

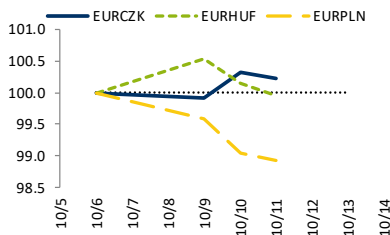
# Central Europe Wednesday



Moving forward  
together.

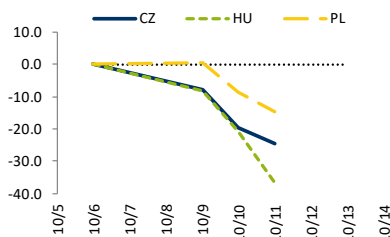
Wednesday, 11 October 2023

## Forex markets (index)



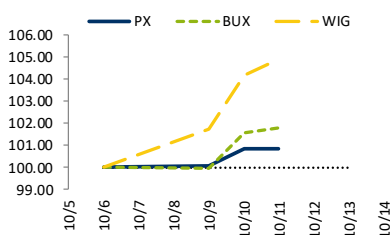
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.53	24.56	-0.10
EURHUF	386.3	387.1	-0.20
EURPLN	4.529	4.535	-0.12

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.644	4.693	-4.9
HUGB 10Y	7.33	7.49	-2.1
PLGB 10Y	5.84	5.90	-1.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1343.9	1344.2	-0.03
BUX	56072	55948	0.22
WIG	67008	66571	0.66

## Our regional insights:

### Sharp fall in Czech inflation opens door to CNB's cuts

The Czech inflation came in well below our and the market's expectations. Consumer prices fell 0.7% MoM in September (we expected -0.2%), bringing the annual inflation rate down from 8.5%Y/Y to 6.9% YoY. Hence, the low September inflation figure **increases the likelihood that the CNB will seriously consider a first modest rate cut (-0.25bps) as early as the November meeting.**

The **inflation surprise was mainly driven by lower food prices** (-1.6%). Surprisingly, virtually all food categories (from fruit and vegetables to dairy products and meat) fell. At the same time, price momentum in some parts of core inflation also appeared to have slowed. Seasonal discounting for holidays was much more pronounced, and the inflationary momentum in the restaurant sector, which may be starting to hit weaker real demand, is also slowing.

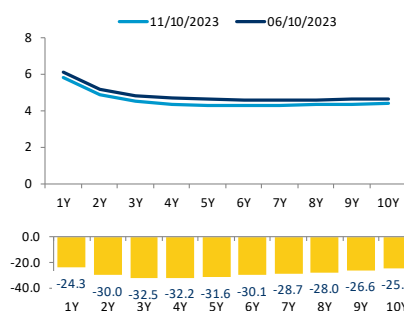
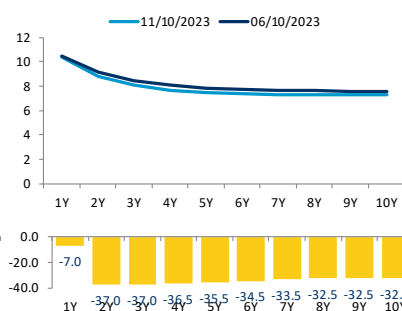
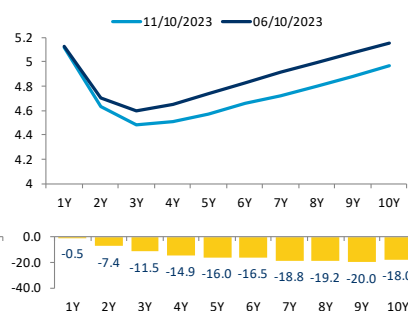
The new inflation figures are **a dovish surprise for the Czech central bank** in three main points:

1. Lower inflation in September means **lower inflation for the rest of the year**. The rise in Q4 will be less significant (closer to 8% than 9%).
2. In addition, **unless food prices start to rise again quickly**, it is **likely that the January inflation will also be somewhat lower than expected** and could end up close to the latest CNB forecast (2.5%).
3. CNB's official calculations confirmed **a slight decline in the core inflation**. This also implies a slowdown in medium-term inflation risks.

The **latest Czech inflation readings therefore increase the likelihood that the Czech central bank will deliver to a first modest rate cut as early as the November meeting.** However, we rather see only a modest 25bps cut, while we stick to our year-end forecast for the official rate at 6.5% (so, 50bps down in aggregate this year). This would essentially be the approach advocated by CNB Board member Tomas Holub at the last meeting (according to the CNB Minutes). He argued to start cutting rates more gradually at the end of this year and not to surprise the markets with a significant rate cut like the neighbouring Polish NBP. Moreover, **still elevated inflation expectations, more expensive fuel and the weakening koruna continue to argue against aggressive easing** in a Polish (or Hungarian) fashion.

Jan Bures, CSOB Prague

## 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
CZ	10/11	12:00	CZ bond auction 2023-2043, floating rate	CZK B	10/01/2023					5			
HU	10/11	14:00	NBH minutes	NBH	09/01/2023								
CZ	10/13	10:00	Current account	CZK B	08/01/2023					-22.3		-16.5	
PL	10/13	10:00	CPI	%	09/2023 *F							-0.4	8.2
PL	10/13	14:00	Current account		08/01/2023					899		566	
PL	10/13	14:00	Trade balance	EUR M	09/01/2023					921		1068	
PL	10/15	21:00	Parliamentary elections										
CZ	10/16	9:00	PPI	%	09/01/2023							0.2	1.8
PL	10/16	14:00	Core CPI	%	09/01/2023							0.3	10.0

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