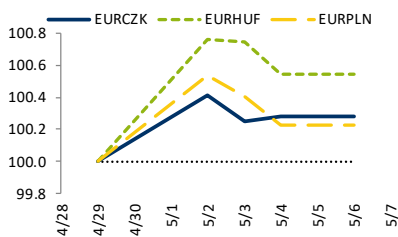




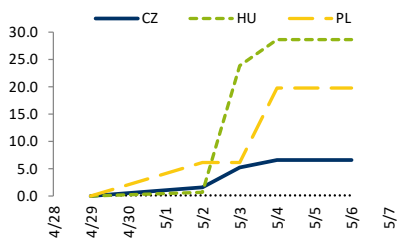
Friday, 06 May 2022

Forex markets (index)



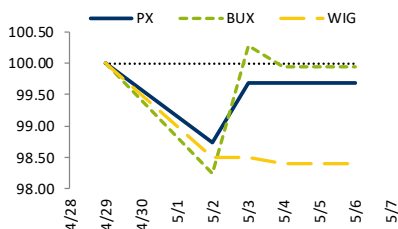
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.66	24.66	0.00
EURHUF	380.4	380.4	0.00
EURPLN	4.684	4.684	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.284	4.284	0.0
HUGB 10Y	7.19	7.19	0.0
PLGB 10Y	6.54	6.54	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1329.5	1329.5	0.00
BUX	43447	43447	0.00
WIG	56833	56833	0.00

Regional insights

The CNB delivers a 75bps hike and a hawkish projection

At its May meeting, the Czech National Bank hiked its repo rate by 75 bps to 5.75% - slightly more than we and the market expected (50 bps). Recent dovish comments from the Central bankers (Tomáš Niedetzky, Marek Mora) were probably silenced by relatively hawkish implications of a new staff projection.

The May inflation projection assumes a mid-year inflation peak of around 15% (our estimate is 14.3%) and average 2022 headline inflation above 13% (our estimate is 12.3%). At the same time, the CNB believes that economic growth will slow down severely. The new forecast assumes real GDP growth for 2022 at only 0.8% (well below our forecast of +1.8%). It implies a strong fall in household consumption for the rest of this year. The forecast is based, among other things, on the assumption that the CNB will respond to rising inflation with further sharp rate hikes, dampening investment demand. So, **according to the new (baseline) forecast, the Czech central bank should hike the repo rate above 8% by mid 2022!**

However, even the hawks on the Bank Board hesitate to pursue such aggressive monetary tightening. That is why the CNB prepared an alternative scenario forecast "with a more distant monetary policy horizon". In this scenario, the central bank does not react to new external price shocks, but assumes that monetary policy remains credible. As a result, the inflation stays higher and more persistent, but ultimately returns to target at the beginning of 2024. This alternative scenario assumes the official interest rates to peak slightly below 6% in mid-2022 and then to stay at these levels for a long period.

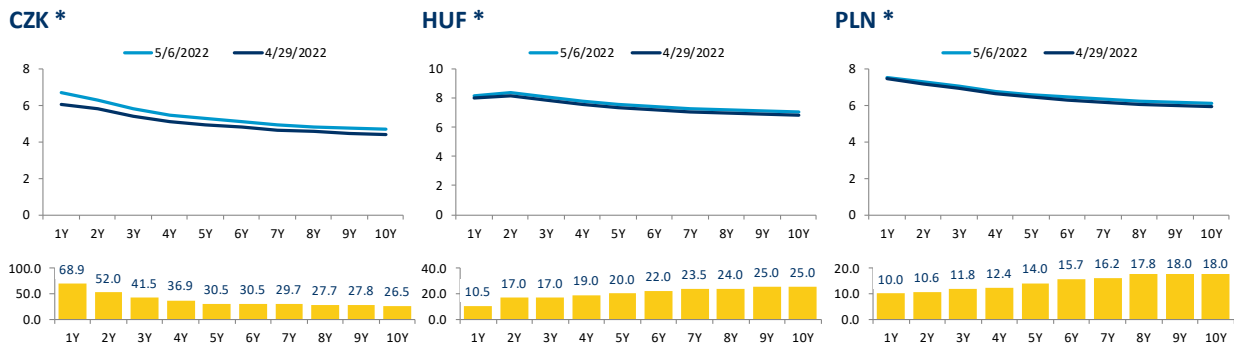
Thus, the hawks in the Bank Board currently prefer the alternative scenario narrative, but stress the pro-inflationary risks associated with it. This is also why central bankers are likely to hike the rates once more in June, by at least by 25bps to 6.00%.

We believe June should then mark the peak of the current monetary policy tightening cycle, which is, after all, what both the baseline forecast and the alternative scenario point to. We should add that the planned personal changes within the Bank Board (June 2022, February 2023) should play a role too as they have the potential to weaken the current hawkish majority.

The NBP has decided to stay behind the curve

Yesterday, the Polish central bank raised official interest rates by only 75 basis points, which triggered an immediate depreciation of the zloty. This afternoon at 3pm, NBP's President Glapinski will have the opportunity to explain to the market (which was clearly expecting more) why the central bank decided to stay well behind the curve. In any case, the short-term outlook for the zloty is poor.

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	05/06	9:00	Industrial output	%	03/01/2022		-0.1	4.2		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
CZ	05/09	9:00	Construction output	%	03/01/2022							18.9
CZ	05/09	9:00	Unemployment rate 15-64	%	04/01/2022						3.4	
HU	05/09	9:00	Trade balance	EUR M	03/2022 *P				-100		-117	
CZ	05/09	10:00	FX reserves of the CNB	EUR B	04/01/2022						157.6	
HU	05/09	11:00	Budget balance	HUF B	04/01/2022						-2309.4	
CZ	05/10	9:00	CPI	%	04/01/2022						1.7	12.7
HU	05/10	9:00	CPI	%	04/01/2022						1.0	8.5
CZ	05/10	9:00	Retail sales ex autos	%	03/01/2022							4.6
CZ	05/11	12:00	CZ bond auction 2022-2026, 6.00%	CZK B	05/01/2022					6		
CZ	05/11	12:00	CZ bond auction 2021-2031, floating rate	CZK B	05/01/2022					4		

Contacts

Brussels Research (KBC)			Global Sales Force		
Mathias van der Jeugt	+32 2 417 51 94		Brussels		
Peter Wuyts	+32 2 417 32 35		Corporate Desk		+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95		Institutional Desk		+32 2 417 46 25
			France		+32 2 417 32 65
			London		+44 207 256 4848
			Singapore		+65 533 34 10
Dublin Research			Prague		
Austin Hughes	+353 1 664 6889		Prague (Equities)		+420 2 6135 3535
Shawn Britton	+353 1 664 6892				+420 2 2142 4216
Prague Research (CSOB)			Bratislava		
Jan Čermák	+420 2 6135 3578		Bratislava		+421 2 5966 8820
Jan Bureš	+420 2 6135 3574				
Bratislava Research (CSOB)			Budapest		
Marek Gabris	+421 2 5966 8809		Budapest		+36 1 328 99 85
Budapest Research					
David Nemeth	+36 1 328 9989				

DISCOVER MORE ECONOMIC INSIGHTS AT WWW.KBCECONOMICS.COM

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

