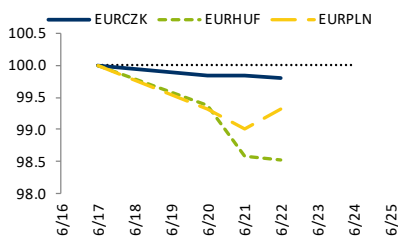




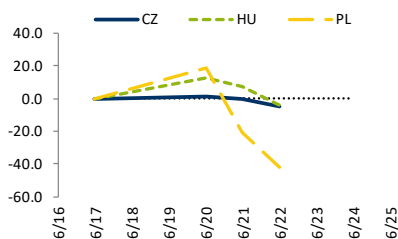
Wednesday, 22 June 2022

Forex markets (index)



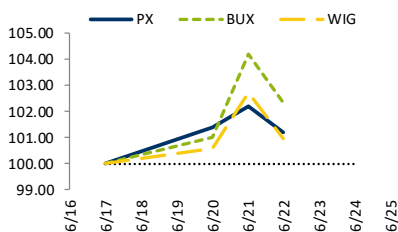
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.69	24.70	-0.03
EURHUF	394.2	394.4	-0.07
EURPLN	4.653	4.638	0.32

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	5.543	5.591	-4.8
HUGB 10Y	8.42	8.53	-1.3
PLGB 10Y	7.43	7.65	-2.8

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1305.9	1318.8	-0.97
BUX	40218	40937	-1.76
WIG	53128	54066	-1.74

Our regional insights:

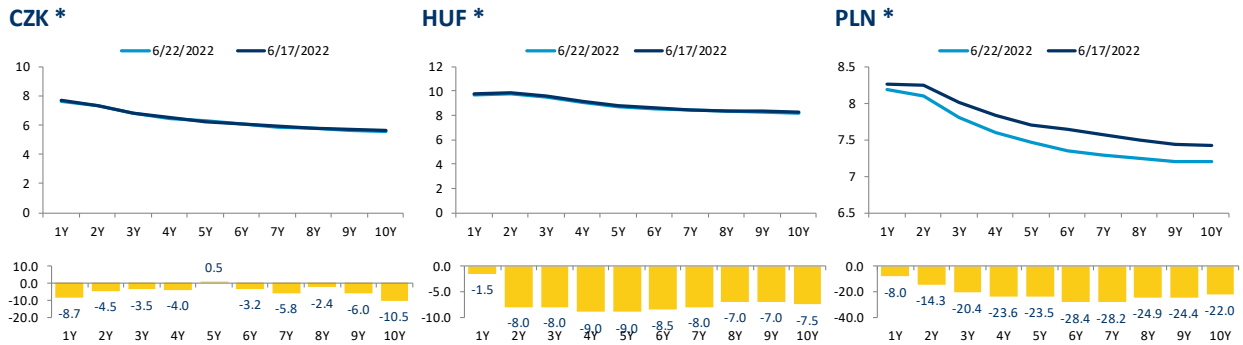
The last hawkish strike from the old CNB's Board

What to expect from the Czech National Bank today? First of all, another significant interest rate-hike. Although the Czech central bankers will only have a situation report (not a new forecast), this will clearly show new upside risks to inflation. Recall that the May inflation was significantly higher (by 1.1 percentage points) than the last forecast, mainly due to core inflation, to which the CNB must respond. Second, the CNB Bank Board sees a weaker Czech currency compared to the last forecast which assumed the EUR/CZK pair 24.0, but it has been around 24.7 and the koruna would probably be even weaker without the CNB's active interventions. Third, current commodity prices (especially oil) are also higher than assumed in the last forecast. With such a situation report in hand, a significant interest rate hike will probably automatically be on the table. We expect a 125bps hike to 7.00%.

However, the more fundamental question from the markets' perspective will ultimately be a possible change of the central bank policy after the June meeting, which can follow after a significant overhaul in the composition of the Bank Board. It seems that inflation risks are intensifying not only in the Czech Republic but across the developed world. That is also why interest rates will go up significantly in the coming quarters, even in places where no one expected it until recently. In the euro area, we expect rates to move from -0.5% to 1.25% by the end of the year, while the CNB's latest forecast only foresaw a cosmetic tightening of monetary policy by the ECB by the end of the year. In such an environment, the markets and new internal forecasts may require from the CNB more tightening in the second half of the year.

So, to calm down the Czech forex and fixed-income markets, they will need to see that the adjusted Bank Board will not rule out a priori further rate hikes and will clearly communicate that stabilising unanchored inflation expectations is now an absolute priority. We believe this will eventually happen, but it may take several months to come – maybe until the August/September meeting. In the meantime, it will be crucial for the markets to be confident that the CNB Bank Board will not withdraw its ongoing FX interventions to support the koruna. Here, investors may gain confidence more quickly as even some doves (Oldrich Dedek) seem to support the active use of foreign exchange reserves. However, this alone is unlikely to be enough to bring lasting relief to the koruna - that will come when the markets have clarity on the interest rate policy of the "refreshed" Bank Board.

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	06/22	8:30	Current account	HUF M 1Q/2022			-2345		-2450		-2452	
PL	06/22	10:00	Retail sales	% 05/01/2022			-1.7	8.2	-1.9	8.8	-0.1	19.0
CZ	06/22	14:30	CNB meeting	% 06/01/2022	7.00				6.88		5.75	
HU	06/23	9:00	Unemployment rate	% 05/01/2022							3.6	
HU	06/23	9:00	One week deposit rate	% 06/01/2022							7.25	
PL	06/23	14:00	Money supply M3	% 05/01/2022					0.4	8.2	0.2	8.2
HU	06/24	9:00	Wages	%, ytd. 04/01/2022								17.5
PL	06/24	10:00	Unemployment rate	% 05/01/2022					5.1		5.2	
HU	06/28	14:00	NBH meeting	% 06/01/2022							5.9	

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
Dublin Research			France		
			London		
			Singapore		
Austin Hughes	+353 1 664 6889		+44 207 256 4848		
Shawn Britton	+353 1 664 6892		+65 533 34 10		
Prague Research (CSOB)			Prague		
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Jan Bureš	+420 2 6135 3574				
Bratislava Research (CSOB)			Bratislava		
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820		
Budapest Research			Budapest		
David Nemeth	+36 1 328 9989		+36 1 328 99 85		

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