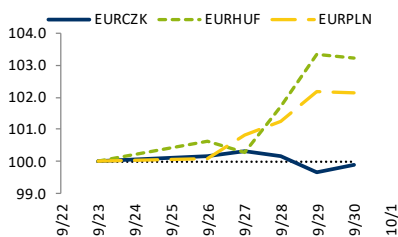




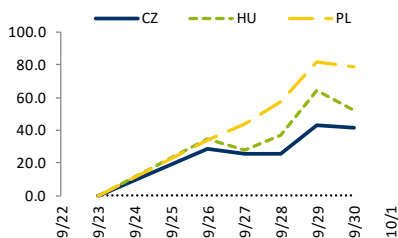
Friday, 30 September 2022

Forex markets (index)



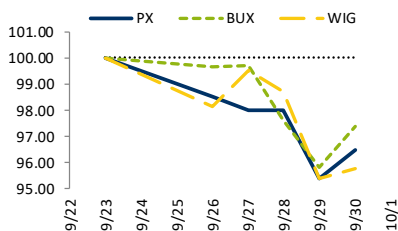
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.59	24.53	0.23
EURHUF	419.5	420.0	-0.12
EURPLN	4.855	4.856	-0.02

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	5.309	5.330	-2.1
HUGB 10Y	9.77	9.89	-1.2
PLGB 10Y	7.21	7.24	-0.5

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1126.9	1114.3	1.13
BUX	37644	37036	1.64
WIG	46052	45865	0.41

Regional insights

CNB: on hold, but more rate hikes not excluded

As expected, the Czech central bank left official interest rates unchanged at 7.0% yesterday. Five members of the Bank Board raised their hands in favour of this decision, while two members (most likely Marek Mora and Tomas Holub) voted for a 75bps rate hike. The CNB also decided to "continue to prevent excessive fluctuations in the exchange rate of the koruna".

From statements of Governor Ales Michl after the meeting, it can be inferred that the Bank Board is satisfied with the current level or CNB's rates, which it considers "sufficiently" high at the moment. In this context, Michl referred to the impact of higher interest rates on new lending and the natural decline in household consumption in response to high inflation.

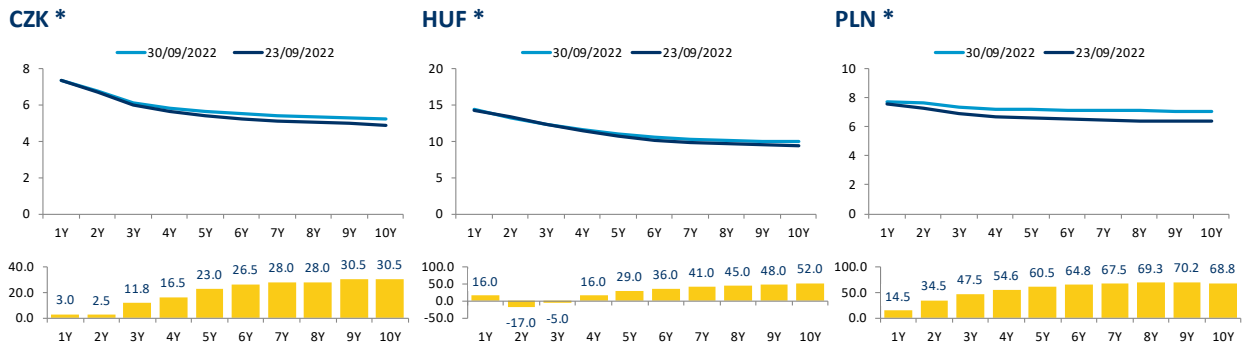
However, according to other statements, it seems that even the new governor is not "100%" sure that 7.0% level will be high enough. Hence, the Governor does not rule out the possibility of further rate hikes, especially if some pro-inflationary risks should materialise. Here, the CNB again mentions faster-than-expected wage growth in the first place. However, this is already happening to a large extent. Recall that wage growth in key sectors (industry, construction, transport) was between 7.5% and 9% YoY in the second quarter, above the CNB's forecast (2.9%). However, the Governor did not want to answer the direct question of how high wage growth would have to be for the Bank Board to stop considering inflation expectations as anchored. So far, the Governor's and new Board members' performances generally suggest that the surprise in wage growth (or the size of the state budget deficit) would have to be significantly higher for at least some doves to change camps. However, it is not excluded that in such a case, sooner or later the CNB may have to deal with more significant selling pressures on the Czech koruna. Its defence with a narrowing positive interest rate differential against both the euro and the dollar may make it the CNB more complicated.

All in all, in our baseline scenario (shallow recession), we do not expect the bets against the koruna to be significant enough to convince the dovish CNB Bank Board to hike rates further in the coming months. However, if the alternative scenario (a deep recession coupled with a significant gas shortage during the winter) were to occur, the CNB will, in our view, be forced to stabilise the Czech financial system (prevent massive capital outflows) by additional interest rate hikes.

Polish inflation hits 17 % in September

The Polish inflation surprises on the upside again as consumer prices grew by 17.2% YoY in September and as related to the previous month increased by 1.6%. While the headline inflation was driven by higher electricity prices, the core inflation accelerated too (to around 10.7% YoY).

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	09/30	9:00	GDP	% 2Q/2022 *F			0.50	3.70	0.5	3.7	0.5	3.7
HU	09/30	9:00	PPI	% 08/01/2022			4.10	43.40			5.7	37.9
PL	09/30	10:00	CPI	% 09/2022 *P			1.6	17.2	0.9	16.4	0.8	16.1
CZ	09/30	10:00	Money supply M2	% 08/01/2022				5.3				5.4

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