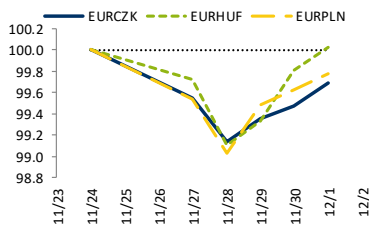


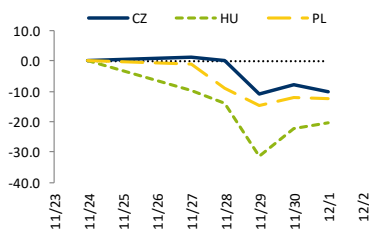
Friday, 01 December 2023

Forex markets (index)



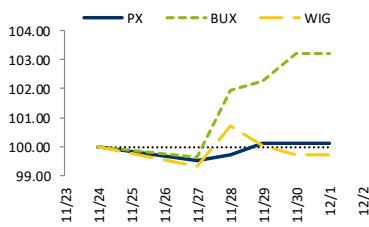
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.35	24.30	0.21
EURHUF	380.9	380.1	0.22
EURPLN	4.357	4.350	0.15

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.237	4.260	-2.3
HUGB 10Y	6.86	6.84	0.2
PLGB 10Y	5.50	5.50	-0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1389.2	1389.2	0.00
BUX	57879	57878	0.00
WIG	74264	74264	0.00

Regional insights

Lower core inflation will not trigger another NBP cut

Polish inflation eased slightly in November, as the headline CPI index stood at 6.5% YoY. The slowdown in inflation was made possible by lower electricity and gas prices for households. Conversely, increases in fuel prices (petrol and diesel) pushed up the price level. As for core inflation, which has not yet been released, we estimate that it slowed from 8.0% YoY in October to 7.2% in November.

All in all, we believe that the lower November inflation readings will not change the policy stance of the NBP, which surprised with a visible hawkish pivot after the October general elections. Therefore, we maintain our view that the NBP could deliver the next rate cut in 2024Q1 (probably in March).

Czech PMI still weak, GDP revised to deeper contraction

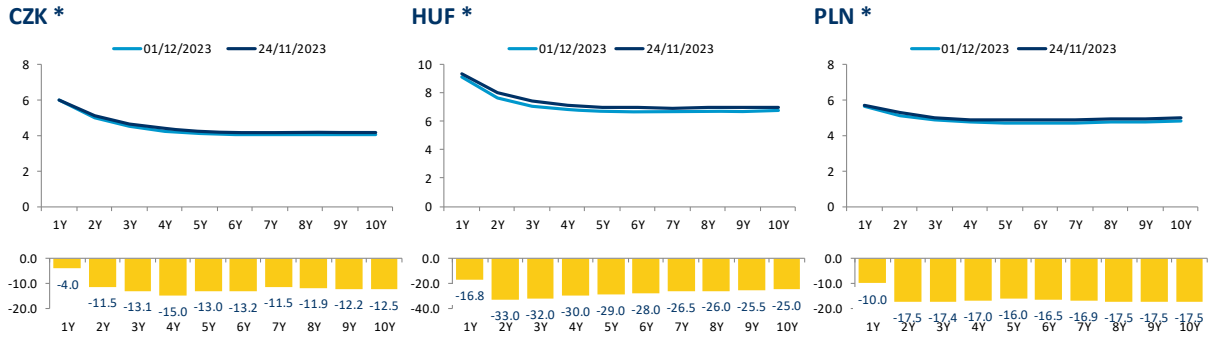
The gloomy mood in the Czech manufacturing sector persisted in November. Although the Purchasing Managers' Index (PMI) rose slightly from 42 in October to 43.2, it remains well below the 50-point threshold, suggesting that the industrial slowdown is continuing. As in Germany, this has been the case since the middle of last year and, despite some signs of improvement, the outlook remains mixed at best.

In the manufacturing sector, output continues to fall and new orders are also falling, although the pace of decline has slowed. New export orders fell particularly sharply in November, with manufacturers citing a deterioration in the purchasing power of foreign customers, particularly in Germany. This is unsurprising given the weak performance of the local industrial sector, which has been on a downward trend since 2018. In particular, the energy-intensive manufacturing sector has been under pressure since the onset of the energy crisis, falling by almost 20% since January 2022.

In summary, today's PMI confirms the poor state of the Czech industry in the last quarter of the year. We expect the Czech economy to end the year on the brink of recession, after today's GDP revisions. Recall that the Czech economy contracted by 0.5% in Q3 (initial flash estimate -0.3%), again surprising the market and the CNB with a worse result. Although the previous quarter's estimate was revised upwards, the year-on-year decline was still amplified to -0.7% (versus our estimate and the CNB's estimate of -0.6%).

Today's weak PMI result and the negative GDP revision are undoubtedly dovish signals for the Czech central bank, hence increasing the likelihood of a December rate cut (still only 25bps in our view).

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
HU	12/01	8:30	GDP	% 3Q/2023 *F			0.9	-0.4	0.9	-0.4	0.9	-0.4
HU	12/01	8:30	Trade balance	EUR M 09/2023 *F			1340				1263	
CZ	12/01	9:00	GDP	% 3Q/2023 *P			-0.5	-0.7	-0.3	-0.6	-0.3	-0.6
HU	12/01	9:00	PMI manufacturing	11/01/2023			52.2		50.7		50.5	
PL	12/01	9:00	PMI manufacturing	11/01/2023			48.7		45.5		44.5	
CZ	12/01	9:30	PMI manufacturing	11/01/2023			43.2		42.9		42	
CZ	12/01	14:00	Budget balance	CZK B 11/01/2023							-210.7	
CZ	12/04	9:00	Real wages	% 3Q/2023								-3.1

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