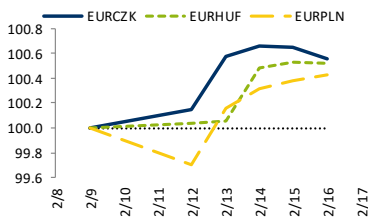


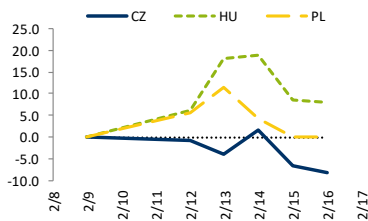
Friday, 16 February 2024

**Forex markets (index)**



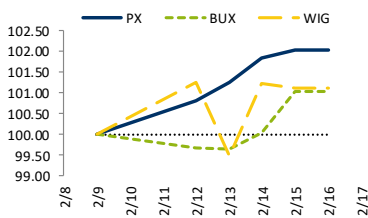
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.38	25.40	-0.10
EURHUF	389.1	389.2	-0.01
EURPLN	4.346	4.344	0.04

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.692	3.708	-1.6
HUGB 10Y	6.23	6.24	0.0
PLGB 10Y	5.35	5.35	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1482.3	1482.3	0.00
BUX	65661	65661	0.00
WIG	79333	79333	0.00

## Regional insights

### January inflation shows a significant decline, more aggressive cuts are expected

January inflation in the Czech Republic rose by only 1.5% month-on-month and, as a result, the year-on-year rate slowed to 2.3%, ending up visibly below our estimate (2.8%), the market estimate (2.9%) and the CNB estimate (3.0%).

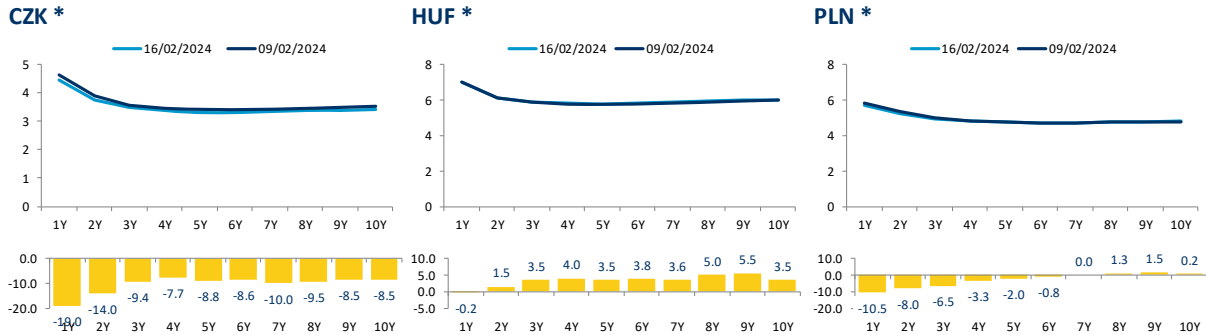
Compared to our estimate, food prices rose at a slower pace and energy prices also rose slightly less in January. The main surprise, however, was the sharp fall in prices in the imputed rent (-1.0%). This is a bit of a "black box", which takes into account the prices of owner-occupied housing and includes, in addition to property prices, prices of construction work. The key point is that imputed rent has a major weight in core inflation, which thus surprised us and the CNB with a lower value.

Importantly, January's figure typically sets the bar for the whole year, implying that the overall inflation trajectory in 2024 will thus move down. It is likely that inflation will continue to slow in the coming months, and it may be visibly below the central bank's target (close to 1.5%) for some time in the summer. Average inflation for 2024 will thus be in the vicinity of 2.1-2.2% instead of the 2.7% originally forecasted.

Following today's inflation numbers, the likelihood of more aggressive monetary easing during 2024 has risen significantly. We are thus revising our 2024 year-end rate outlook from 4.0% to 3.5%, and we do not rule out a 75bps rate cut in the coming months (although the baseline scenario remains a 50bps move). The following three factors will encourage the CNB to exercise some caution. First, a number of core items (ignoring imputed rent) has maintained relatively strong inflationary momentum - hospitality, leisure and cultural services prices are rising briskly. Second, inflation expectations have so far remained visibly above target and nominal wages are also likely to rise relatively quickly this year (by over 5%). Third, the koruna is significantly weaker than expected in the central bank's latest forecast (by over 3%).

We therefore consider slightly more likely that the pace of rate cuts will be maintained at 50bps steps for the time being, which is also reflected in the first post-inflation comments by Eva Zamrazilová and Ales Michl. On the other hand, the 75bps rate cut debate will certainly be on the table and a more significant move cannot be ruled out.

## 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	02/16	11:00	CNB minutes	CNB	02/2024							
PL	02/20	10:00	Wages	%	01/2024						4.7	9.6
PL	02/20	10:00	Industrial output	%	01/2024						-9.80	-3.9
PL	02/20	10:00	PPI	%	01/2024						-0.8	-6.4
PL	02/21	10:00	Retail sales	%	01/2024						11	-2.3
CZ	02/21	12:00	CZ bond auction 2023-2043, floating rate	CZK B	02/2024				4.0			
HU	02/22	8:30	Wages	% ytd.	12/2024							13.9
PL	02/22	14:00	Money supply M3	%	01/2024						1.3	8.5
HU	02/23	8:30	Unemployment rate	%	01/2024						4.2	
PL	02/23	10:00	Unemployment rate	%	01/2024						5.1	

## Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias van der Jeugt	+32 2 417 51 94	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95	Institutional Desk	+32 2 417 46 25
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Čermák	+420 2 6135 3578	Prague (Equities)	+420 2 2142 4216
Jan Bureš	+420 2 6135 3574		
Bratislava Research (CSOB)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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