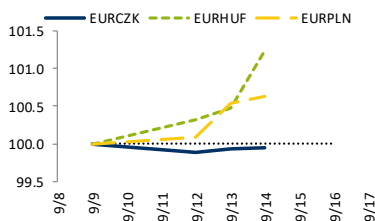




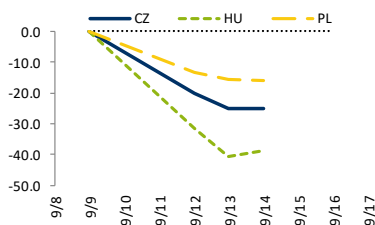
Wednesday, 14 September 2022

Forex markets (index)



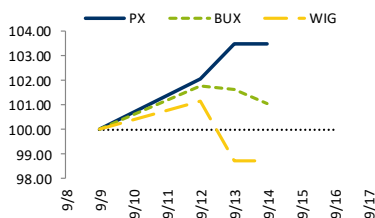
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.54	24.54	0.02
EURHUF	401.5	398.5	0.76
EURPLN	4.721	4.717	0.09

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.406	4.405	0.1
HUGB 10Y	8.97	8.95	0.2
PLGB 10Y	5.85	5.85	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1241.1	1241.1	0.00
BUX	41339	41576	-0.57
WIG	50065	50065	0.00

Our regional insights:

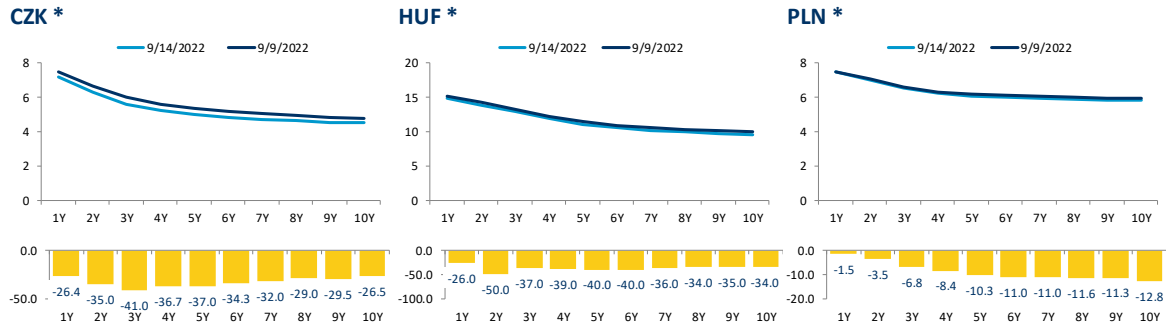
Lower inflation has not affected the koruna

The Czech inflation had surprisingly remained below expectations in August, rising by only 0.4% month-on-month, while annual growth had slowed from 17.5% to 17.2%. On a month-on-month basis, price increases continued across virtually all categories, except for transport, where fuel prices declined significantly as expected (-10%). However, we were again surprised by a more modest increase in household energy prices - gas by 1.0% and electricity by 0.7%. We should probably expect a much more significant increase in September, both as a result of changes in price lists and also because of expiring fixings. However, a big question mark hangs over whether and how household energy prices may be capped later in the autumn. If prices are not capped in any way, inflation could indeed reach close to 20% towards the end of the year, with energy and food prices increasingly dragging it down and, conversely, the contributions from rents and fuel fading. If capped, the peak is likely to be reached earlier in September or October, at significantly lower levels (depending on the design of the mechanism). Overall, August's numbers remained below both the market's and our estimate (18.1%) and also visibly lagged the latest CNB forecast (19.3%). While this is largely the result of later-than-expected increases in household energy prices, weaker inflation numbers are likely to only support the dovish majority at the CNB in their decision to leave interest rates unchanged.

As far as the foreign domestic market is concerned, the koruna absorbed the lower-than-expected result of August inflation (17.2%) without major problems and, given the relatively empty domestic macro calendar, will be more influenced by external factors. Aggressive rate hikes in the Eurozone, together with a still hawkish Fed (21 Sep), will act in the direction of continued depreciatory pressures and thus force increased CNB activity in the FX market. Since mid-May, the central bank has already intervened in favour of the domestic currency to the extent of almost EUR 20bn, but total reserves still remain at a relatively comfortable level (more than EUR 140bn).

We believe that the CNB will defend the koruna at current levels for the rest of this year. However, as early as Q1 2023, it is possible that the Czech central bank will adjust the FX regime towards ad-hoc interventions, i.e. it will only dampen excessive fluctuations. This reconfiguration of the intervention regime should ease the pressure on the erosion of FX reserves, while reflecting the view of some central bankers who have cautiously opposed prolonged intervention in its current form. In such a case, the koruna - given the weak domestic fundamentals and the aforementioned unfavourable external environment - would weaken towards the level of EUR/CZK 25.50.

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
CZ	09/14	12:00	CZ bond auction 2022-2028, 5.50%	CZK B 09/01/2022					6			
CZ	09/14	12:00	CZ bond auction 2022-2030, 5.00%	CZK B 09/01/2022					6			
CZ	09/14	12:00	CZ bond auction 2021-2031, floating rate	CZK B 09/01/2022					4			
HU	09/14	14:00	NBH minutes	08/01/2022								
HU	09/15	9:00	One week deposit rate	% 09/01/2022							11.75	
PL	09/15	10:00	CPI	% 08/2022 *F							0.8	16.1
CZ	09/16	9:00	PPI	% 08/01/2022					0.3	25.7	0.3	26.8
PL	09/16	14:00	Core CPI	% 08/01/2022					0.8	9.9	0.6	9.3
PL	09/20	10:00	Wages	% 08/01/2022							3.4	15.8

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		

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