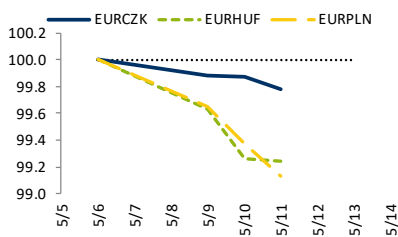




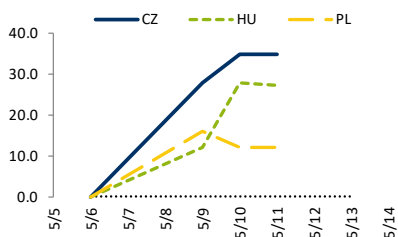
Wednesday, 11 May 2022

Forex markets (index)



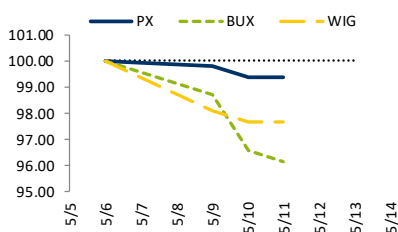
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.00	25.02	-0.10
EURHUF	379.6	379.7	-0.02
EURPLN	4.672	4.683	-0.25

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.880	4.880	0.0
HUGB 10Y	7.54	7.54	-0.1
PLGB 10Y	6.92	6.92	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1297.8	1297.8	0.00
BUX	40497	40663	-0.41
WIG	53952	53952	0.00

Our regional insights:

As the Czech inflation surprises on the upside again new Bank Board appointments can bring dovish pivot

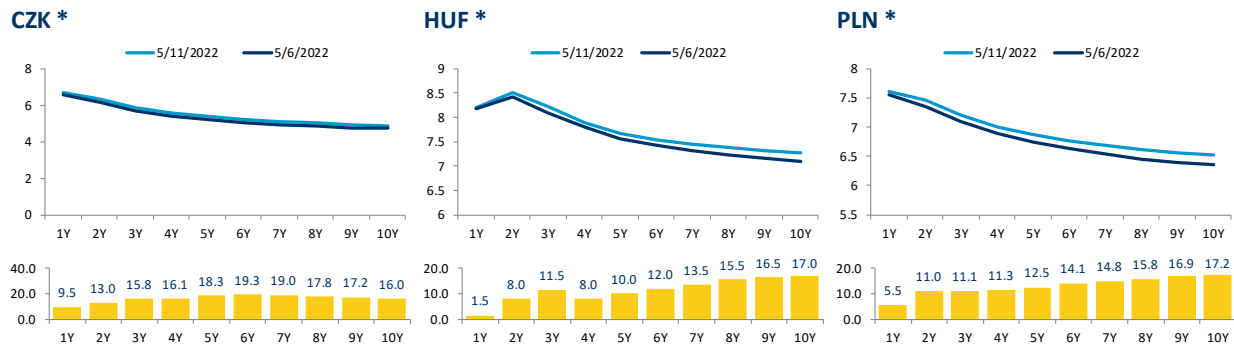
The Czech inflation jumped sharply again in April, beating both our and markets' expectations for the second month in a row. The 1.8% month-on-month growth pushed annual inflation up to 14.2%. Recall that the CNB's hawkish staff forecast had predicted inflation of 13.7%, so this inflation number already indicates that the risks are skewed clearly in the pro-inflation direction.

The April inflation (on a month-on-month basis) was pulled further upwards mainly by high energy prices (electricity and gas) and food prices. Meanwhile the annual figures showed that a significant majority of items inside the consumer basket is significantly more expensive than a year ago. Still, the main driver remains housing prices, where, in addition to energy, imputed rents continue to play a significant role, pushed up by high prices of building materials. At the same time, fuel, car prices, and a wider range of food and textiles also continue to rise significantly in year-on-year terms. Thus, Czech Inflation is clearly broad-based and, unfortunately, the last word has not been said yet.

In the coming months, inflation is likely to go further up due to the continued rise in energy and food prices. We see the inflation peak probably in June above 15% YoY. As a result, the headline inflation will stay in double digits for the rest of the year. However, there is a growing risk that the return to target will be slower in 2023/2024 as well, as corporate inflation expectations have rocketed. It is becoming the new norm for a large number of companies to pass input costs automatically on to their final customers. Hence, this trend may keep inflation at higher levels for longer.

All in all, after the release of the April inflation figures, the CNB is getting a clear message that pro-inflationary risks have been growing. Thus, we can imagine that the current Bank Board will be heading for another significant rate hike in June – just before the big "dovish rotation" triggered by new appointments made by president Zeman. Recall that president Zeman has just appointed one of the current Board members - Ales Michl - as the CNB governor. It is worth noting that Michl belonged to the dovish camp inside the Bank Board as he recently refused to hike interest rates further and stuck to the hypothesis that high inflation was due to external factors and mostly transitory. Unsurprisingly, Czech financial markets reacted strongly to the news of Michl's possible appointment at the end of last week – with in particular the koruna weakening.

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
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			
HU	05/11	14:00	NBH minutes	04/01/2022								
HU	05/12	9:00	One week deposit rate	% 05/01/2022							6.45	
PL	05/13	10:00	CPI	% 04/2022 *F							2.0	12.3
CZ	05/13	10:00	Current account	CZK B 03/01/2022					-8.8		-5.8	
PL	05/13	14:00	Current account	EUR M 03/01/2022					-2792		-2871	
PL	05/13	14:00	Trade balance	EUR M 03/01/2022					-2088		-1741	
CZ	05/16	9:00	PPI	% 04/01/2022							4.2	24.7

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