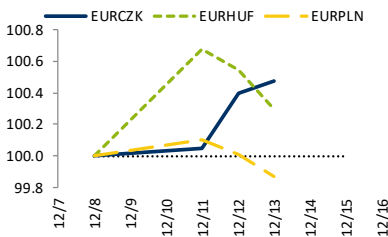


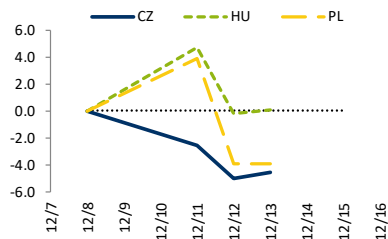
Wednesday, 13 December 2023

Forex markets (index)



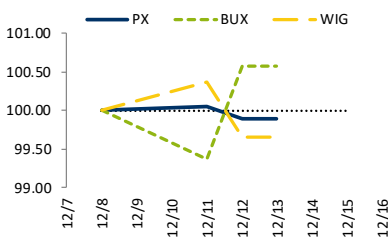
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.52	24.50	0.07
EURHUF	382.0	382.9	-0.25
EURPLN	4.326	4.333	-0.14

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.027	4.023	0.4
HUGB 10Y	6.46	6.46	0.0
PLGB 10Y	5.30	5.30	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1406.0	1406.0	0.00
BUX	59005	59005	0.00
WIG	76841	76841	0.00

Our regional insights:

Czech inflation slowed as expected

In line with our expectations, consumer prices rose only marginally month-on-month in November (+0.1%), which led to a slowdown in the year-on-year inflation rate from 8.5% to 7.3% (CNB 7.1%).

Looking at the inflation structure, we were surprised by the faster increase in electricity prices (+1.6%), which is probably due to the end of longer fixings for some clients (there were no major tariff changes in November). On the other hand, food and non-alcoholic beverages prices fell slightly more sharply month-on-month (-0.4%). However, the trend is very uneven - cheaper meat and eggs vs. more expensive vegetables and cheese. And fuel prices also fell somewhat more sharply (-3.4% mom).

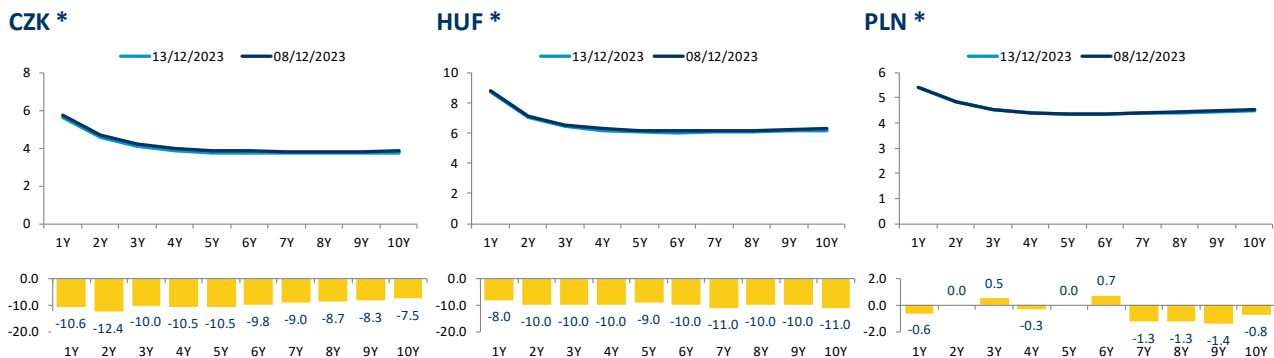
From the CNB's perspective, it remains crucial to monitor the momentum of core inflation. In this respect, it is undoubtedly positive to see a continued easing of pressures in the culture and recreation section and somewhat more moderate growth in rents and prices in the hospitality and hotel sector. On the other hand, the renewed rise in imputed rents, which have a relatively high weight in core inflation, is a little worrying (see chart). Overall, however, the November figures also confirm the CNB's forecast assumption of a gradual unwinding of core inflationary pressures. In our view, the door is open for the first modest rate cut in December.

However, the December meeting remains very uncertain - the more cautious board members may be concerned about a combination of high inflation expectations (in the corporate sector) and the stronger effect of the January repricing. In this context, some of the recent news does indeed not sound entirely optimistic. In particular, the January food price movement, where the outcome of negotiations between the government and retail chains has indicated that, notwithstanding the VAT cut, retail chains will increase prices in January (especially dairy products and vegetables). This is also why we have revised our January 2024 inflation estimate upwards - currently to +2.1% mom and 3.3% yoy. As a result, we have also moved up our inflation estimate for full-year 2024 to 2.9% (the CNB estimated 2.6% in its November forecast).

From the CNB's point of view, the prospect of January's food and energy price hikes (for some households) is undoubtedly unpleasant, but unless they are reflected in more significant price increases in the core segments of the consumer basket, led by services, this time around, room for lower interest rates will open up next year anyway. Moreover, some leading indicators so far suggest that January's price increase in services may not be that significant. These include the relatively low inflation momentum in subscriptions and season tickets.

Even after Monday's figures, we continue to expect the first slight decline in rates (-25bps) at the December meeting in the baseline scenario. However, the decision is likely to be very close and a shift of the first move to 2024 cannot be ruled out (scenario probabilities 55%:45%).

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	12/13	12:00	CZ Bond auction 2023-2032, 4.50%	CZK B 12/01/2023					4			
CZ	12/13	12:00	CZ bond auction 2023-2034, 4.90%	CZK B 12/01/2023					3			
CZ	12/13	12:00	CZ bond auction 2021-2037, 1.95%	CZK B 12/01/2023					2			
CZ	12/14	10:00	Current account	CZK B 10/01/2023					7.8		33.4	
PL	12/14	14:00	Current account	EUR M 10/01/2023					1792		394	
PL	12/14	14:00	Trade balance	EUR M 10/01/2023					817		801	
PL	12/15	10:00	CPI	% 11/2023 *F							0.7	6.5
CZ	12/18	9:00	PPI	% 11/01/2023							-0.1	0.2
PL	12/18	14:00	Core CPI	% 11/01/2023							0.6	8.0
HU	12/19	14:00	NBH meeting	NBH 12/01/2023							11.5	

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