

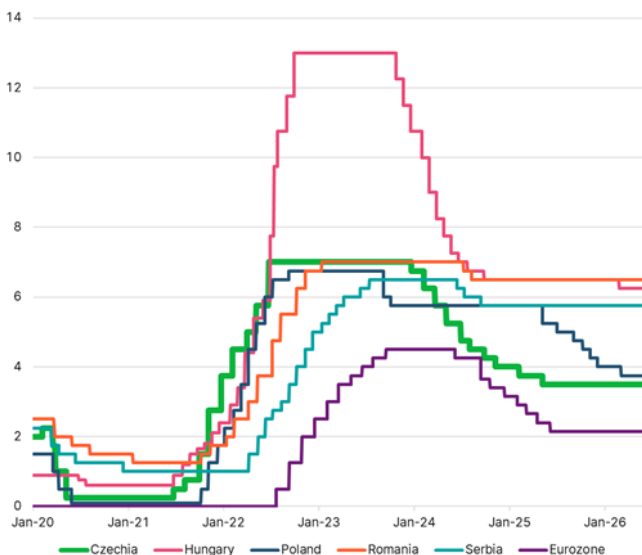
CEE MACRO AND FI DAILY

Czech National Bank increases the key interest rate

On the Radar

- Czech National Bank increased key policy rate to 3.75%.
- In Slovakia current account deficit widened in April to EUR -437 million.
- Romania will release industrial sales in the morning.
- Poland will publish industrial output growth in May.
- Slovenia will show producer prices growth.

Key policy rate, %

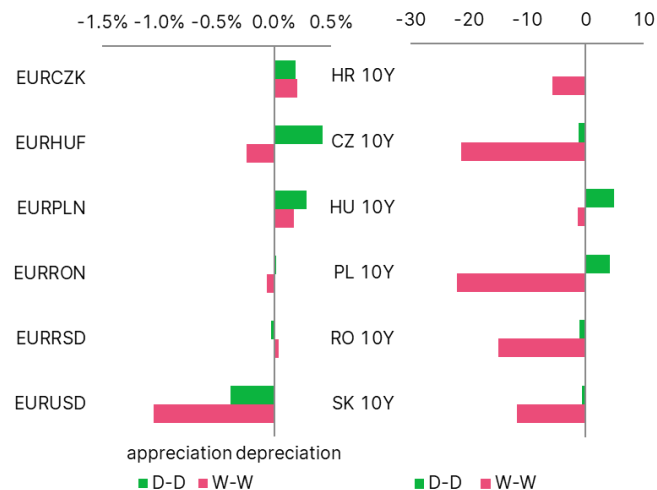


Source: Erste Group Research

Economic developments

Czech National Bank followed the steps of the ECB and increased key policy rate by 25 basis points. Key policy rate is thus at 3.75%. Six members of the Bank Board voted in favor of this decision, while one member voted to keep rates unchanged. The central bank assesses risks as pro-inflationary, with the main ones being the persistence of core inflation, elevated credit growth, expansionary fiscal policy, and strong wage growth. We believe that surprisingly strong wage growth in the first quarter of this year could have contributed to such a voting outcome. At the same time, we have seen May's headline inflation easing and with commodity prices declining the inflationary pressure should remain contained. Brent oil price is already below USD 80 per barrel. Governor Michl also admitted there are indications for slower growth and that central bank keeps all options open. Other central banks in the region have decided to wait-and-see so far and we expect stability of rates everywhere but in Hungary. Hungarian central bank will meet next week, and we expect interest rate cut given inflation development, strong Hungarian forint. Global developments have turned more supportive as well.

Market performance



Source: Erste Group Research

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Market developments

The long-term yields have declined further across the region since the beginning of the week, although on Wednesday we saw an uptick in 10Y yields. At the same time, we have seen currency pairs in the region moving slightly higher on Wednesday. Good news from Hungary arrived as Prime Minister Magyar said he agreed with European Parliament President Metsola to work on closing the Article 7 procedure against Hungary by the autumn. Romania sold RON 429.5 million of government papers maturing in 2040. Bonds were priced to yield 7.01%. The biggest party in Romania Social Democrats are yet to decide whether to support Vestea and his government claiming they will do so on June 21.

Upcoming releases in CEE

Date	Q	Country	Indicator	Period	Survey	Erste Est.	Prev.
19. Jun		SK	Unemployment Rate	May			5.15%
	09:30	PL	Industrial Production (y/y)	May	2.46%	2.90%	3.10%
	10:30	SI	PPI (y/y)	May		3.80%	1.40%

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	24.18	0.2	0.2
EUR/HUF	352.12	0.4	-0.2
EUR/PLN	4.25	0.3	0.2
EUR/RON	5.23	0.0	-0.1
EUR/RSD	117.22	0.0	0.0
EUR/USD	1.15	-0.4	-1.1

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	3.65	2	3
HUF	5.89	0	-7
PLN	3.85	0	-1
RON	5.84	0	0
RSD	4.70	0	0
EUR	2.39	-3	-1

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	4.63	-1	-21
HU 10Y	5.21	5	-1
PL 10Y	5.44	4	-22
RO 10Y	6.80	-1	-15
HR 10Y	3.36	0	-6
SK 10Y	3.60	-1	-12

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