



EmergingMarketWatch 5 selected EM stories

Czech Republic

CNB to keep rates stable in H1, markets expect hints on timing of upcoming hikes

- Next MPC meeting: May 6, 2021
- Current policy rate: 0.25%
- EmergingMarketWatch forecast: Hold

Turkey

MPC to hold policy rate on May 6, rate cuts may begin in Q3

- Next MPC meeting: May 6, 2021
- Current policy rate: 19.0%
- EmergingMarketWatch forecast: Hold
- Rationale: Actual inflation, worsening inflation expectations do not allow for immediate rate cut

Brazil

BCB likely to increase Selic rate by 75bps to 3.50% on Wed.

- Next MPC meeting: May 5, 2021
- Current policy rate: 2.75%
- EmergingMarketWatch forecast: 75-bp hike (to 3.50%)

Mexico

Worsening year-end inflationary expectations favor monetary stability

- Next MPC meeting: May 13
- Current policy rate: 4.00%
- EmergingMarketWatch forecast: Hold

Thailand

BOT likely to hold policy rate on Jun 23

- Next monetary policy meeting: Jun 23
- Current policy rate: 0.50%
- Expected decision: Hold
- Rationale: Limited policy space, baht weakness to outweigh lower GDP growth projections



Czech Republic

CNB to keep rates stable in H1, markets expect hints on timing of upcoming hikes

- **Next MPC meeting: May 6, 2021**
- **Current policy rate: 0.25%**
- **EmergingMarketWatch forecast: Hold**

Rationale: The CNB board softened its tone after the MPC meeting on Mar 24, when it decided to leave interest rates unchanged, suggesting that normalisation of monetary policy may start later than implied by the February forecast. Pandemic risk was singled out as having increased considerably, which creates a lot of uncertainty. Thus, there were no hints about monetary tightening in 2021, given that there is no clarity when European economies will start reopening. We believe the tone change is pretty noticeable, which reinforces our view that we are not going to see rate hikes any time soon. It was noted that disruptions in supply chains, caused by the pandemic, were already making impact on a lot of industries, including the automotive one.

Caution could also be seen in the minutes from the MPC meeting in March, as a board majority believes that risks from premature tightening are greater than risks from a delay. There appears to be agreement that rate hikes should start only after there are clear signs that the pandemic is receding. Some board members, like Tomas Holub, argued that worse conditions at present suggested that normalisation of monetary policy could start later than suggested in the forecast. The same could be heard at the post-meeting press conference, as CNB governor Jiri Rusnok and vice governor Tomas Nidetzky heavily implied that rate hikes coming too soon would be a mistake. Rusnok said he didn't believe market expectations could be an accurate quantitative measurement of economic developments, suggesting he is largely ignoring them. He later added that he expected the GDP projections in the May forecast to be downgraded. Nidetzky added that debate on monetary policy normalisation would start only when there is improvement in the epidemiological situation and when there are clear signs of economic recovery. Nidetzky added he wouldn't mind if the CNB waits before making sure that recovery is following the forecasted path.

Inflation has not accelerated too much thus far, picking up from 2.1% y/y in February to 2.3% y/y in March. The acceleration was mostly due to fuel prices, where the base effect from last spring's oil price collapse is expiring, amplified by a price spike from the Texas freeze in February. Rusnok has already said he sees no tragedy in slightly stronger inflation driven by fuel prices, and he later argued that it was a factor monetary policy couldn't affect. Thus, even though inflation will likely pick up even more in April, when the base effect fully expires, we don't expect it to have a major impact on monetary policy. Rusnok did suggest that the May MPC meeting will discuss how long the CNB's accommodative stance should continue, but we don't expect a clear answer at this point.

Thus, we maintain our view that we are not going to see rate hikes earlier than in Q4 2021. We should point out that the CNB board remains on a hawkish stance in the long run, so a delay now doesn't mean interest rates won't eventually return to normal levels. The only thing that remains uncertain is timing. By putting the first rate hikes later, we don't argue that the CNB forecast is wrong, only that timing is not quite right. It suggests that there will be a lot more tightening in 2022 than currently anticipated. There is still a lot of uncertainty around the pandemic and the economy could surprise on the up side in H2 2021. Even then, we don't see more than two 25bp hikes (or one 50bp one) in 2021, given all the damage done in H1 so far. Thus, the main thing to take out from the upcoming MPC meeting will be hints about when monetary tightening will begin, not much else.



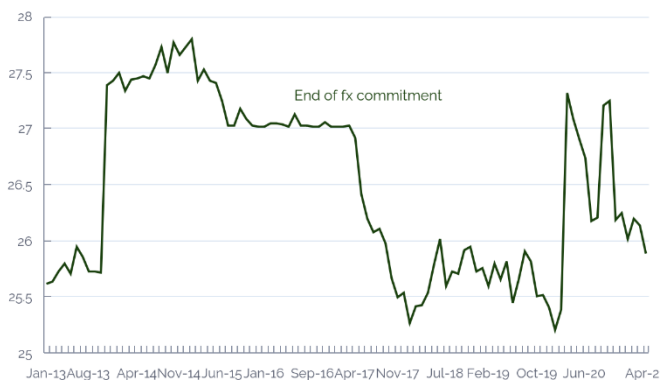
Inflation and interest rates

Source | CSU, CNB



EUR/CZK exchange rate, eop

Source | CNB



CNB board summary

Board member	Overall Bias	Latest vote	Latest comment	Date
Governor Jiri Rusnok	neutral	hold	neutral (debate on rate hikes to start in August, slower GDP growth expected in 2021)	Apr 21, 2021
Vice Governor Marek Mora	hawkish	hold	neutral (government may have issues with vaccination, normalisation should start with clear signs of pandemic receding)	Mar 24, 2021
Vice Governor Tomas Nidetzky	neutral	hold	neutral (prefers start of monetary policy normalisation when pandemic is clearly going way)	Mar 24, 2021
Vojtech Benda	hawk	hold	hawkish (sees fewer than three hikes envisaged by forecast in 2021)	Apr 26, 2021
Oldrich Dedek	dove	hold	neutral (pro-inflationary growth triggered by government policy)	Mar 24, 2021
Tomas Holub	hawkish	hold	neutral (worse conditions suggest later start of monetary policy normalisation than forecast suggests)	Mar 24, 2021
Ales Michl	hawk	hold	dovish (interest rates should rise only after pandemic is under control)	Mar 24, 2021

Source: EmergingMarketWatch estimates based on statements and voting behaviour of board members

Further Reading

[CNB board statement from latest MPC meeting, Mar 24, 2021](#)



[Q&A after latest MPC meeting, Mar 24, 2021](#)

[Minutes from latest MPC meeting, Mar 24, 2021](#)

[Monetary Policy Report, February 2021](#)

[Macroeconomic forecast, February 2021](#)

[Meeting with analysts, Feb 5, 2021](#)

[CNB board profile](#)

[CNB board members' presentations, articles, interviews \(Czech\)](#)

[CNB board members' presentations, articles, interviews \(English\)](#)

Turkey

MPC to hold policy rate on May 6, rate cuts may begin in Q3

- **Next MPC meeting: May 6, 2021**
- **Current policy rate: 19.0%**
- **EmergingMarketWatch forecast: Hold**
- **Rationale: Actual inflation, worsening inflation expectations do not allow for immediate rate cut**

The MPC will most probably keep the policy rate of 19.0% unchanged on its May 6 meeting, in our view, which is in line with the market consensus forecast, according to a recent [survey by the CBT](#) and polls by media outlets. Our forecast is based on the unfavourable price developments in April and a worsening inflation outlook by both the CBT and the markets as well as the CBT's guidance that it will keep policy rate above the actual/expected inflation to ensure disinflation. [The CPI inflation](#) accelerated to 17.2% y/y in April, while the gap of domestic industrial PPI (D-PPI) inflation over the CPI inflation widened further, implying stronger upside cost pressures on consumer prices. [The D-PPI inflation](#) spiked to 35.2% y/y in April. The CBT raised its end-year CPI inflation forecast to 12.2% in its [April Inflation Report](#) from the previous projection of 9.4%. The market consensus forecast for end-year inflation is higher 13.8%, according to the CBT survey.

Inflation versus rates (% y/y)

Source | Turkstat, CBT



The CBT expects inflation peaked in April, CBT governor Sahap Kavcioglu said last week in his presentation of the Inflation Report, but a graph on the CBT's forecast inflation range in his presentation signalled the possibility that the peak may rather be observed in May or June. The average market estimates on the monthly changes in the CPI



in the short term, as appeared in the CBT survey, implied a forecast for the CPI inflation to be flat in May and ease slightly in June. At this background, we think inflation developments will not allow rate cuts in June either. Our expectation assumes no significant recovery in the lira exchange rate in the near term. We rather expect rate cuts to begin in Q3 or in Q4 at the latest. Base effects are supportive of a more visible disinflation in Q4. Possible rate cuts in H2 would be measured, in our view, judging by the CBT's end-year inflation projection and the upside risks. We do not expect the MPC to react to inflation risks with rate hikes, based on its most recent policy guidance. We recall that the MPC removed a previous reference to the possibility of additional tightening in [the minutes from its April meeting](#).

Our assessment that the MPC will seek opportunity to ease monetary policy mainly reflects an increased government pressure on the bank after the replacements at the committee in Mar-Apr, including the CBT governor. New CBT governor Kavcioglu seemingly has a dovish stance, compared to his predecessor. Furthermore, frequent reshufflings of the CBT governors over the past two years possibly make the MPC members to feel more insecure to pursue independent monetary policy.

[MPC rate decision, Apr 2021](#)

[Minutes from MPC rate decision, Apr 2021](#)

[Quarterly Inflation Report \(Overview\), Apr 2021](#)

[CBT monetary policy strategy for 2021](#)

Brazil

BCB likely to increase Selic rate by 75bps to 3.50% on Wed.

- **Next MPC meeting: May 5, 2021**
- **Current policy rate: 2.75%**
- **EmergingMarketWatch forecast: 75-bp hike (to 3.50%)**

The BCB's rate-setting Copom is expected to increase its Selic rate by 75bps to 3.50% on Wed. in the second straight move by 75bps as the bank tries to deal with surging inflation and an uncertain fiscal and reform outlook, according to the analyst view in the latest central bank survey. They also now expect the Copom to hike the Selic by 75bps at the following meeting on Jun 16, up from the 50bps expected a week ago. But analysts kept their Selic forecast for year-end at 5.50% for 2021, as they did the previous week.

In regards to inflation, the latest sign for IPCA inflation in April is not good. IPCA-15 inflation accelerated to 6.17% y/y in mid-April from 5.52% to mid-March. That paves the way for IPCA inflation, whose 12-month pace accelerated to 6.10% y/y in March from 5.20% the month before, to accelerate to further above the BCB's 2021 target of 3.75% (+/- 1.5pps) and to remain above the fluctuation band. For the year as a whole, analysts polled by the BCB increased slightly this past week their 2021 IPCA inflation forecast to 5.04% from 5.01% the week before.

Overall, BCB Governor Roberto Campos Neto recently said the central bank had started its tightening cycle because of rising inflation expectations that also threatened to contaminate inflation in 2022. He likewise has said that frontloading hikes should mean a lower terminal rate. He has clearly suggested that the scale of the hike coming in May should be the same as the hike delivered in March.

Copom structure and latest voting results

Board member	Position	Latest vote
--------------	----------	-------------



Roberto Campos Neto	Governor	Cut
Fabio Kanczuk	Director of Economic Policy	Cut
Carolina de Assis Barros	Director of Administration	Cut
Mauricio Costa de Moura	Director of Institutional Relations and Citizenship	Cut
Otavio Ribeiro Damaso	Director of Regulation	Cut
Paulo Sergio Neves de Souza	Director of Inspection	Cut
Bruno Serra Fernandes	Director of Monetary Policy	Cut
Joao Manoel Pinho de Mello	Director of Financial System and Resolution	Cut
Fernanda Feitosa Nechio	Director of International Affairs and Corporate Risk Management	Cut

Source: BCB

[BCB Inflation Reports \(March is the latest\)](#)

[Latest Copom policy sitting statement](#)

[Latest policy sitting minutes](#)

[Selic interest rate historical](#)

Mexico

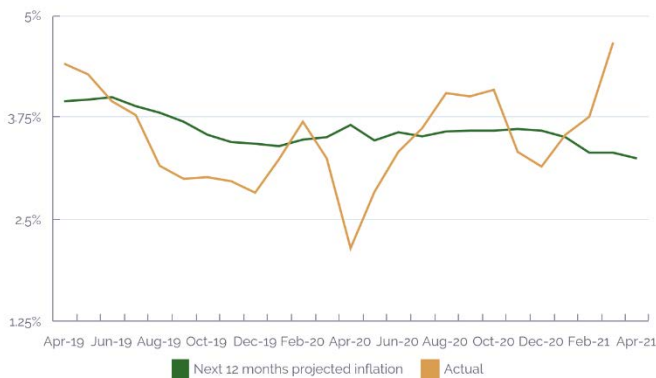
Worsening year-end inflationary expectations favor monetary stability

- **Next MPC meeting: May 13**
- **Current policy rate: 4.00%**
- **EmergingMarketWatch forecast: Hold**

We are now seeing conditions for the current monetary cycle pause to continue during the rest of 2021 after [analysts polled by the CB rose their 2021-end CPI inflation forecast to 4.58%](#). This is worryingly far from the CB's 3.00% year-end target and shows a massive correction of the consensus, considering analysts predicted CPI inflation would end the year at only 3.62% only two months ago.

Next 12 months projected inflation, % (y/y)

Source | Banxico



In line with this deterioration now the consensus is clearly for stability during the rest of 2021 to begin a tightening cycle in Q1 2022. We believe this forecast may be too hawkish, considering some CB board members seem unwilling to tighten the position of the monetary policy at the least in the coming quarters.

[CPI inflation accelerated sharply in March, to 4.67% y/y, on the back of a base effect](#), with energy prices up by 14.55% y/y. [CPI inflation accelerated further, faster than expected in April H1](#), hitting 6.05% y/y. Again, the acceleration came on the back of energy prices, which jumped by 28.22% y/y. However, in a surprisingly promising result, core CPI inflation slowed a bit, to 4.13% y/y, highlighting the transitory nature of this sharp acceleration of general inflation.

Most of the Monetary Policy Council (MPC) members agreed the March decision to hold its MPR at 4.00% doesn't mean the easing cycle has ended, according to the sitting's minute. This shows a most dovish position by the board, in our view. However, we expect the CB to change its tone in the May 13 sitting, probably recognizing pressure from the inflationary front to hold the policy rate at 4.00% until inflation slows.

Some board members seem to be importantly focused on the currency's possible volatility. One board member warned currency depreciation is likely, because of the US monetary policy, with likely pressure on CPI inflation. In contrast, a dovish member (we speculate deputy-governor Gerardo Esquivel) praised the country has maintained a solid macroeconomic stance and predicted the current account conditions favor currency appreciation.

Overall, as the market, we fully expect MPR stability in the short term, as the CB is set to hold its policy rate while CPI inflation accelerates during Q2 because of a base effect. Further easing in H2 2021 is possible but unlikely at this point, in our view, considering the dovish nature of the board and the increase of inflationary expectations. Any possible easing will depend on the pace of core inflation, and a correction of the inflationary expectations. However, we now believe the more likely scenario is for the CB to hold the MPR during the rest of 2021, to begin tightening during next year.

Monetary policy forecasts by Q-end

Share of analysts anticipating rate will be:	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Above its current position	0	3	18	28	47
Equal to the current position	97	88	74	66	47
Below current position	0	9	9	6	6

Source: Banxico

Monetary Policy Council members

Members	Overall bias	Latest known vote
Alejandro Diaz de Leon (Governor)	Neutral	Hold
Irene Espinosa	Hawkish	Hold
Galia Borja	Dovish	Hold
Jonathan Heath	Dove	Hold
Gerardo Esquivel	Dove	Hold

Note: Overall bias calculated from voting behavior

Source: Banxico

Thailand

BOT likely to hold policy rate on Jun 23

- Next monetary policy meeting: Jun 23
- Current policy rate: 0.50%
- Expected decision: Hold



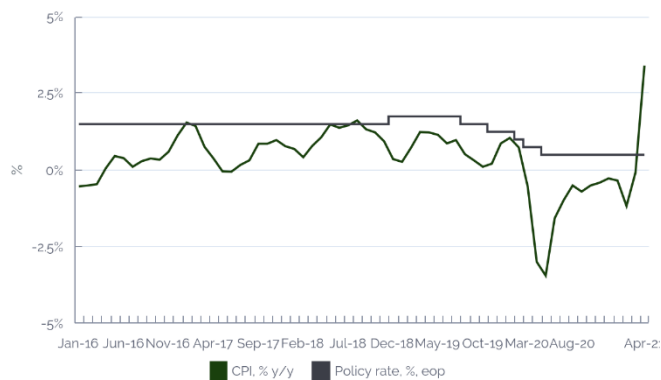
- **Rationale: Limited policy space, baht weakness to outweigh lower GDP growth projections**

We expect that the BOT's Monetary Policy Committee (MPC) will maintain the policy interest rate at the all-time low of 0.50% in its Jun 23 meeting, the fourth one for 2021. Thailand's central bank has limited space with regard to the policy rate level. There have been three 25bp cuts in 2020. However, the MPC voted unanimously to hold the policy rate at 0.50% in its last eight meetings. Today, the MPC held the policy rate at 0.50% to preserve the limited policy space so that it can act at the appropriate and most effective timing. The BOT said that monetary policy must remain accommodative.

A policy rate cut is the second most likely scenario for the Jun 23 meeting, in our view.

Inflation vs. main policy rate (%)

Source | Ministry of Commerce, BOT



Headline CPI increased by 3.41% y/y in April, after dropping by 0.08% y/y in March. A number of factors supported the reversal, including higher oil and food prices, as well as the ending of government subsidies on utilities. The BOT expects headline inflation to rise temporarily in Q2 2021 due to the low level of crude oil prices in Q2 2020. However, later in the day, the Thai cabinet approved new utility subsidies for May and June amounting to THB 10bn (USD 321.2mn). These should moderate inflation, in our view. Meanwhile, medium-term inflation expectations continued to be anchored within the target, the BOT reported. The BOT's inflation target range is 1.0–3.0%.

Also today, the BOT published its economic projections across three scenarios about the timing of achieving herd immunity, namely Q1 2022, Q3 2022 and Q4 2022. This year's GDP growth is seen to be 2.0%, 1.5% and 1.0% in these scenarios, respectively. The rate of economic expansion next year is seen at 4.7%, 2.8% and 1.1%, respectively. In March, the central bank expected GDP growth of 3.0% this year and 4.7% next year.

New data releases since the previous Central Bank Watch included foreign trade and manufacturing production, among other things. Exports rose by 8.5% y/y to USD 24.2bn in March, after falling by 2.6% y/y in February. The manufacturing production index (MPI) increased by 4.1% y/y in March, after falling by revised 1.3% y/y in February.

With regard to exchange rates, the MPC said today that the Thai baht depreciated against the US dollar more when compared to regional currencies.

Further reading

[MPC decision of May 5](#)

[Schedule of MPC meetings](#)

[Edited minutes of MPC meetings](#)

[Monetary policy report](#)

Why EmergingMarketWatch?

- Coverage of macroeconomic, fiscal, political and monetary events for more than 60 countries
- Local presence in countries we cover
- Intraday frequency of coverage
- Access to our team of economists 24/7 through e-mail
- Thorough understanding of local politics and economics
- Easy-to-use internet-based platform and convenient e-mail alerts
- Simplified responsive version for smart devices

EmergingMarketWatch Services

- **Daily coverage** of important macroeconomic and political events
- **Daily press reviews** to get a quick overview of what the local press is writing about
- **Special reports** on hot topics of high importance for the relevant country
- **Weekly Central Bank Watch report** - our up-to-date view on monetary policy in key EM economies in CEEMEA, Asia and LatAm
- **Election Watch** - extensive coverage of local elections through 2 special reports on expectations and main political players and daily coverage of developments and polls
- **Country Snapshot Report** - All-in-one-place information about economic and political developments of a single country
- **Weekly updated calendar** of data announcements and political events
- **Weekly Q&A report** with all the questions asked by clients over the last 7 days and our answers
- **Ask the Editor** - 24/7 access to our team of economists via e-mail

Our Clients

- Investment banks - research departments, economists, strategists, traders and others
- Investment management companies, hedge funds and other buy side companies
- International financial institutions, central banks and credit rating agencies

Coming soon...

- Polling data for all major political surveys
- Macroeconomic data for the EMs we cover presented in convenient format

Contact us

For more information please visit our website www.emergingmarketwatch.com or get in touch with us at cs@emergingmarketwatch.com

Poland
Hungary
Czech Republic
Russia
Ukraine
Kazakhstan
Turkey
Bulgaria
Romania
Croatia
Serbia
Montenegro
BiH
North Macedonia
Albania
Belarus
Georgia
Armenia
Azerbaijan

CEE & CIS

France
Italy
Spain
Portugal
Greece
Slovenia
Slovakia
Estonia
Latvia
Lithuania

EURO AREA

Brazil
Mexico
Argentina
Colombia
Chile

LATAM

Egypt
Algeria
Saudi Arabia
Kuwait
UAE
Qatar
Bahrain
Oman
Israel
Morocco
Tunisia
Lebanon
Jordan
Angola
Gabon
Ghana
Ethiopia
Ivory Coast
Kenya
Nigeria
Senegal
South Africa

MIDDLE EAST & AFRICA

Pakistan
India
South Korea
Indonesia
Philippines
Malaysia
Thailand
Sri Lanka

Asia