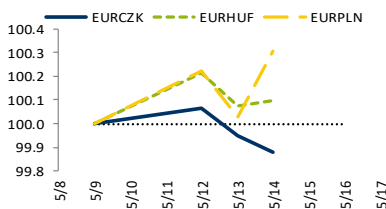
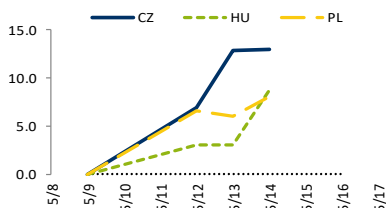




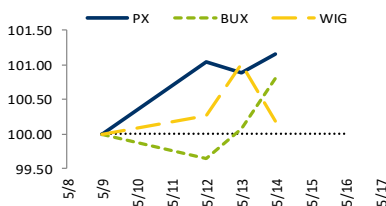
Wednesday, 14 May 2025

**Forex markets (index)**

	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.92	24.94	-0.07
EURHUF	404.4	404.3	0.02
EURPLN	4.247	4.235	0.28

**Gov. bonds 10 Y (bps change)**

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.200	4.199	0.1
HUGB 10Y	6.97	6.92	0.8
PLGB 10Y	5.44	5.42	0.4

**Equity indices (index)**

	LAST	PREVIOUS	CHANGE (%)
PX	2170.8	2164.9	0.27
BUX	94813	94133	0.72
WIG	103435	104281	-0.81

## Our regional insights:

### CNB will focus on domestic labour market

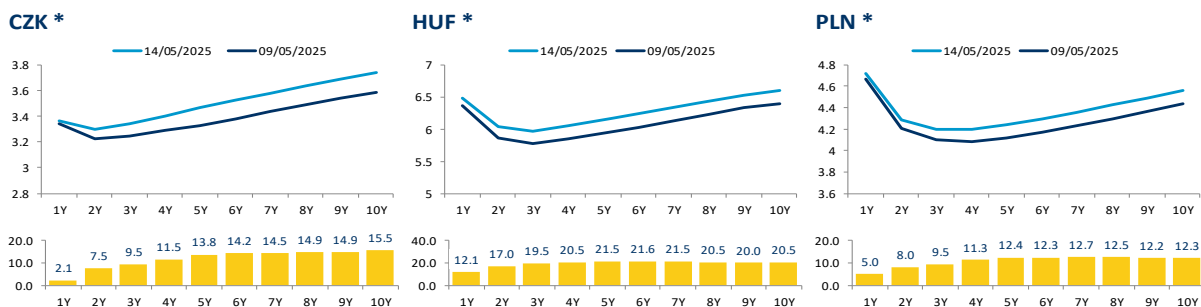
The Czech economy has entered 2025 relatively optimistic, which is why the Czech central bank remains relatively cautious about further interest rate cuts after its latest meeting. CNB's governor Michl warned that further interest rate cuts could only be imagined if he saw domestic inflation risks fading. What does he mean by that?

The CNB is still not comfortable with the inflation details, which has been helped down this year by faster falling energy and fuel prices, but the momentum in services inflation remains relatively strong. The story is still the same. After the energy crisis, we are seeing the second year in a row of real wage growth in Czech households, which is primarily reflected in demand for services. Moreover, services such as hospitality, hotels, recreation or culture are in principle more limited in supply and can have higher pricing power – so, the inflation momentum in these segments is close to 4% rather than 2%. The situation is even more difficult for housing-related services, where supply has been lagging behind demand for a long time and lower interest rates have visibly worsened the situation, at least for owner-occupied housing (imputed rent).

The CNB will thus probably want to see signs of a slowdown in wage growth (cooling in the labour market) and a related decline in the inflationary momentum in services before cutting rates further. In our view, the central bank will be particularly sensitive to how the ongoing trade tensions affect the labour market numbers. Industry has been continuously cutting jobs for the last two years and until now services have been able to compensate. However, this may not last forever, as the recent higher increases in the registered unemployment rate (recall the April release when the rate edged up to 4.3 %) somewhat confirm. And a cooler labour market may ultimately mean less willingness to spend freely on services or invest in property.

All in all, we expect high trade tensions to lead to slightly slower growth in the Czech economy this year (1.7%) than the CNB's forecast (2.0%), and we will eventually see a slight slowdown in wage growth too. However, the cooling in the labour market will not be dramatic, and we therefore expect only two very cautious rate cuts (one this year and the other in early 2026) to a terminal rate in this cycle, which should stand at the 3.0% level.

## Interest-rate Swap Curves



\* 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	05/14	10:00	Current account	CZK B	03/2025			42.54		29.00		43.79	
CZ	05/14	12:00	CZ Bond auction 2025-2034, 4.25%	CZK B	05/2025					5			
CZ	05/14	12:00	CZ bond auction 2024-2036, 3.60%	CZK B	05/2025					4			
CZ	05/14	12:00	CZ bond auction 2024-2044, 4.00%	CZK B	05/2025					1			
HU	05/14	14:00	Minutes of the monetary policy meeting	NBH	04/2025								
PL	05/14	14:00	Current account	EUR M	03/2025					57		-220	
PL	05/14	14:00	Trade balance	EUR M	03/2025					-581		-919	
PL	05/15	10:00	CPI	%	04/2025 *F							0.4	4.2
PL	05/15	10:00	GDP	%	1Q/2025 *P					0.1	3.2	1.3	3.2

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