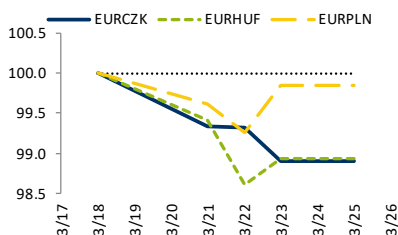




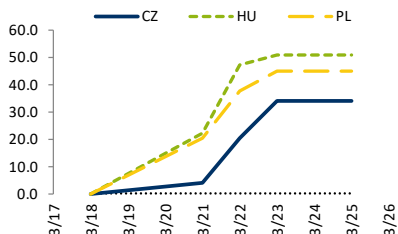
Friday, 25 March 2022

Forex markets (index)



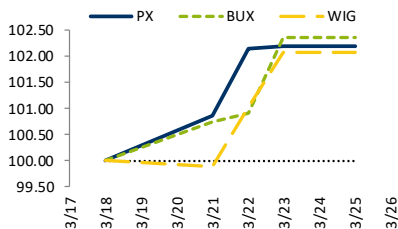
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.59	24.59	0.00
EURHUF	371.7	371.7	0.00
EURPLN	4.705	4.705	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.846	3.846	0.0
HUGB 10Y	6.27	6.27	0.0
PLGB 10Y	5.12	5.12	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1356.0	1356.0	0.00
BUX	44972	44972	0.00
WIG	64979	64979	0.00

Regional insights

Hawks have still upper hand in the CNB, so be ready for a 50bps rate hike next Thursday

Following the most recent hawkish comments coming from the Czech National Bank, we have been forced to update our outlook for the Czech official interest rates. Although CNB board members are (similarly to us) afraid of both higher inflation and significantly lower growth, it seems that a significant part of the board may still prioritize anti-inflation stance in the upcoming months. As a result, **we now believe the CNB may hike by 50 bps points next Thursday while the CNB statement should leave the door open to another significant additional tightening in May. At the same time, we believe the spring 2022 should mark the end of the current hiking cycle, primarily due to two reasons.**

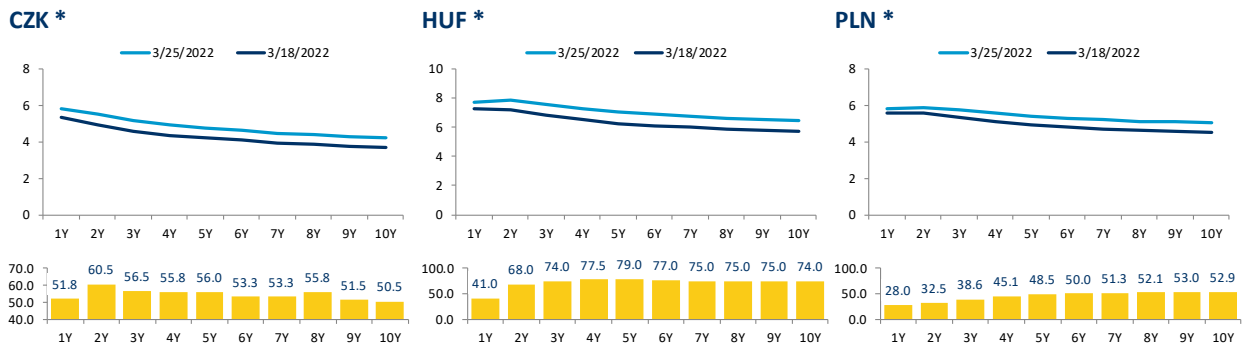
First, the dramatically higher inflation will weigh visibly on real wages and consequently on spending of the Czech households. As a result, we may see the first signs of cooling on the labor market (e.g. a slower wage growth, lower number of vacancies) later in this spring. These first signs should be visible before the June meeting of the CNB (real wage data for the first quarter will be released at the beginning of June).

Secondly, CNB Board's agility may be weakened by the Russian invasion of the Ukraine. While there was a clear hawkish majority (5:2) in the Board prior to the war, now **it seems that only three clear hawks may have remained** (Tomáš Holub, Marek Mora, Vojtěch Benda), whose are willing to prioritize the inflation fight over growth uncertainty in the near term. Moreover, particularly CNB governor Rusnok's stance may have become less clear in the future (though bear in mind that his term ends by the end of June).

We stick to another our view, namely that the CNB is going to keep official interest rates at elevated levels longer than planned because of the fresh stagflation shock – the first interest rate cut may be delivered as late as 2023H2. The forecast may change if the CNB decides to make its monetary policy tightening even more aggressive in the upcoming months implying "hard landing" for the Czech economy.

Jan Bureš, 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	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	03/25	9:00	Unemployment rate	%	02/01/2022		3.8		4.1		4.2	
HU	03/28	9:00	Wages	%, ytd.	01/01/2022						9.7	
HU	03/31	9:00	PPI	%	02/01/2022					0.6	22.3	
CZ	03/31	9:00	GDP	%	4Q/2021 *F					0.9	3.6	
HU	03/31	9:30	One week deposit rate	%	03/01/2022					6.15		
CZ	03/31	10:00	Money supply M2	%	02/01/2022						6.9	
CZ	03/31	13:00	CNB meeting	%	03/01/2022						4.5	

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