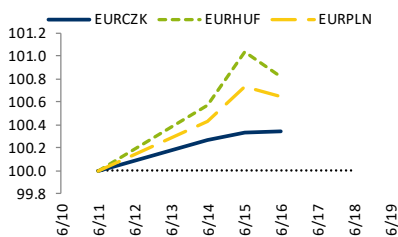




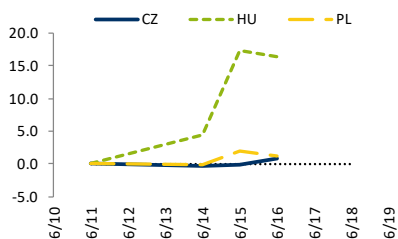
Wednesday, 16 June 2021

Forex markets (index)



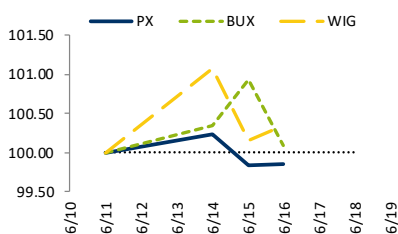
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.46	25.45	0.01
EURHUF	351.2	351.9	-0.21
EURPLN	4,528	4,532	-0.09

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.633	1.622	1.1
HUGB 10Y	2.87	2.88	-0.3
PLGB 10Y	1.74	1.74	-0.3

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1175.6	1175.3	0.02
BUX	48890	49299	-0.83
WIG	66442	66316	0.19

Our regional insights:

The hawkish camp inside the CNB Board broadens

A week before the CNB Bank Board meeting, it is almost certain that the votes for a June interest rate hike will not be hard to find. Already four Czech central bankers (out of seven) have spoken in favour of an early rate hike, while only one is in favour of waiting. The debate inside the Bank Board is thus likely to be tense and the outcome uncertain until the last moment. We will have to wait another week to see which Board decision wins this time, although whether the CNB raises rates at the end of June or the beginning of August may not be that important. What will be more important is whether this move will start a cycle of rapid monetary tightening (as the CNB's forecast suggests) or whether the subsequent approach will be rather gradual given the lingering uncertainties. The chosen course of action will ultimately affect the front end of the Czech yield curve and the koruna.

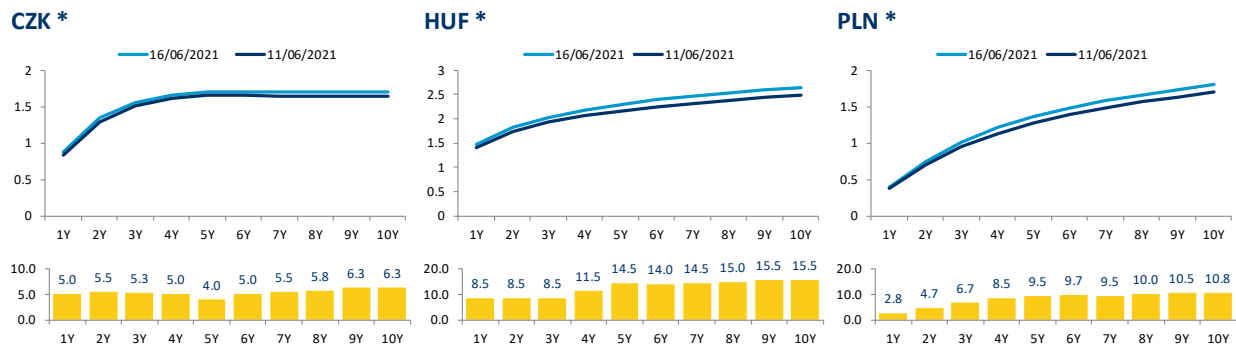
The CNB's focus will be on achieving its inflation target at the (12-18 months) monetary policy horizon, which seems very likely at the upcoming meeting. Nevertheless, the emerging inflationary cost-push pressures in production, which are difficult to influence from a monetary policy perspective, cannot be completely ignored either. In this respect it is worth to mention today's release of the May producer price inflation, which reached 5.1% YoY. Today's figure means that the producer price inflation hits 10-year highs as industrial prices jumped in response to rising commodity prices (from oil to chemical products, metals and wood), high energy prices and expensive emission allowances. This new reality of this year, when, incidentally, domestic industry has already reached its pre-COVID level, is further complicated by not fully functional supply chains and problems with already expensive shipping transport.

Central banks, including the Czech, must therefore ask themselves whether short-term inflationary pressures due to the recent post-Covid restart are transitory, or whether the causes of inflation are of a more permanent (structural) nature. Whether cost-push inflation will persist for some time to come and whether it will be joined by demand inflation. Last but not least, the CNB must watch whether the current higher inflation will start to be reflected in higher inflation expectations.

Still unlike central banks on core markets, the CNB is not burdened by any quantitative easing policy, so if it wants to react in this inflation situation, it will make it clear next week when it will start the new hiking cycle. Then only two basic questions will remain on the table: 1. how fast the CNB will proceed with further hikes and 2. how the koruna will react.

Petr Dufek, ČSOB Prague

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).

Calendar

Country	Date	Time	Indicator	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	06/16	9:00	PPI	%	05/01/2021			1	5.1	0.4	4.6	0.8	4.6
PL	06/16	14:00	Core CPI	%	05/01/2021					0.2	4.0	0.5	3.9
HU	06/17	11:50	One week deposit rate	%	06/01/2021							0.75	
PL	06/18	10:00	Wages	%	05/01/2021					-2.6	10.4	-2.1	9.9
HU	06/21	8:30	Current account	HUF B	1Q/2021							185	
PL	06/21	10:00	PPI	%	05/01/2021							0.5	5.3
PL	06/21	10:00	Industrial output	%	05/01/2021							-9.2	44.5
PL	06/22	10:00	Retail sales	%	05/01/2021							-7.7	21.1
HU	06/22	14:00	NBH meeting	%	06/01/2021							0.60	

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