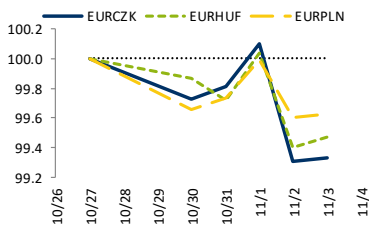


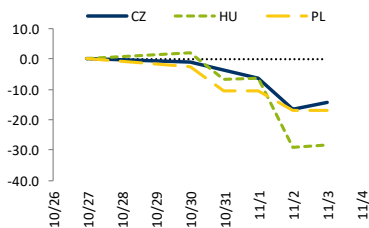
Friday, 03 November 2023

Forex markets (index)



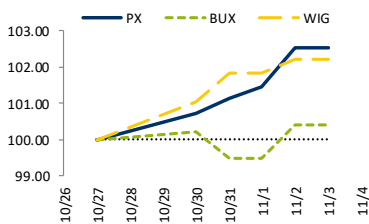
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.47	24.46	0.02
EURHUF	381.6	381.3	0.07
EURPLN	4.450	4.449	0.02

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.565	4.543	2.2
HUGB 10Y	7.27	7.26	0.1
PLGB 10Y	5.59	5.59	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1385.2	1385.2	0.00
BUX	56540	56540	0.00
WIG	71835	71835	0.00

Regional insights

The CNB on hold while keeping a hawkish bias

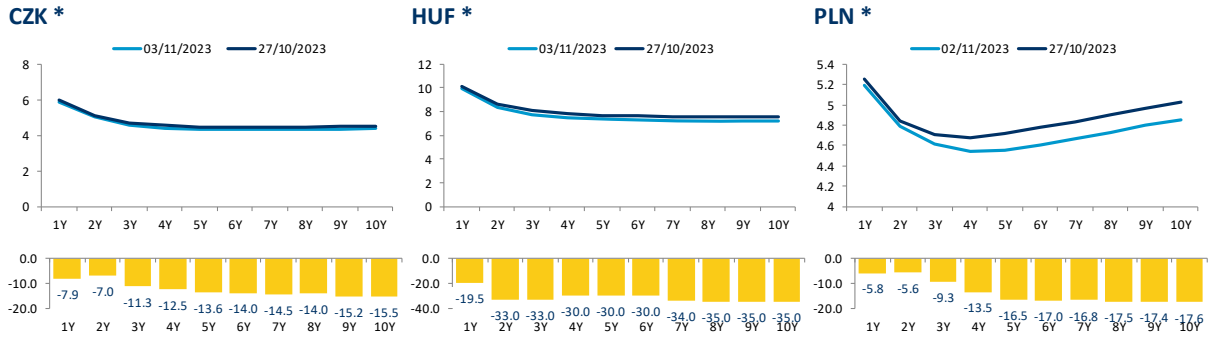
The Czech central bank left the interest rate unchanged at 7%. 5 board members voted in favour of this decision, while 2 members preferred a 25bps rate cut. The market discounted such 25bps rate cut, so no wonder that the Czech koruna strengthened in response to the decision. Moreover, the **press conference of CNB governor Michl was again quite hawkish. We now expect the first rate cut to be only 25bps (to 6.75%) in December.** Moreover, the risks are skewed towards a later start of the easing cycle.

The CNB's new staff forecast assumes weaker economic growth, both this year (-0.4% instead of +0.1%) and especially next year (+1.2% instead of +2.3%). Interestingly, even with such weak economic growth, the forecast does not indicate a faster fall in rates (than assumed in the summer). This is probably because the central bank's weaker economic performance does not translate into the labour market situation or inflationary pressures (which are, on the contrary, cosmetically higher for 2024 and 2025).

Moreover, CNB governor Michl mentioned that upside risks to inflation clearly prevailed. **The main risk is unanchored inflation expectations, which, according to the Bank Board, increase the likelihood of stronger wage demands next year** and also a stronger January effect of adjusting menu costs. In both areas, the Bank Board may have more clarity at the December meeting - recall that we will know the wage dynamics for 2023Q3 and at the same time some leading indicators showing the strength of the January re-pricing effect (seasonal ticket prices, subscription prices...).

All in all, we expect Czech official interest rates to start declining only slowly in December (-25bps to 6.75%), while **we do not need to change our outlook for the end of 2024 (4%). However, the risks are skewed towards a later start of the ČNB easing cycle given the current balance of power in the Bank Board.** Let us add that the outcome of the CNB's December meeting will be influenced by several domestic factors: upcoming wage numbers, the detailed GDP structure and the inflation figures for October and November (especially the momentum of core and services inflation).

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	11/06	9:00	Construction output	%	09/01/2023							-0.2
CZ	11/06	9:00	Industrial output	%	09/01/2023							-1.7
CZ	11/06	9:00	Trade balance (national)	CZK B	09/01/2023							-3.8
HU	11/07	8:30	Industrial output	%	09/01/2023							-2 -6.1
CZ	11/07	9:00	Retail sales ex autos	%	09/01/2023							-2.8
CZ	11/07	10:00	FX reserves of the CNB	EUR B	10/01/2023							131.4
HU	11/08	8:30	Retail sales	%	09/01/2023							-7.1
HU	11/08	8:30	Trade balance	EUR M	09/2023 *P							
CZ	11/08	9:00	Unemployment rate 15-64	%	10/01/2023							3.6
CZ	11/08	12:00	CZ bond auction 2022-2026, 6.00%	CZK B	11/01/2023					4.0		
CZ	11/08	12:00	CZ Bond auction 2023-2032, 4.50%	CZK B	11/01/2023					3.0		

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