half of the year, inertia in services inflation combined with a resurgent economic recovery will warrant greater caution.

All in all, we are betting on more cautious easing in the second half of 2024, so we bet on a higher CNB repo rate than the money market is currently pricing in. We see the CNB base rate of 4% at the end of 2024 and close to 3.5% at the end of the easing cycle.

## 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
HU	01/12	8:30	CPI	% 12/01/2023			-0.3	5.5	-0.2	5.9	0.0	7.9
CZ	01/12	9:00	Retail sales ex autos	% 11/01/2023				0.9		-1.6		-1.4
CZ	01/12	10:00	Current account	CZK B 11/01/2023			43.5		6		19.8	
PL	01/12	14:00	Current account	EUR M 11/01/2023					1440		2036	
PL	01/12	14:00	Trade balance	EUR M 11/01/2023					990		1324	
PL	01/15	10:00	CPI	% 12/2023 *F							0.1	6.1
PL	01/16	14:00	Core CPI	% 12/01/2023					0.3	6.9	0.0	7.3
CZ	01/17	9:00	PPI	% 12/01/2023					-0.2	1.6	-0.4	0.8
PL	01/19	10:00	PPI	% 12/01/2023					-0.6	-5.7	-0.8	-4.7

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