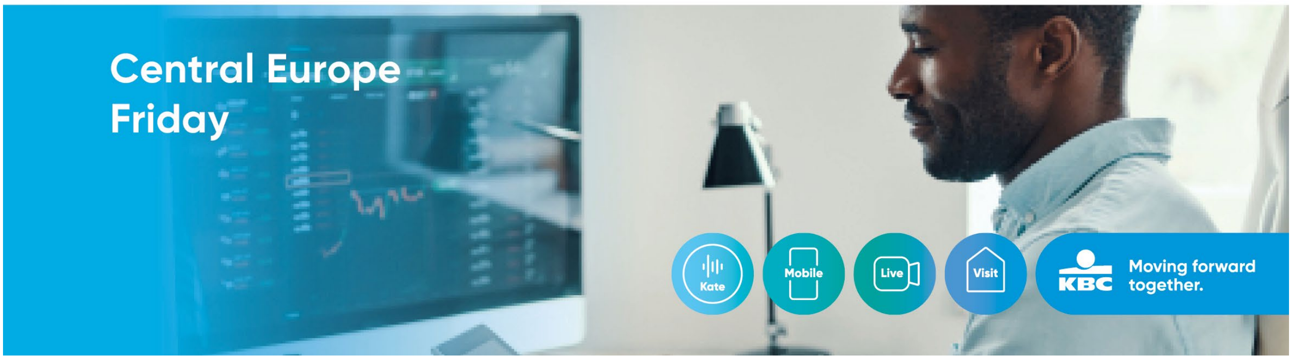
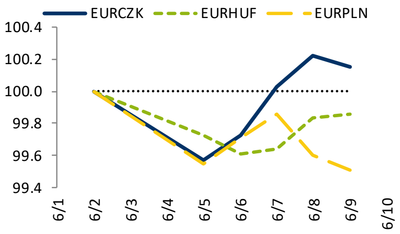
Public



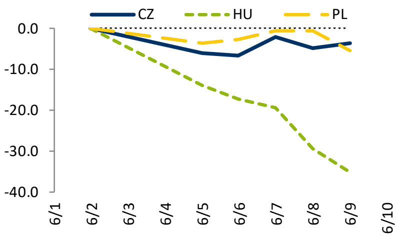
Friday, 09 June 2023

Forex markets (index)



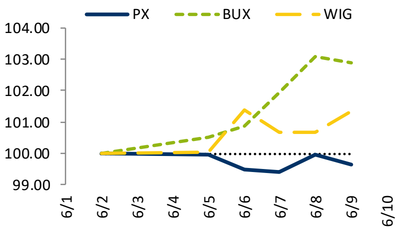
	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.66	23.67	-0.07
EURHUF	369.3	369.2	0.02
EURPLN	4.471	4.475	-0.09

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.454	4.442	1.2
HUGB 10Y	7.20	7.25	-0.8
PLGB 10Y	5.91	5.96	-0.8

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1311.2	1315.2	-0.30
BUX	49255	49342	-0.18
WIG	66544	66094	0.68

Regional insights

Another decline in inflation calls for more NBH rate-cuts

Yesterday, Hungarian inflation data for May were published. **The consumer price index slowed from 24% YoY in April to 21.5% YoY in May, well below the market expectation of 22.2%.** Core inflation also dropped from 24.8% YoY to 22.8% YoY respectively. So the gap between core and headline inflation widened from 0.8%pt to 1.3%pts.

There is **a strong disinflationary process among all subgroups** except for market services which price increase was stuck between 18-19% YoY during the last three months. Regarding food price inflation, unprocessed food prices increased 0.5% compared to the previous months, while the processed ones' prices moderated by 0.3% MoM (dairy and wheat products price moderated mainly).

The main **positive surprise for us come from tradeable goods** as prices suddenly moderated by 0.1% MoM, while there was a monthly increase of around 1% MoM in the first four months of the year. It looks like that the stable and relatively strong HUF finally starts to impact imported inflation. Additionally, the decline in retail trade (which dropped by 12.6% YoY in April and by 10.4% YoY in the first four months) is putting pressure on sellers. As we expect the net real wages to decrease till end of the summer, domestic demand may continue to suffer. Taking into account that during the holiday season households' spending may focus more on services and less on goods, tradeable goods inflation could remain relatively subdued in the coming months. But it also means that market services inflation could remain elevated.

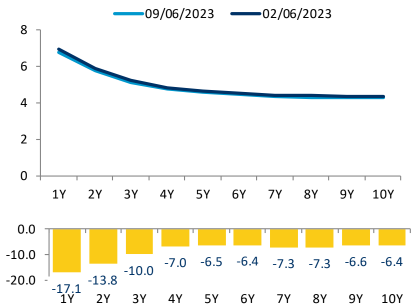
The 0.4% MoM decrease in headline inflation was a positive, but if we filter it from the direct energy decrease element (fuel price down by 6.6% MoM, market-priced energy by 2.6% MoM, gas price by 7.4% MoM) the inflation would increase by 0.1% MoM.

Even so, the broader the picture is rather constructive, because **there is a good chance that the November figure could already drop to single digit.** We now see average inflation for 2023 between 17.5-18% YoY. The **negative news** is that **core inflation** may remain stickier and may be around 10% YoY at the end of the year. Moreover, there is a high risk that core inflation will remain in the range of 5-7% YoY. In this respect it is troubling that inflation expectations increased slightly last month and stay in the range of 9-13% YoY.

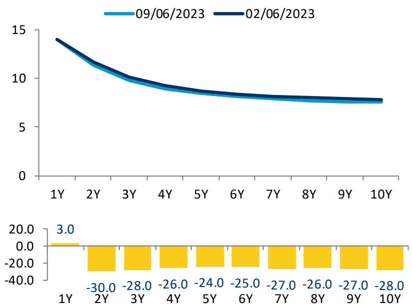
From monetary policy perspective **the NBH rate-cutting cycle could be continued with 100bps steps in the following months. The O/N deposit tender rate could be moderated to the level of base rate (13%) at the end of September.** Although the only forward guidance from the NBH related the base rate is that they want to have a positive real interest rate, we confirm our view that rate cut cycle could be continued after September as well. Moreover, we expected that the speed of rate cuts could be moderated from 100 bps to 50 bps from October. However; chance increased that there may be no slowdown if disinflation continues as it looks like now. It is also a positive news that trade balance delivered a surplus three months in a raw, resulting that the 12-months rolling trade deficit moderated from EUR8.8bn to EUR 5.4bn (there was a YTD surplus of EUR1.4bn in the first four months of the year). Taking in account current energy prices and suffering domestic consumption this trend is expected to continue, so the 12-month rolling trade balance may turn into positive territory already during 3Q23. As the NBH closely watches the external (im)balance, it is also an element which allows the central bank to continue easing its policy. The biggest threats for the monetary policy are partly politically driven – like what will happen with the EU funds money etc. – and partly externally driven – like evolution of energy prices, actions by key central banks and risk sentiment on global markets.

Interest-rate Swap Curves

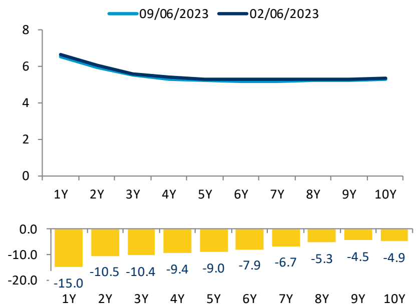
CZK *



HUF *



PLN *



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday). Source for all market data: Bloomberg

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
PL	06/09	14:00	NBP minutes	NBP	06/01/2023								
CZ	06/12	9:00	CPI	%	05/01/2023	0.3	11.1					-0.2	12.7
CZ	06/13	10:00	Current account	CZK B	04/01/2023							11.3	
PL	06/13	14:00	Current account	EUR M	04/01/2023					1590		1643	
PL	06/13	14:00	Trade balance	EUR M	04/01/2023					1434		608	
CZ	06/14	12:00	CZ bond auction 2021-2031, floating rate	CZK B	06/01/2023					5.0			
CZ	06/14	12:00	CZ bond auction 2023-2034, 4.90%	CZK B	06/01/2023					4.0			
PL	06/15	10:00	CPI	%	05/2023 *F							0	13.0
CZ	06/16	9:00	PPI	%	05/01/2023							-1.2	6.4
PL	06/16	14:00	Core CPI	%	05/01/2023						11.5	1.2	12.2
HU	06/20	14:00	NBH meeting	%	06/01/2023							13	
PL	06/21	10:00	PPI	%	05/01/2023							-0.7	6.8
PL	06/21	10:00	Industrial output	%	05/01/2023							-14.8	-6.4
PL	06/21	10:00	Wages	%	05/01/2023							-1	12.1
CZ	06/21	14:30	CNB meeting	%	06/01/2023							7	

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