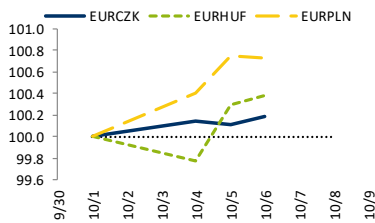




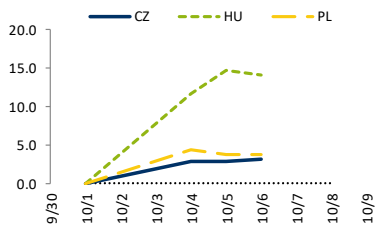
Wednesday, 06 October 2021

Forex markets (index)



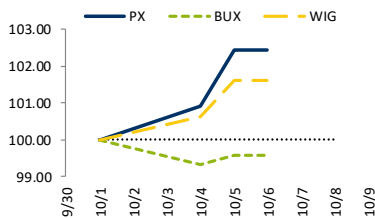
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.36	25.34	0.08
EURHUF	358.5	358.2	0.09
EURPLN	4.612	4.613	-0.03

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.107	2.104	0.3
HUGB 10Y	3.49	3.50	-0.2
PLGB 10Y	2.25	2.25	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1362.3	1362.3	0.00
BUX	53370	53370	0.00
WIG	71940	71940	0.00

Our regional insights:

The Polish central bank at crossroads

The Polish central bank (NBP) stands at a crossroads - it has told the world for so long that the current rapid price rises are only transitory, and they are pushed by mostly supply-side factors but headline inflation has climbed to 20-yr highs. It is no wonder that very high inflation (approaching 6%) has become a political issue in Poland and there are sharp exchanges of views in the media on a daily basis.

Let us remind that the majority of the Monetary Policy Council (MPC) has stuck to the mantra that there is no need to react to the high (and accelerating) inflation and that the economy needs to be supported as much as possible in times of the pandemic - i.e. to keep official interest rates at zero, to buy Polish government bonds and to keep the zloty weak (even by FX interventions). NBP's Governor Glapinski reinforced the dovish message repeatedly by saying that monetary policy would not be tightened until the end of the current MPC's mandate (H1 2022).

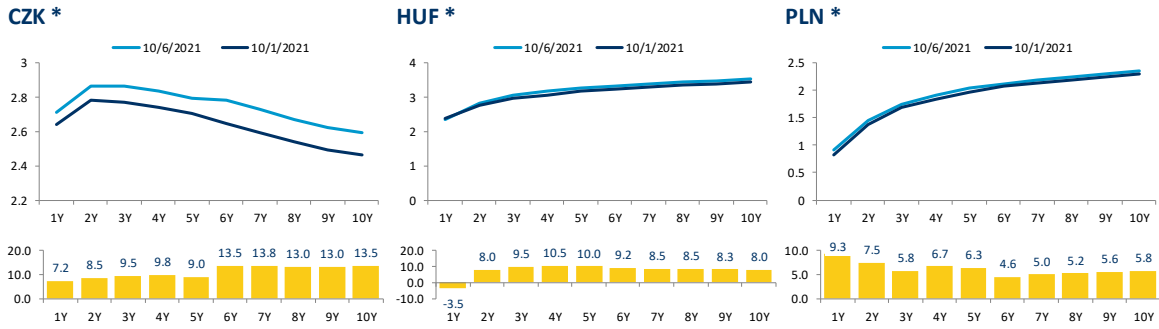
The end of the pandemic in Europe has brought high inflation to everywhere and Poland has been hit even harder than elsewhere. At the same time, the Polish inflation spike isn't just about energy prices. Recall that core inflation is currently running above 4%, clearly above the upper limit of the tolerance band targeted by the NBP (1.5-3.5%). So, with inflation this high, the current dovish stance of the NBP has become indefensible.

The NBP will have to deliver a 180-degree policy turn with the only question being how quickly it will happen. In our view, the central bank probably should have already delivered the U-turn over Summer. Governor Glapinski's dovish informal guidance suggest that the NBP is unlikely to change so quickly and won't hike rates today neither. Perhaps **the most likely scenario is that the NBP statement will prepare markets for a tightening at the November meeting, when a new inflation staff forecast will be published.** The phrase (in the statement) that the NBP is ready to ease monetary policy also through FX interventions against the zloty could disappear from the text.

There are two other scenarios in play. Apart from the hawkish one (tightening already today), there the NBP might opt for leaving its statement unchanged (and even tomorrow Mr Glapinski will sound dovish at his press conference). In such a case the zloty would undoubtedly be the victim of the ongoing ultra-dovish policy stance. The implied zloty's sell-off would ease the monetary policy even further and eventually force the NBP to come up with a much more aggressive tightening in coming months. Only aggressive rate hikes would fully restore NBP's anti-inflationary credibility.

Jan Čermák (ČSOB)

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	10/06	9:00	Retail sales	% 08/01/2021			4.1		2.8		3.0	
HU	10/06	9:00	Industrial output	% 08/01/2021			-2.7	0.6	3.9		-0.5	10.2
PL	10/06	14:00	NBP meeting	% 10/01/2021	0.10				0.10		0.10	
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					-5.0		-7.2	
CZ	10/07	9:00	Industrial output	% 08/01/2021					6.9		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					7.5		3.1	
HU	10/08	9:00	Trade balance	EUR M 08/2021 *P							-210	

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