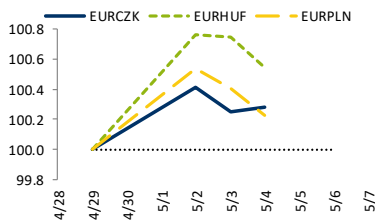




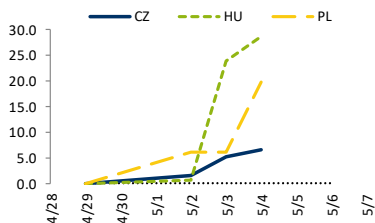
Wednesday, 04 May 2022

Forex markets (index)



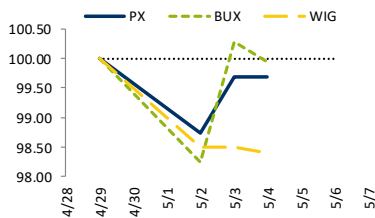
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.66	24.65	0.03
EURHUF	380.4	381.2	-0.20
EURPLN	4.684	4.692	-0.18

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.284	4.271	1.3
HUGB 10Y	7.19	7.14	0.6
PLGB 10Y	6.54	6.41	2.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1329.5	1329.5	0.00
BUX	43447	43593	-0.33
WIG	56833	56886	-0.09

Our regional insights:

The NBP should deliver at least another +100bps

The April inflation figures revealed again that the Polish central bank is still “behind the curve” and it would need to act aggressively to get inflation under control. Recall that the headline inflation jumped to 13.3% YoY in April, while the core inflation probably accelerated to 8% YoY. Moreover, our nowcast for the GDP growth in 2022Q1 suggests that the Polish economy skyrocketed by more than 7%. In our view, this all indicates that the economy has remained strong despite the Russian war in Ukraine. Hence, we do believe that the NBP needs to act boldly to catch-up with recent price increases and to anchor inflation expectations. **In this respect a 100 bps rate hike looks like a minimum tomorrow, while risks are clearly skewed to even more aggressive tightening.**

Final fine-tuning from the CNB?

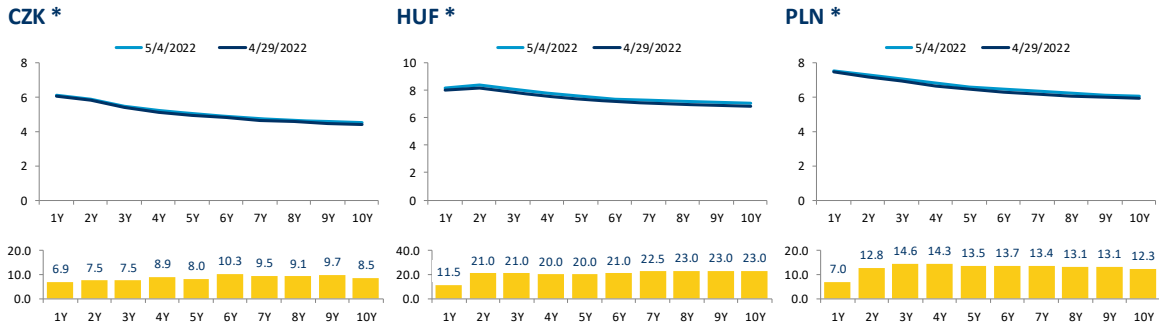
Following a series of recent comments coming from the CNB, we have slightly modified our outlook for the next interest rate move in the Czech Republic. **We now expect a more moderate rate hike tomorrow, by 50 bps (previously 75 bps). At the same time, the CNB will likely keep the door open for minor fine-tuning of monetary policy in June (maximum +25 bps).**

The modified forecast reflects a change in the sentiment in the central bank board’s hawkish camp. In the past two weeks, we could hear significantly more cautious communication from a few hawks, including Deputy Governor Mora and Tomas Nidetzky. In an interview with Reuters, Marek Mora said, that he expected the bank’s new quarterly forecast to cut this year’s growth outlook significantly. “Maybe we will be happy about positive zero,” he said. And with respect to the May 5 CNB board meeting Tomas Nidetzky spoke only about “monetary policy fine-tuning...I mean, (there will be) debate about standard rate hikes by 25 bps or 50 bps at most”.

The change of sentiment in the hawkish camp may be related to an expected considerable downward revision of the economic growth in the next CNB staff forecast. Marek Mora’s “positive zero” has been perceived as an extremely pessimistic view in today’s market. Especially after the relatively solid pre-invasion growth of the economy in the first quarter, such a scenario would imply a persistent decline in GDP for the rest of the year. And it would probably not take place without a fall in employment and a rise in unemployment. With such gloomy prospects, the cautious stance of the CNB is hardly surprising.

But there may be also another, more pragmatic reason for the observed hawks’ cautiousness: the upcoming renominations in the bank board and a resistance of President Zeman (although not openly communicated) towards further rate hikes. The mandate of Governor Jiri Rusnok, Deputy Governor Tomas Nidetzky and Vojtech Benda expire this June, that of Marek Mora and Oldrich Dedek will follow in February 2023. Due to (re)nomination uncertainty, we see the risks to our interest rate outlook currently skewed to the downside.

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	05/04	9:00	Retail sales	%	03/01/2022			16.2		11.6		9.8
HU	05/05	9:00	One week deposit rate	%	05/01/2022				6.45			6.45
CZ	05/05	14:30	CNB meeting	%	05/01/2022	5.50			5.50			5.00
PL	05/05	16:00	NBP meeting	%	05/01/2022	5.50			5.50			4.50
HU	05/06	9:00	Industrial output	%	03/01/2022					3.1	1.6	4.5
PL	05/06	14:00	NBP minutes	NBP	05/01/2022							
PL	05/06	15:00	NBP President Press Conference	NBP	05/01/2022							
CZ	05/09	9:00	Trade balance (national)	CZK B	03/01/2022							-4.4
CZ	05/09	9:00	Industrial output	%	03/01/2022							-0.3

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