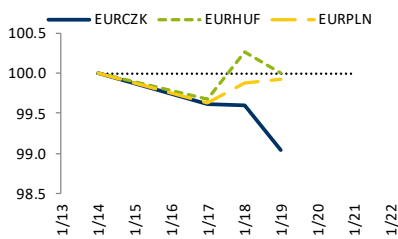




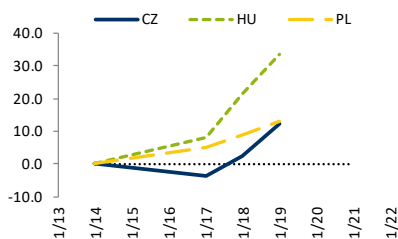
Wednesday, 19 January 2022

Forex markets (index)



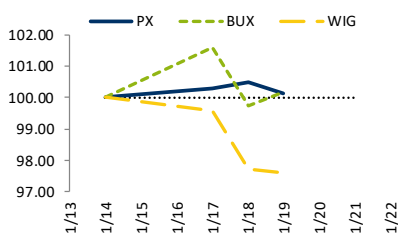
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.29	24.42	-0.56
EURHUF	357.0	357.9	-0.26
EURPLN	4.536	4.534	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.217	3.117	10.0
HUGB 10Y	4.96	4.84	2.5
PLGB 10Y	4.12	4.08	1.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1446.6	1451.8	-0.35
BUX	52774	52546	0.43
WIG	70824	70912	-0.12

Our regional insights:

Is it time to downgrade bets on NBP rate hikes?

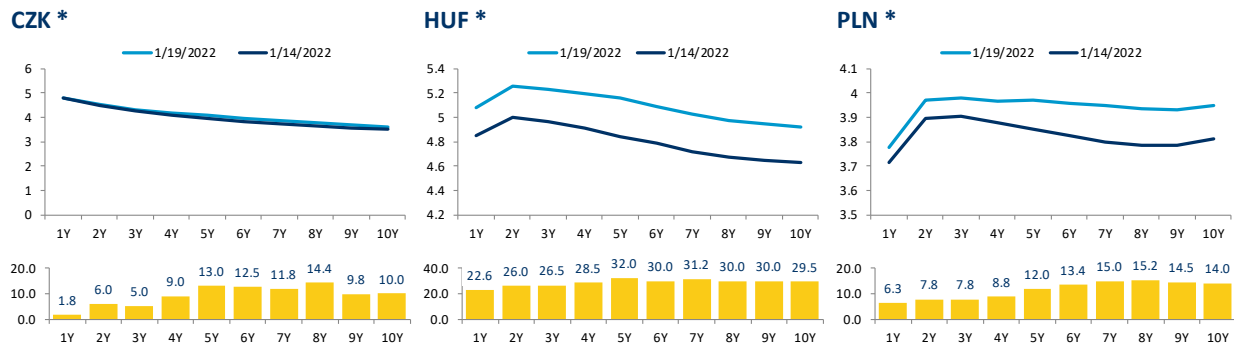
Contrary to core and other regional markets, near-term rate-hike expectations in Poland have surprisingly eased in recent days. Following the announcement of reductions of indirect taxes, which should temporarily reduce headline inflation, the Polish fixed income market sees now the peak of the NBP hiking cycle just around 100bps above the current level (2.25%). Moreover, the timing of the peak should already happen in the second quarter of 2022. Are these market expectations realistic?

The very high December headline (8.6% Y/Y) and core inflation (5.3% Y/Y) together with NBP Governor Glapinski's rhetoric indicate that the hiking cycle will continue in February (≥ 50 bps) and probably March. The outlook for NBP policy in the following months (Q2 and beyond) is very uncertain, as headline inflation is very likely to decline in year-on-year terms - both because the Polish government will implement a series of temporary cuts in VAT rates (rates on food, energy, gasoline and fertilizers should be reduced for 6 months starting January and February) and because of the impact of a negative base effect. The decline in annual inflation may be taken by the largely dovish MPC as an excuse to pause the monetary tightening cycle.

However, the Polish economy will continue to grow at a relatively strong pace and the labour market will stay very tight. With the VAT cuts expiring, we still expect inflation to remain above the upper limit of the NBP's inflation target corridor (2.5% +/- 1.0%) in H2 2022. An overheated economy will then force the central bank to hike the policy rates again, raising them above long-run equilibrium levels, even if the NBP interrupts the monetary tightening cycle in Q2. So, we assume a two-stage NBP rate hike scenario (pause in Q2, restart later this year), while we think the NBP will land north of 3%, which could be considered as the Polish natural interest rate.

Of course, the NBP will take into account the 'strength' of the zloty when evaluating the tightening of overall financial conditions. Before the start of the rate hike cycle, the NBP in its policy statements gave quite a high weight on the need of a competitive valuation of the zloty in order to support recovery. Given the very high inflation we doubt that such a dovish policy stance will prevail.

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	01/20	9:30	One week deposit rate	% 01/01/2022					4.00		4.00	
PL	01/21	10:00	Industrial output	% 12/01/2021					-5.6	13.1	5.3	15.2
PL	01/21	10:00	Wages	% 12/01/2021					8.2	9.1	1.8	9.8
PL	01/21	10:00	PPI	% 12/01/2021					0.4	13.5	1.0	13.2
PL	01/24	10:00	Retail sales	% 12/01/2021							-1.0	12.1
HU	01/25	14:00	NBH meeting	% 01/01/2022							2.40	
PL	01/26	10:00	Unemployment rate	% 12/01/2021							5.4	
CZ	01/26	12:00	CZ bond auction 2018-2029, 2,75%	CZK B 01/01/2022					4			
CZ	01/26	12:00	CZ bond auction 2021-2032, 1,75%	CZK B 01/01/2022					4			

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