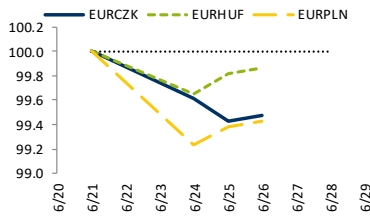


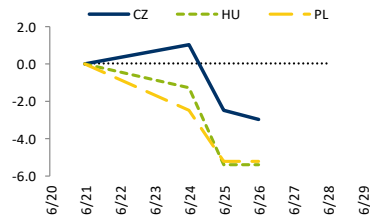
Wednesday, 26 June 2024

**Forex markets (index)**



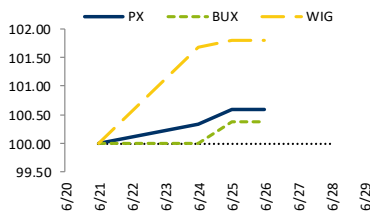
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.84	24.83	0.05
EURHUF	396.0	395.8	0.05
EURPLN	4.302	4.300	0.05

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.168	4.173	-0.5
HUGB 10Y	6.76	6.76	0.0
PLGB 10Y	5.72	5.72	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1540.6	1540.6	0.00
BUX	70647	70647	0.00
WIG	87973	87973	0.00

## Our regional insights:

### Another CNB meeting, another cut... But how deep?

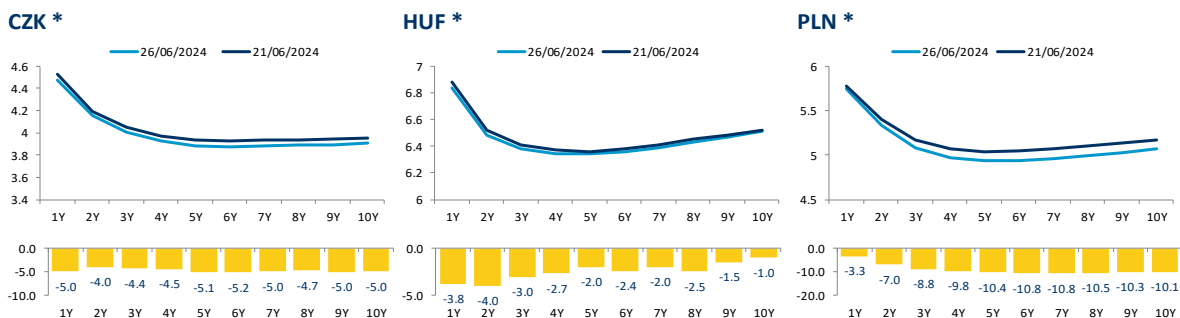
Tomorrow's important CNB meeting will be exciting since its outcome is far from certain. Most of Czech central bankers, including Governor Ales Michl, have spoken openly about possibilities for either a 25bps or a 50bps rate cut over the last fortnight.

In particular, the unexpected sharp fall in investment in the first quarter of 2024 speaks in favour of a more aggressive fall in Czech official rates. While this might be a temporary effect of lower inflows from the EU structural funds, a part of the Bank Board may fear that historically high nominal interest rates may be contributing to the investment downturn. Slightly lower-than-forecast core inflation and a slightly stronger koruna may also contribute to the feeling that the current set-up of the monetary policy is just too tight.

On the other hand, the koruna has already given up a part of its gains and it is possible that a more aggressive rate-cut could fuel further (unwelcomed) losses. At the same time, a look at the structure of core inflation may be worrying too - its momentum is slowing down, but mainly due to the fall in prices in internationally traded goods. On the other hand, prices of services continue to be look less favourably - inflation momentum in segments such as hospitality and leisure remains well above long-term averages. This is worrying, especially given the surprisingly fast wage growth in the business sector and the high household savings rate. Hence, falling savings and rising incomes may easily translate into (even) higher demand for services, which would lead into and persistently higher inflation in this segment.

These are all arguments for a caution approach. Moreover, the new situation (inflation) report prepared by the CNB's staff is likely to continue (like the May staff forecast) to point to more cautious rate cuts (by a 25bps per meeting). Therefore, we believe that the CNB will cut 'only' by 25bps this time. If the Czech central bank decides to cut rates again by 50bps in June, it will be possible that it will opt for a pause (sometimes) in the second half of the year. In such a case the CNB can wait for January's effect of adjusting menu costs of companies.

## 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	06/26	8:30	Current account	HUF B 1Q/2024			1860		1786			-561
CZ	06/26	12:00	CZ bond auction 2024-2033, 3.00%	CZK B 06/2024					5			
CZ	06/26	12:00	CZ bond auction 2022-2035, 2.50%	CZK B 06/2024					3			
CZ	06/26	12:00	CZ bond auction 2020-2040, 1.50%	CZK B 06/2024					1			
CZ	06/27	14:30	Repo rate	CNB 06/2024	5.00				5.00			5.25
HU	06/28	8:30	Unemployment rate	% 05/2024					4.4			4.4
HU	06/28	8:30	PPI	% 05/2024								-0.9 -2.0
CZ	06/28	9:00	GDP	% 1Q/2024 *F					0.3	0.2		0.3 0.2
PL	06/28	10:00	CPI	% 06/2024 *P					0.2	2.7		0.1 2.5

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