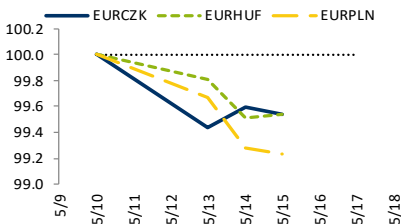




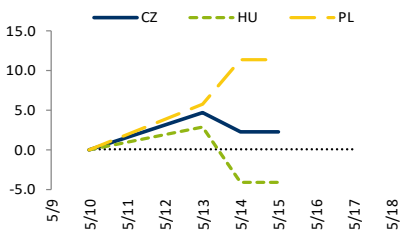
Wednesday, 15 May 2024

**Forex markets (index)**



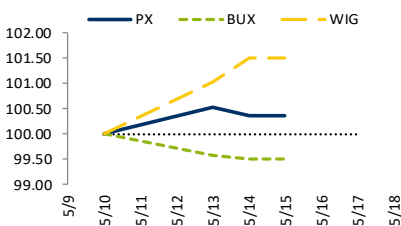
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.80	24.82	-0.06
EURHUF	385.9	385.8	0.03
EURPLN	4.267	4.268	-0.04

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.078	4.078	0.0
HUGB 10Y	6.74	6.74	0.0
PLGB 10Y	5.71	5.71	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1555.8	1555.8	0.00
BUX	68864	68864	0.00
WIG	87797	87797	0.00

**Our regional insights:**

**Hawkish CNB and better fundamentals support CZK**

The roughly year-long trend of a weakening koruna seems to be over. The Czech currency has strengthened by around three percent against the euro since mid-April. So, although the koruna may move to weaker levels in the short term, we believe it will not only hold the current gains, but it may even extend them further over the 12-18 months horizon.

On the domestic front, the CZK may benefit from the change in expectations regarding CZK rate cuts. The CNB has come out with a new hawkish staff forecast, which envisages a much higher repo rate by the end of the year at 4.4% (vs. 3% in the winter forecast). The yield curve also prices-in a more cautious approach from the CNB. Importantly, for the first time in a long while, there is agreement among Czech central bankers with the (hawkish) staff forecast as well as with market expectations.

We are also counting on more cautious rate cuts by the CNB in our updated outlook. In our view the Czech central bank will continue to cut interest rates at a pace of 25bps, implying a repo rate of 4.0% at the end of the year with a terminal level of 3.5% in Q1 2025. This scenario is supported by a higher-than-expected April inflation (2.9% YoY). While it was largely driven by volatile food prices (core inflation fell slightly), from a psychological point of view the higher headline inflation is an argument in favour of a more cautious CNB (easing) approach.

Higher expected official rates in the Czech Republic are the main reason why the koruna remains immune to a rather hawkish pricing of the official interest rates in core markets – especially in the US. For this year, markets are discounting only 50bps rate cuts in the US, which implies that Czech short-term rates will be significantly below USD money market rates in the second half of the year.

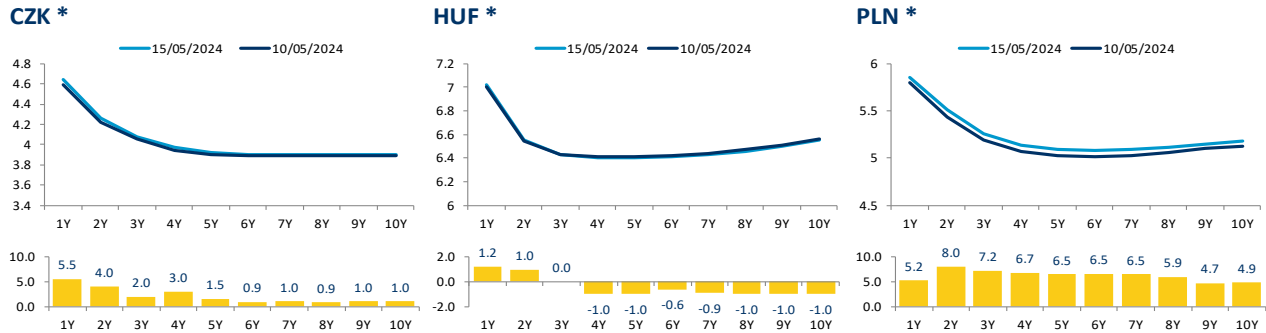
All in all, we continue to see a gradual appreciation of the koruna – specifically, we expect the EUR/CZK pair at around 24.70 at the end of this year. We should add that in the longer term, we are also betting on better Czech macro fundamentals – especially on the current account balance of payments, which has already moved back to a surplus (on a 12M moving average basis).

**Polish growth fails to impress in the 1<sup>st</sup> quarter**

The Polish growth basically matched markets expectations as seasonally adjusted GDP was higher by 0.4% than in the previous quarter according to the flash estimate delivered by the Polish statistical office. This implies that the economy grew 1.9% YoY.

Looking at quarter-on-quarter growth rates, the Polish economy seems to be underperforming its regional peers, which is a rather rare moment.

## 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
PL	05/15	10:00	CPI	% 04/2024 *F			1.1	2.4			1.0	2.4
PL	05/15	10:00	GDP	% 1Q/2024 *P			0.4	1.9	0.6	1.8	0	1.0
CZ	05/15	12:00	CZ Bond auction 2023-2032, 4.50%	CZK B 05/2024					5			
CZ	05/15	12:00	CZ bond auction 2023-2034, 4.90%	CZK B 05/2024					3			
CZ	05/15	12:00	CZ bond auction 2021-2037, 1.95%	CZK B 05/2024					1			
PL	05/16	14:00	Core CPI	% 04/2024					0.7	4.1	0.5	4.6
CZ	05/20	9:00	PPI	% 04/2024							-0.1	0.0
HU	05/21	14:00	Policy rate	NBH 05/2024								

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