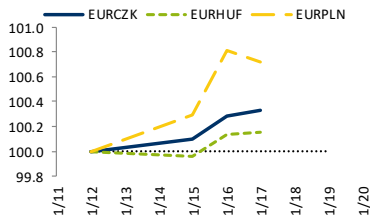


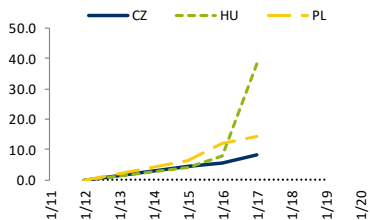
Wednesday, 17 January 2024

Forex markets (index)



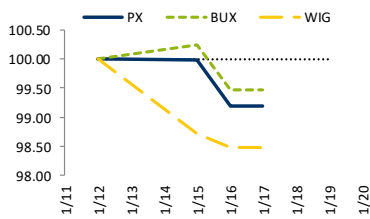
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.75	24.74	0.04
EURHUF	379.7	379.6	0.02
EURPLN	4.389	4.393	-0.09

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.871	3.843	2.8
HUGB 10Y	5.92	5.62	5.4
PLGB 10Y	5.22	5.19	0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1445.8	1445.8	0.00
BUX	63293	63293	0.00
WIG	74950	74950	0.00

Our regional insights:

Hungary's inflation falls faster; will the NBH react?

December inflation readings surprised generally to the downside in Central Europe, which might point to important monetary policy implications in 2024. **Hungary has been an example of a country where inflation has been surprising to the downside for several months.** December was no exception as the consumer price index moderated from 7.9% YoY in November to 5.5% YoY in December. The core inflation slowed as well from 9.1% YoY in November to 7.6% YoY in December and so the average core inflation was 18.2% YoY in 2023.

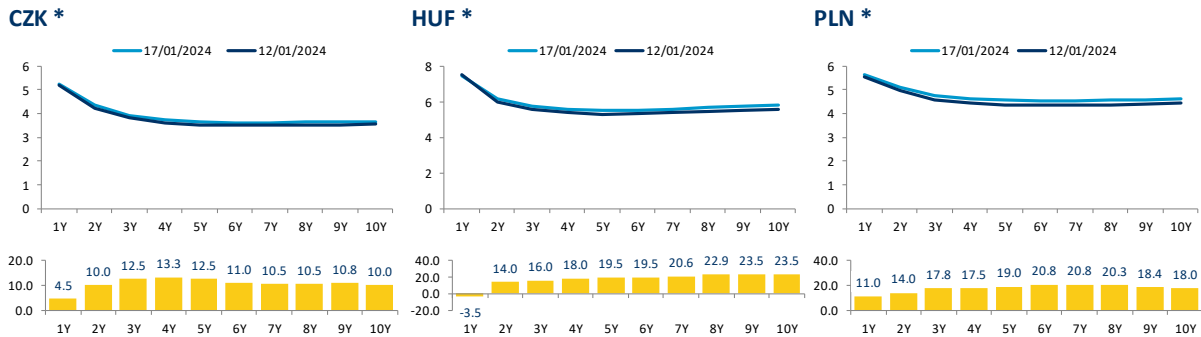
This time the surprise factor for us came from the food, where prices were down by 0.2% compared to the previous month and are well below the long-term average. The fuel prices dropped by 5% MoM, which was also slightly more than we expected. Finally, gas prices decreased by 2.8% MoM as households used less gas. It is interesting that since the gas prices increased by 221% in August 2022, they decreased almost every month. It means that the households are using less gas and now the gas price is only 40% higher than it was before the gas price hike. Meanwhile, market services price went up by 0.3% MoM, which was above the average of long-term price increase, and it suggests that some inflationary pressure still exists.

So, the main question is the how strong the re-pricing was at the beginning of this year. The prices went up substantially in January 2023, so the base is still high and taking in account the suffering domestic demand we think that price hikes might be softer in 2024. **We expect that inflation might moderate below 5% YoY in January and there is a chance that headline inflation figure may temporarily slip below 4% YoY during the spring.**

Although we are quite optimistic in short-term, we are more pessimistic in medium-term. The main reasons are the geopolitical conflicts, increasing transportation costs, the high wage increase and the strengthening domestic consumption. We expect that some inflationary pressure may return in the second half of the year, which may push back headline inflation above 5% YoY till the end of the year, but it will highly depend on the harvest of this year as well.

The low read of inflation rises the question that the NBH may accelerate its rate cutting cycle. If we look on the development of core inflation and the possible external risks, it requires rather cautiousness approach from NBH and a continuation of 75bps rate cuts in the coming months. But the risk is definitely that the NBH may accelerate the pace of rate cuts now and stop earlier the easing cycle, which would be a new approach from the central bank (compared to the previous months statements). Of course, ECB and FED communications and decisions will be crucial in the NBH decision making, **but we expect still a 75bps cut for January (30th).**

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	01/17	9:00	PPI	% 12/01/2023			-0.5	1.4	-0.2	1.6	-0.4	0.8
PL	01/19	10:00	PPI	% 12/01/2023					-0.6	-5.8	-0.8	-4.7
PL	01/22	10:00	Industrial output	% 12/01/2023							0.2	-0.7
PL	01/22	10:00	Wages	% 12/01/2023							1.7	11.8
PL	01/22	10:00	Retail sales	% 12/01/2023							-2.8	-0.3
PL	01/24	10:00	Unemployment rate	% 12/01/2023							5.0	
CZ	01/24	12:00	CZ bond auction 2017-2027, 0.25%	CZK B 01/01/2024					4			
CZ	01/24	12:00	CZ bond auction 2022-2035, 2.50%	CZK B 01/01/2024					3			
PL	01/24	14:00	Money supply M3	% 12/01/2023							-0.1	7.6

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