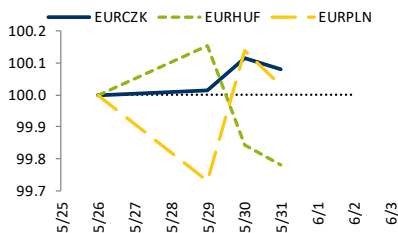


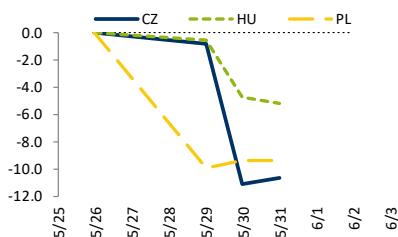
Wednesday, 31 May 2023

Forex markets (index)



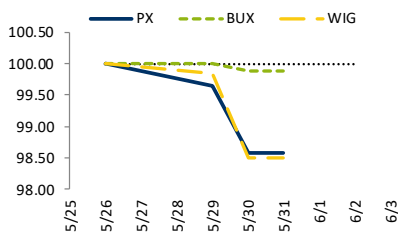
	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.70	23.71	-0.03
EURHUF	370.1	370.4	-0.06
EURPLN	4.532	4.537	-0.11

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.521	4.517	0.4
HUGB 10Y	7.96	7.96	-0.1
PLGB 10Y	6.06	6.06	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1298.9	1298.9	0.00
BUX	47516	47516	0.00
WIG	63820	63820	0.00

Our regional insights:

Polish headline inflation falls sharply in May

The Polish consumer price level was flat in May, which translates in another drop of the headline inflation (14.7% to 13.0%). Cuts in energy and fuel prices (-0.5% MoM and -4.5% MoM respectively) contributed significantly to the favourable inflation result in May. On the other hand, core inflation looks stickier as it probably remained above 11% YoY (CPI details have not been released). The May inflation readings will be appreciated by a dovish majority in the MPC but given the very high core inflation and a very tight labour market we see some aggressive call for early rate-cuts as a bit premature.

Weak Czech GDP growth supports flat CNB rates

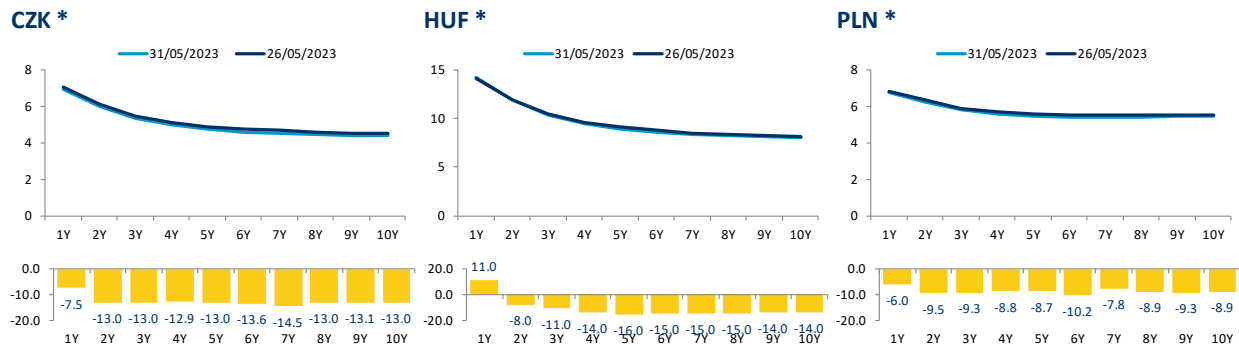
The Czech economy stagnated at the beginning of this year. This is according to the revised GDP estimate for the first quarter, which was revised down by a tenth of a percentage point to 0% quarter-on-quarter (-0.4% year-on-year). The result thus ended up slightly below our estimate and the CNB's spring forecast, which had assumed growth of 0.1% QoQ. Overall, the Czech economy continues to balance on the brink of recession, while still lagging behind compared to neighbouring economies - it is the only one, together with Spain, that has not yet managed to return even to the pre-pandemic GDP level of late 2019.

From the Czech central bank's perspective, yesterday's GDP result can be assessed as slightly dovish, which has been confirmed by the latest comments from CNB's Bank Board member Eva Zamrazilova. It was not just the downward revision of GDP, but the structure of growth was unfavourable too. The weak performance of the Czech economy at the beginning of the year was again due to domestic demand. Although household consumption fell a little more slowly than the central bank had expected, business investment and inventories fell much more sharply. By contrast, foreign trade continued to help the economy grow, but even here the structural picture is not particularly encouraging. Indeed, export growth slowed markedly, and the positive contribution of foreign trade was largely due to a surprising fall in imports, reflecting weak domestic demand.

Looking ahead, there are even more negative signals towards foreign trade. The business sentiment and new orders in German manufacturing have been going down in recent months and this may take the wind out of the sails of Czech exporters. They mention the lack of demand as the biggest obstacle to their own expansion now. Combined with still relatively weak household consumption, we therefore expect only a slow recovery of the Czech economy in the coming quarters. We expect full-year growth of 0.3%, slightly below the central bank's estimate of 0.5%.

In terms of the CNB's June meeting, the key information for central bankers will be the wage dynamics for the first quarter (June 5th). The figures from industry and construction point to an acceleration in wage dynamics, but we think this will ultimately be more of an argument for the majority of the Bank Board to keep rates at higher levels for longer. Yesterday's slightly weaker GDP advance estimate may also play a role in the Bank Board's interest rate debate in June.

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
HU	05/31	8:30	PPI	%	04/01/2023			-2.0	15.9			-1.2	21.7
PL	05/31	10:00	CPI	%	05/2023 *P			0	13.0	0.3	13.4	0.7	14.7
CZ	05/31	10:00	Money supply M2	%	04/01/2023				7.5				6.7
PL	05/31	10:00	GDP	%	1Q/2023 *F			3.8	-0.3			3.9	-0.2
HU	06/01	8:30	GDP	%	1Q/2023 *F					-0.2	-0.9	-0.2	-0.9
HU	06/01	8:30	Trade balance	EUR M	03/2023 *F								899
HU	06/01	9:00	PMI manufacturing		05/01/2023					57.0		61.9	
PL	06/01	9:00	PMI manufacturing		05/01/2023					46.0		46.6	
CZ	06/01	9:30	PMI manufacturing		05/01/2023					41.5		42.8	

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