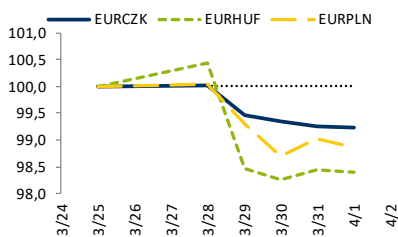




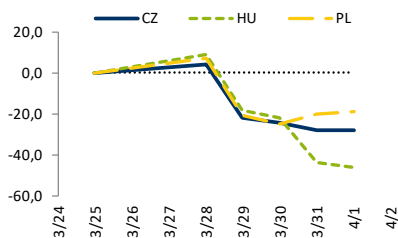
Friday, 01 April 2022

Forex markets (index)



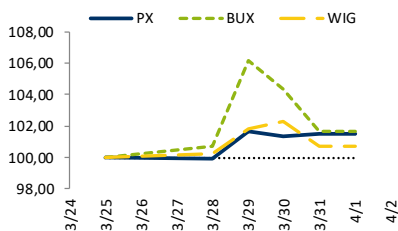
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24,42	24,43	-0,03
EURHUF	367,5	367,7	-0,05
EURPLN	4,647	4,654	-0,16

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3,686	3,685	0,1
HUGB 10Y	5,95	5,97	-0,4
PLGB 10Y	5,20	5,19	0,2

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1367,3	1367,3	0,00
BUX	44726	44726	0,00
WIG	64900	64900	0,00

Regional insights:

The CNB hikes by 50bps, but it's not done yet

The Czech National Bank hiked rates as expected by 50bps to 5.00% yesterday. At the same time, it kept the door open for more significant rate hikes in the coming months.

Russia's invasion of Ukraine is a significant new stagflation shock and a source of uncertainty for the CNB. Moreover, the CNB did not have a new staff forecast this time, but only a situation report. For now, the CNB estimates that the conflict in Ukraine will lead to significantly higher inflation and weaker economic growth. Nevertheless, for the time being, the hawkish part of the board has a clear priority - fighting inflation.

CNB's governor Rusnok said that "restoring price stability is now the CNB's absolute priority". According to the Governor, a part of the Board was already prepared to hike rates by 75bps at this meeting, but the Bank Board decided to take a more moderate step, only to wait for the May forecast.

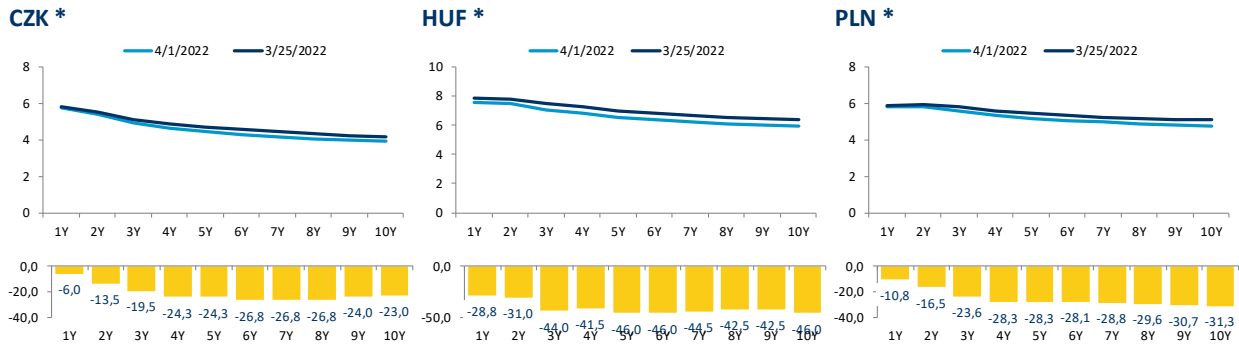
Clearly, the new staff forecast should confirm the need for further monetary tightening in the short run. This should be supported by further rise in actual inflation - we estimate it to peak around 14% in the first half of 2022. Given the continued high degree of consensus in the hawkish camp (all 5 hawks voted together once again), a further significant hike should be expected in May (a 75 bps is our new base case).

At the same time, nevertheless, we continue to believe the spring 2022 (May or June) should mark the end of the current hiking cycle. The main reason is that dramatically higher inflation will weigh visibly on the real wages and consequently on spending of the Czech households. As a result, we may see first signs of cooling on the labor market (e.g. a slower wage growth, lower number of vacancies) as early as later in this spring. These first signs should be visible before the June meeting of the CNB (2022Q1 real wage data will be released at the beginning of June).

It is worth noting that at the same time, the CNB also discussed further interventions to support the koruna. So far, the CNB has used the forex interventions rather as a tool to maintain financial stability, but it has not ruled out deploying the exchange rate as a monetary policy instrument to fight inflation. However, according to Governor Rusnok, the debate on this topic has so far been very general and using FX interventions as a monetary policy instrument entails a number of technical difficulties and problems. Therefore, official interest rates remain the number one monetary policy instrument for the CNB in coming months.

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
PL	04/01	9:00	PMI manufacturing	03/01/2022			52,7		53,1		54,7	
HU	04/01	9:00	Trade balance	EUR M 01/2022 *F			-244				-196	
HU	04/01	9:00	PMI manufacturing	03/01/2022			57,6		52,0		53,2	
CZ	04/01	9:30	PMI manufacturing	03/01/2022					55,3		56,5	
PL	04/01	10:00	CPI	% 03/2022 *P			3,2	10,9	2,5	9,8	-0,3	8,5
CZ	04/01	14:00	Budget balance	CZK B 03/01/2022							-45,3	
CZ	04/05	9:00	Retail sales ex autos	% 02/01/2022								9,6
HU	04/05	9:00	Industrial output	% 02/01/2022							1,9	7,1
CZ	04/06	9:00	Trade balance (national)	CZK B 02/01/2022							6,2	
CZ	04/06	9:00	Industrial output	% 02/01/2022								3,7
CZ	04/06	9:00	Construction output	% 02/01/2022								6,4
HU	04/06	9:00	Retail sales	% 02/01/2022								4,1
HU	04/06	14:00	NBH minutes	03/01/2022								
PL	04/06	14:00	NBP meeting	% 04/01/2022							3,50	
HU	04/07	9:00	Trade balance	EUR M 02/2022 *P							-244	

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