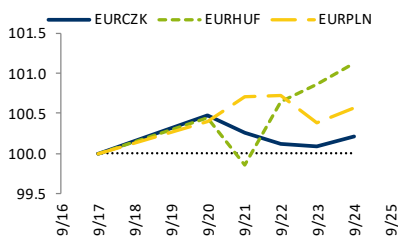




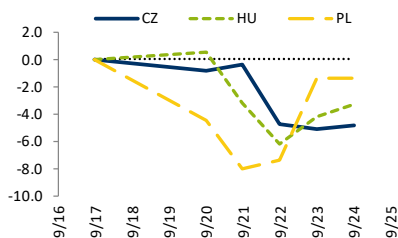
Friday, 24 September 2021

Forex markets (index)



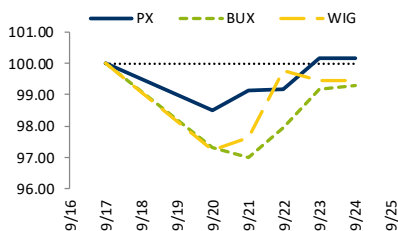
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.42 | 25.38 | 0.14 |
| EURHUF | 356.9 | 356.0 | 0.25 |
| EURPLN | 4.617 | 4.609 | 0.19 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.942 | 1.939 | 0.3 |
| HUGB 10Y | 3.10 | 3.09 | 0.3 |
| PLGB 10Y | 2.02 | 2.02 | 0.0 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1307.6 | 1307.6 | 0.00 |
| BUX | 52018 | 51947 | 0.14 |
| WIG | 70726 | 70726 | 0.00 |

Regional insights

CNB's hawkish tone speaks clearly for acceleration of its hiking cycle

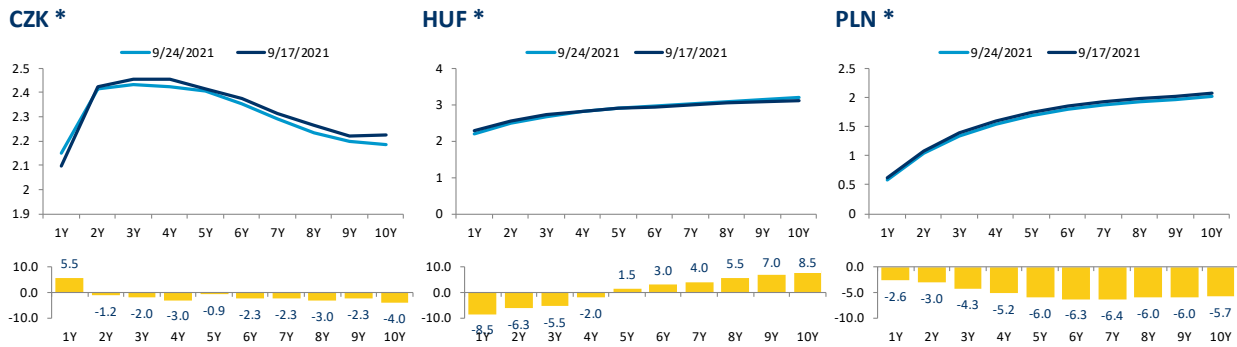
The latest Czech inflation figures have led to a more pronounced shift in the sentiment within the CNB Board, which is likely to accelerate the pace of interest rate hikes in the near term. Hence, we now expect the CNB is going to deliver a 50bp rate hike next week (previously 25bp), which would be 100bp in aggregate or a push up to 1.75% (previously 1.50%) by the end of the year 2021. Moreover, in our view - the Czech central bank is expected to continue tightening monetary policy in 2022, up to 2% before taking a tactical break to assess the impact on the economy. Given the hawkish rhetoric - the risks are currently tilted towards more aggressive monetary tightening in 2022.

The main argument for front-loading rate hikes in 2021 is the accumulation of upside risks to the latest inflation forecast. Surprisingly high August inflation (4.1%) ended more than one percentage point above the CNB's forecast. In addition, the core inflation surprised too (reaching all-time-highs) and higher wholesale electricity prices have not yet factored into price increases at all. The headline Inflation is therefore likely to accelerate further during the autumn (potentially up to 5%). Recall that the CNB internal staff was already calling for a 50bp hike in August and higher pro-inflation risks will make their point more relevant.

Majority of central bankers opposed more aggressive hikes last time, but several changed opinions after the latest upside surprises to both consumer and producer price inflation. Recent comments by Marek Mora, Tomas Niedetzky and Tomas Holub show that this key trio is seriously considering a 50bp rate hike. Governor Rusnok's softer comments do not rule out such a move either. Taking into account traditionally hawkish Vojtěch Benda, five central bankers (out of seven) may raise their hands in favour of a 50bp rate hike in September's meeting.

No wonder that money markets have already started betting on such a scenario in recent days (bets exceed +100 bps by year-end) and short market rates would probably need further hawkish comments from Governor Rusnok to move higher from current levels. Still, longer rates and yields in turn are more reflective of the current uncertainty in global markets coupled with concerns about the Chinese real estate sector.

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 | Period | Forecast | | Actual | | Consensus | | Previous | |
|---------|-------|-------|-------------------|---------|------------|------|--------|-----|-----------|-----|----------|-------|
| | | | | | m/m | y/y | m/m | y/y | m/m | y/y | m/m | y/y |
| HU | 09/28 | 9:00 | Unemployment rate | % | 08/01/2021 | | | | | | | 3.9 |
| HU | 09/29 | 9:00 | Wages | %, ytd. | 07/01/2021 | | | | | | | 3.5 |
| CZ | 09/30 | 9:00 | GDP | % | 2Q/2021 *F | | | | | | | 1.0 |
| HU | 09/30 | 9:00 | PPI | % | 08/01/2021 | | | | | | | 3.5 |
| CZ | 09/30 | 10:00 | Money supply M2 | % | 08/01/2021 | | | | | | | 10.2 |
| CZ | 09/30 | 13:00 | CNB meeting | PLN | 09/01/2021 | 1.25 | | | 1.25 | | | 0.75 |
| PL | 09/30 | 15:00 | Budget balance | PLN M | 08/01/2021 | | | | | | | 35253 |

Contacts

| Brussels Research (KBC) | | | Global Sales Force | | |
|-----------------------------------|------------------|--|--------------------------|--|------------------|
| Mathias van der Jeugt | +32 2 417 51 94 | | Brussels | | |
| Peter Wuyts | +32 2 417 32 35 | | Corporate Desk | | +32 2 417 45 82 |
| Mathias Janssens | +32 2 417 51 95 | | Institutional Desk | | +32 2 417 46 25 |
| | | | France | | +32 2 417 32 65 |
| | | | London | | +44 207 256 4848 |
| | | | Singapore | | +65 533 34 10 |
| Dublin Research | | | Prague | | |
| Austin Hughes | +353 1 664 6889 | | Prague (Equities) | | +420 2 6135 3535 |
| Shawn Britton | +353 1 664 6892 | | | | +420 2 2142 4216 |
| Prague Research (CSOB) | | | Bratislava | | |
| Jan Čermák | +420 2 6135 3578 | | | | +421 2 5966 8820 |
| Petr Dufek | +420 2 6135 3560 | | | | |
| Bratislava Research (CSOB) | | | Budapest Research | | |
| Marek Gabris | +421 2 5966 8809 | | | | +36 1 328 99 85 |
| Budapest Research | | | | | |
| David Nemeth | +36 1 328 9989 | | | | |

DISCOVER MORE ECONOMIC INSIGHTS AT WWW.KBCECONOMICS.COM

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

