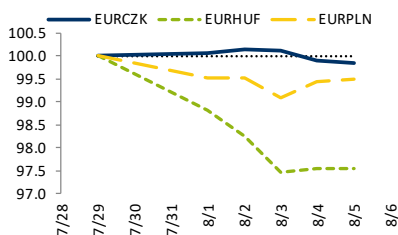




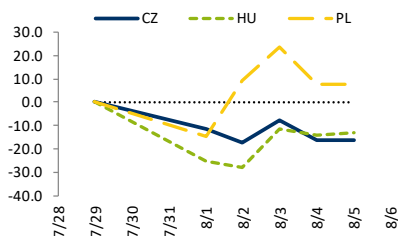
Friday, 05 August 2022

Forex markets (index)



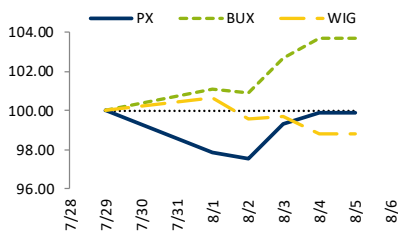
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.58	24.60	-0.05
EURHUF	394.7	394.8	0.00
EURPLN	4.717	4.715	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.866	3.866	0.0
HUGB 10Y	7.97	7.96	0.1
PLGB 10Y	5.59	5.59	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1231.9	1231.9	0.00
BUX	43333	43333	0.00
WIG	54352	54352	0.00

Regional insights

The CNB on hold, keeping interventions in place

At its August meeting, the Czech central bank decided to leave its repo rate unchanged at 7%, despite the fact that the CNB's forecast sees inflation well above the target both this year and next.

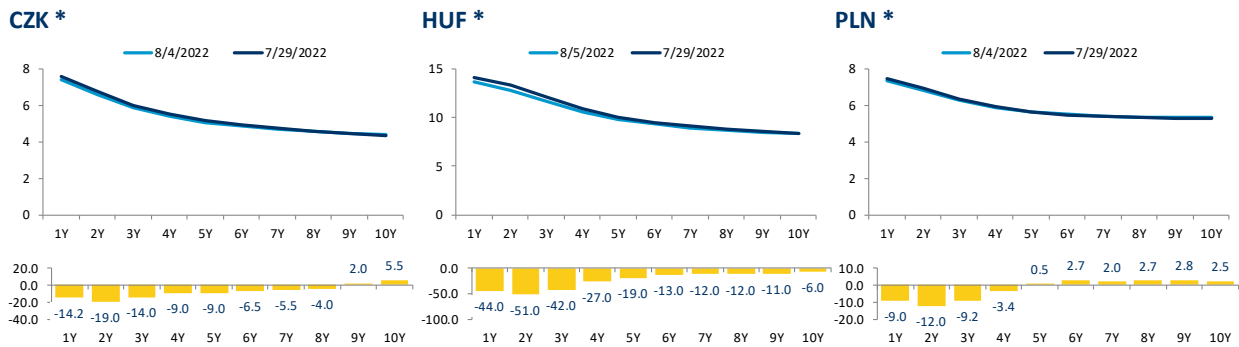
On the other hand, the new staff forecast in the baseline scenario now assumes a significant stretching of the monetary policy horizon to 18-24 months. The argument is based on the high share of cost items in today's inflation and the assumption that their effect will simply wear off over time (with a slightly longer lag). This approach would be plausible assuming anchored inflation expectations - but medium-term inflation expectations are at historic highs in the case of corporates. Thus, to choose a scenario that relies on stable inflation expectations as the main scenario today is "very brave" to say the least.

The good news is that the new Bank Board has decided (with rates stable) to continue to intervene to support the koruna (and to communicate this decision openly). This may lead to the closing of short koruna positions created before the meeting (betting on the end of intervention) and help the koruna in the very short term.

However, the Bank Board will not gain lasting credibility without clear communication towards official rates. The fact that dovish governor Aleš Michl is now allowing a debate on rate hikes at upcoming meetings is a step in the right direction. However, the markets will need to know under what conditions the Bank Board will be willing to raise rates further. From this perspective, today's meeting between board member Jan Frait and analysts will be closely watched, where forecast scenarios will be presented.

It seems (based on the amount of liquidity) that the CNB had to intervene again before the August meeting (we estimate that the CNB sold more than EUR 5bn in August). Without more clarity on interest rate policy, we think the koruna may come under pressure again over the summer (although today's communication on continued intervention has made it happy). Thus, in our baseline outlook, we continue to assume that the CNB's pressure on the koruna and further accumulation of upside risks to inflation will eventually push it into another rate hike in September, when we expect rates to rise by 50bps to a final 7.50%.

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	08/05	9:00	Industrial output	%	06/01/2022		0.6	4.8	3.4	1.4	3.4	
CZ	08/05	9:00	Retail sales ex autos	%	06/01/2022			-6.0	-7.5		-6.9	
CZ	08/08	9:00	Trade balance (national)	CZK B	06/01/2022						-23.3	
CZ	08/08	9:00	Industrial output	%	06/01/2022						6.3	
CZ	08/08	9:00	Construction output	%	06/01/2022						3.3	
HU	08/08	9:00	Trade balance	EUR M	06/2022 *P						-95	
HU	08/08	11:00	Budget balance	HUF B	07/01/2022						-2892.3	
CZ	08/09	9:00	Unemployment rate 15-64	%	07/01/2022						3.1	
HU	08/09	9:00	CPI	%	07/01/2022						1.5	11.7
CZ	08/09	10:00	FX reserves of the CNB	EUR B	07/01/2022						151.3	
CZ	08/10	9:00	CPI	%	07/01/2022						1.6	17.2
CZ	08/10	12:00	CZ bond auction 2022-2028, x.xx%	CZK B	08/01/2022				6			
CZ	08/10	12:00	CZ bond auction 2022-2030, x.xx%	CZK B	08/01/2022				5			
CZ	08/10	12:00	CZ bond auction 2021-2031, floating rate	CZK B	08/01/2022				3			
HU	08/10	14:00	NBH minutes		07/01/2022							

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