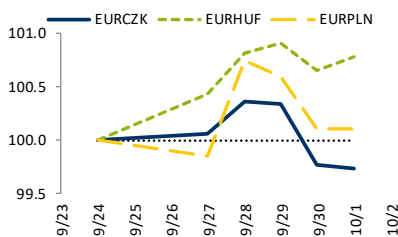




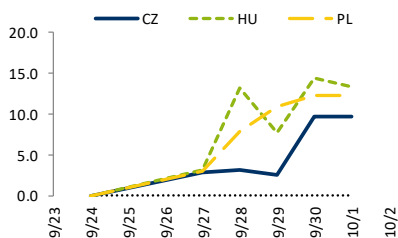
Friday, 01 October 2021

Forex markets (index)



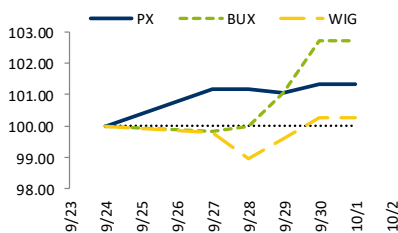
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.34	25.35	-0.04
EURHUF	359.7	359.2	0.13
EURPLN	4.610	4.610	-0.01

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.055	2.055	0.0
HUGB 10Y	3.26	3.27	-0.3
PLGB 10Y	2.17	2.16	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1324.9	1324.9	0.00
BUX	52855	52855	0.00
WIG	70341	70341	0.00

Regional insights

The hawkish CNB strikes with a 75bps rate-hike

Yesterday., the Czech National Bank surprised markets with aggressive a 75 bp rate hike up to 1.50% in response to the accumulation of inflation risks in recent weeks. According to CNB's Governor Rusnok, the majority of the Bank Board perceives the risks (relative to the August forecast) as significantly pro-inflationary and has therefore decided to hike faster than indicated by the August forecast. There are three main areas of inflation-concerns for the Bank Board. First, higher summer inflation, which had been pulled up by core inflation in particular. Moreover, higher electricity and gas prices are likely to push the headline inflation even higher during the autumn. Secondly, stronger external inflationary pressures (higher PPI in eurozone). Input shortages and higher energy prices may weigh on the Czech economy for much longer than anticipated by the August staff forecast according to the governor Rusnok. And finally, the inflation expectations might not be so well anchored as in the past. The Board probably has some evidence that longer episode of higher inflation together with the tight labor market already has led to unanchoring of inflation expectations. That increases the risk that temporary inflation shock would lead to permanently higher inflation.

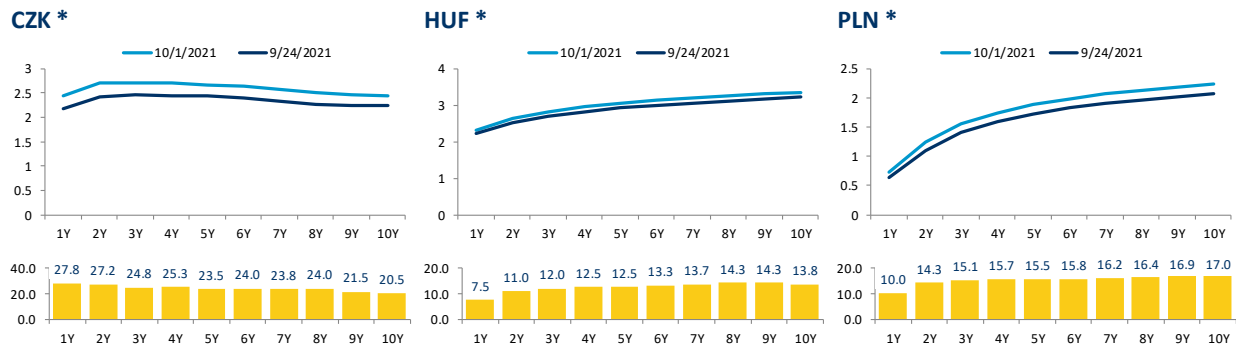
A threat of un-anchored inflation expectations was probably the main reason why the CNB, by a majority (5:2), decided to surprise the market and raise rates more aggressively by 75 bps. The primary motivation for more aggressive September move seems to be rather front-loading of interest rate normalization than pushing the ultimate hiking peak even higher.

Recall that according to the August staff forecast, official interest rates should peak slightly above 2%. Nevertheless, **the new November forecast will be decisive for both how fast and how far the CNB is ready to go. With the November forecast in hand, we expect the CNB to deliver an additional 50bps rate hike by the end of this year (either in one or two steps) and then another 25bps hike up to 2.25% in February 2022.** After that we believe the CNB will opt for 'wait-and-see' period to assess the impact of relatively fast monetary tightening on the real economy and inflation.

The Polish headline inflation approaches 6%, core 4%

The Polish inflation ticked even higher in September as the headline figure reached 5.8% YoY. While fuel and generally energy prices were main drivers of the headline figure, the core inflation was probably very high too. According to our estimates the core inflation reached 4.0% YoY last month, which will be a challenge for the dovish NBP, which meets next Wednesday. **Such a high inflation figure might be a game changer for some doves inside the MPC, so the NBP statement might finally include some hints about possible tightening.**

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	10/01	9:00	PMI manufacturing	09/01/2021			52.1		54.5		55.9	
PL	10/01	9:00	PMI manufacturing	09/01/2021			53.4		54.8		56.0	
HU	10/01	9:00	Trade balance	EUR M 07/2021 *F			-210				-193	
CZ	10/01	9:30	PMI manufacturing	09/01/2021			58.0		58.3		61.0	
PL	10/01	10:00	CPI	% 09/2021 *P			0.6	5.8	0.3	5.5	0.3	5.5
CZ	10/01	14:00	Budget balance	CZK B 09/01/2021							-298.1	
HU	10/06	9:00	Retail sales	% 08/01/2021							3.0	
HU	10/06	9:00	Industrial output	% 08/01/2021							-0.5	10.2
PL	10/06	14:00	NBP meeting	% 10/01/2021							0.1	
CZ	10/07	9:00	Construction output	% 08/01/2021							0.5	
CZ	10/07	9:00	Trade balance (national)	CZK B 08/01/2021							-7.2	
CZ	10/07	9:00	Industrial output	% 08/01/2021							1.1	
CZ	10/07	10:00	FX reserves of the CNB	EUR B 09/01/2021							144.1	
CZ	10/08	9:00	Retail sales ex autos	% 08/01/2021							3.1	
HU	10/08	9:00	Trade balance	EUR M 08/2021 *P							-210	

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