

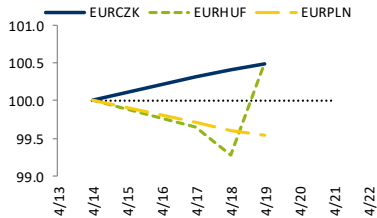
Central Europe Wednesday



Moving forward
together.

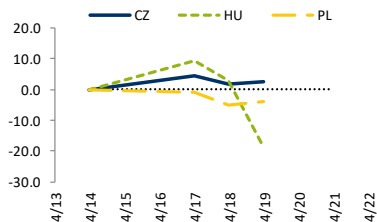
Wednesday, 19 April 2023

Forex markets (index)



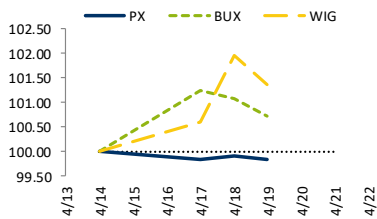
	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.45	23.44	0.07
EURHUF	375.5	370.9	1.23
EURPLN	4.621	4.624	-0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.802	4.796	0.6
HUGB 10Y	8.48	8.70	-2.5
PLGB 10Y	6.14	6.13	0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1416.3	1417.1	-0.06
BUX	43601	43752	-0.34
WIG	62130	62496	-0.59

Our regional insights:

Is the CNB flirting with the idea of another rate hike?

Since the March CNB meeting, Czech central bankers' communication has visibly shifted in a hawkish direction. The main message repeated by the board members seems to be clear - cutting interest rates is not an option in the near future. In terms of how long rates could remain at the current 7% level, CNB's Governor Ales Michl was most specific last week. He tweeted that he "doesn't see it happening for a rate cut in the autumn", which would mark the first rate cut only in 2024.

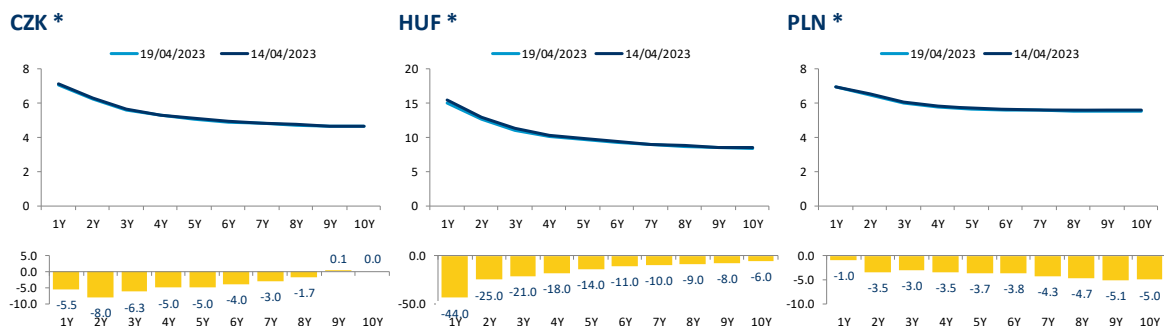
New board members Jan Procházka and Jan Kubíček seem to be tuned to a similar hawkish wave. Not only do they reject the idea about a rate cut for the time being, they even cautiously mention the option of a signal rate hike, as does another board member, Tomáš Holub. So, there is clearly growing nervousness at the CNB, given all three downside risks to inflation mentioned in the winter forecast.

First, **there is strong wage growth, which accelerated to double-digit rates in the first two months of the year in both industry and construction.** Secondly, from the CNB's perspective, the situation on the public finances side is becoming more complicated, given the dismal performance of the state budget, which is likely to end up in a deeper deficit than the planned (CZK 295 billion). Third, there are still concerns about anchored inflation expectations, which may be documented not only by the CNB's survey of non-financial corporations, but also by the recovery in the housing market. There are signs that households are simply getting used to the higher interest rate environment.

This development, together with the recent hawkish comments by central bankers, is also reflected in the CZK money market. The latter has reassessed the outlook for rates in recent weeks - it is currently even flirting with the idea of another 25bps rate hike. In this respect, the lower March PPI figures (-1% MoM) released this morning only minimally reduce concerns about a possible CNB rate hike.

All in all, we still assume that a next CNB step will be a rate-cut delivered probably at the November meeting. Nevertheless, given the current hawkish rhetoric, the risks are skewed for later easing, which could be less aggressive than we currently assume (100 bps in aggregate in Q4 2023). Moreover, **we are more serious about the risk of a (warning) rate hike because its likelihood has increased in recent weeks.**

Interest-rate Swap Curves



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	04/19	9:00	PPI	%	03/01/2023			-1.0	10.2	-0.1	11.3	-0.3	16.0
PL	04/21	10:00	Wages	%	03/01/2023					6.0	12.4	2.6	13.6
PL	04/24	10:00	PPI	%	03/01/2023							-0.4	18.4
PL	04/24	10:00	Industrial output	%	03/01/2023							0.4	-1.2
PL	04/24	10:00	Retail sales	%	03/01/2023							-3.6	-5.0
PL	04/25	14:00	Money supply M3	%	03/01/2023							1.7	7.4
HU	04/25	14:00	NBH meeting	%	04/01/2023							13.00	
HU	04/26	8:30	Wages	% ytd.	02/01/2023								16.3
PL	04/26	10:00	Unemployment rate	%	03/01/2023							5.5	

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	
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	

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

