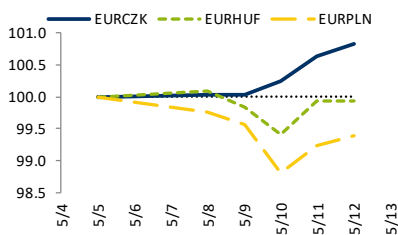


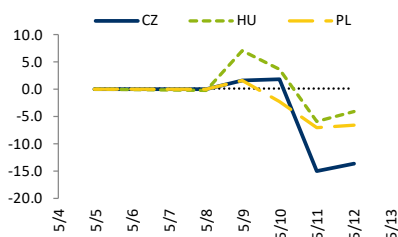
Friday, 12 May 2023

Forex markets (index)



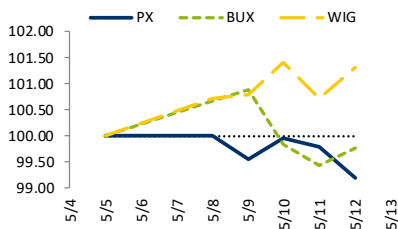
	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.59	23.54	0.20
EURHUF	371.6	371.6	-0.01
EURPLN	4.545	4.538	0.16

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.373	4.359	1.4
HUGB 10Y	7.72	7.70	0.2
PLGB 10Y	5.74	5.74	0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1379.5	1387.7	-0.59
BUX	46221	46074	0.32
WIG	63510	63144	0.58

Regional insights

As Czech inflation falls, government unveils fiscal restriction

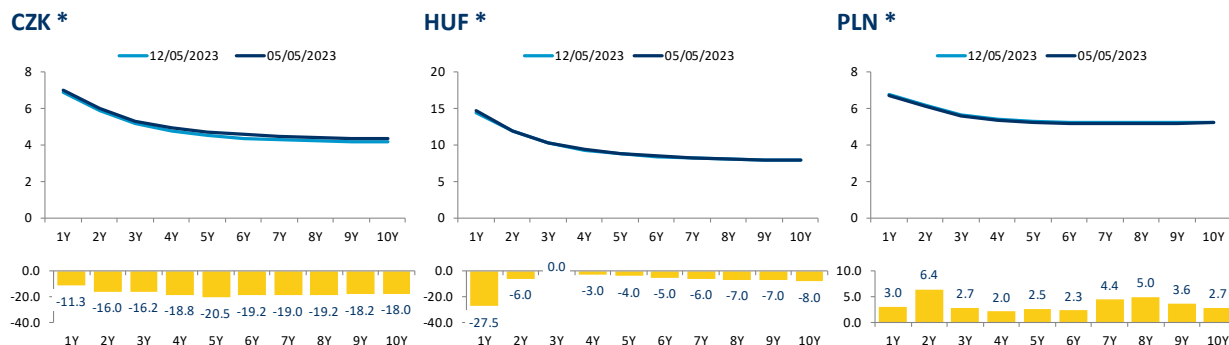
Czech inflation slowed more sharply than expected in April to 12.7% from 15% in March. On a month-on-month basis, prices fell by 0.2%, surprising both the market and the Czech National Bank (staff) to the downside.

The main surprise, however, was the hard-to-predict food prices, while core inflation slowed "plus or minus" as we expected, mainly due to imputed rent. Quite surprisingly, food prices were again not quite in line with the surveys among selected consumer products, with egg prices (-12.9%) and vegetable prices excluding potatoes (-5%) in particular falling more sharply. Thus, food and non-alcoholic beverage prices fell by 1.6% in the final quarter (instead of the rise we expected). In other categories of the consumer basket, deviations from our estimates were an order of magnitude smaller. On the positive side for core inflation, the slightly stronger (than expected) holiday discounts and lower spring price increases in the textiles section were positive news. On the other hand, prices of telecommunications and health services rose slightly faster. In line with expectations, fuel became cheaper.

Looking ahead, our estimates for the dynamics of core inflation have not changed significantly. However, lower food and beverage prices are likely to lead to lower headline inflation this year and early next year. At the moment, our model estimate points to average inflation of 10.6% this year (vs. our current estimate of 11% and the CNB's estimate of 11.2%) and, given the lower trajectory of food prices, there is a possibility of inflation falling to close to 2% in Q1 2024.

With regard to CNB's monetary policy for the coming months, we would not overestimate the April inflation figure. Rather, this year's wage dynamics and the government's CZK 94 billion consolidation package presented yesterday will be more crucial for deciding on the possible next tactical rate hike and the timing of the first rate cut. While wages, according to our estimates, may surprise the CNB with faster growth (especially in Q2) and be pro-inflationary, the unveiled budget package may be a new anti-inflationary factor (given that the last forecast did not foresee any consolidation of public finances). We are therefore still comfortable with our bets on the first drop in this year's rates with a slight delay compared to the forecast (in Q4 2023), and this is not changed by the Minutes of the last CNB Bank Board meeting published this morning. The Minutes have revealed that four Board members voted for the decision to leave interest rates unchanged: Governor Ales Michl, Jan Frait, Eva Zamrazilová and Jan Kubicek. Two of the board members, Karina Kubelková and Jan Procházka, voted in favour of a 50 bps in the first round of voting, and subsequently supported the proposal to hike rates by 25 bps in an attempt to find a broader consensus. Hence in the second round, two new board members, Karina Kubelkova, Jan Prochazka plus the only hawk Tomáš Holub, voted in favour of a 25 bps rate hike. This ratio of votes (four members for stability, three members for a 0.25 percentage point increase) was then communicated at a press conference after the monetary policy meeting last Wednesday.

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	05/12	10:00	Current account	CZK B 03/01/2023			11.2		13.0		13.3	
PL	05/12	14:00	NBP minutes	NBP 05/01/2023								
PL	05/15	10:00	CPI	% 04/2023 *F							0.7	14.7
PL	05/15	14:00	Current account	EUR M 03/01/2023							2586	
PL	05/15	14:00	Trade balance	EUR M 03/01/2023							2243.0	
HU	05/16	8:30	GDP	% 1Q/2023 *P							-0.4	0.4
PL	05/16	10:00	GDP	% 1Q/2023 *P							2.0	-2.4
PL	05/16	14:00	Core CPI	% 04/01/2023							1.30	12.3
CZ	05/18	9:00	PPI	% 04/01/2023							-1.0	10.2

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