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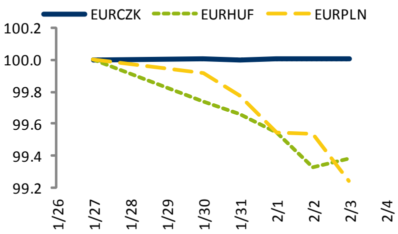
Central European Daily

Friday, 03 February 2017

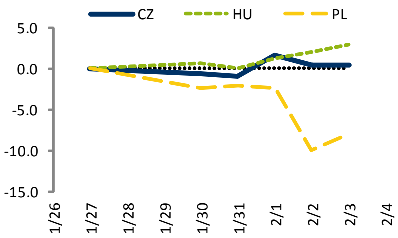
Regional Overview

Forex markets (index)



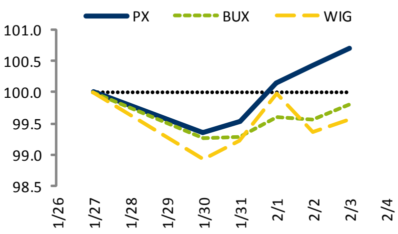
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.02	27.02	0.00
EURHUF	309.4	309.2	0.05
EURPLN	4.303	4.315	-0.29

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.421	0.421	0.0
HUGB 10Y	3.49	3.48	0.3
PLGB 10Y	3.81	3.79	0.5

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	943.5	940.9	0.28
BUX	32647	32575	0.22
WIG	55413	55303	0.20

Macro, FX & Rates: CNB forecasts inflation above its target

(CZ) Macro: The first monetary-policy meeting of the CNB Bank Board this year and at the same time the last in its present format yielded no surprises. The exchange rate regime remains in place, either a hard (no earlier than the second quarter), or soft (around mid-year) commitment to change, so the only thing the CNB actually changed was its forecast. The November (old) one in fact soon proved to be very pessimistic – especially when it comes to inflation, because the annual headline inflation achieved its target about six months earlier than the CNB had expected.

Hence, the new CNB forecast already takes into account the current (higher) inflation development and anticipates that inflation will remain above this objective (the midpoint of the targeted band stands at 2.0%). We should add that the CNB forecast also assumes that 'the conditions for sustainable fulfilment of the 2% inflation target in the future, i.e. after the assumed return to the conventional monetary policy regime, will be met from around mid-2017 onwards'. Nevertheless, the CNB Bank Board wants – in the words of the Governor Rusnok – to see the inflation target robustly met, which obviously does not mean anything else than overshooting it (which is, however, our scenario for the Czech headline inflation in 2017).

We find CNB's expectation that inflation will remain above the 2% target at the monetary policy horizon important. This is really one of the key assumptions for releasing the koruna from the intervention regime and the new forecast clearly assumes this will happen. *Although the Bank Board has been saying for a year that the most likely date is the middle of 2017, in our opinion there is no reason to delay the exit. At the same time the market looks also increasingly confident of an early exit and is forcing the CNB to massively buy euros (to FX reserves) and 'print' new korunas. By the way, since the beginning of the year, the banking sector's liquidity has increased thanks by a further CZK 400bn (in total to 1.8 trillion, which implies that Czech FX reserves already stand at around 57% of GDP).*

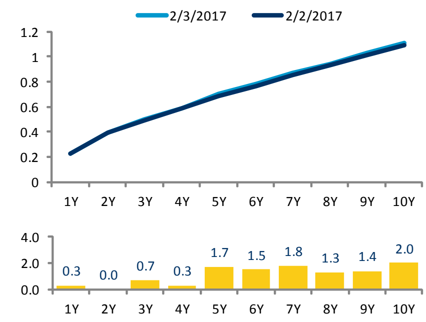
Still, in our view the most likely date for exit (from the intervention regime) remains the second quarter of this year, but it may not happen exactly on the day of a scheduled monetary meeting of the Bank Board (i.e. May 4 or June 29). As one of the Vice Governors announced, every weekly meeting of the Board can become a monetary-policy meeting. And when it comes to introduction of negative interest rates (as a measure to curb hot capital inflows), we consider this still as a tail-risk scenario. By the way, this time there was no mention about this monetary tool at the news conference.

Equities: OPL to pay its European Commission fine

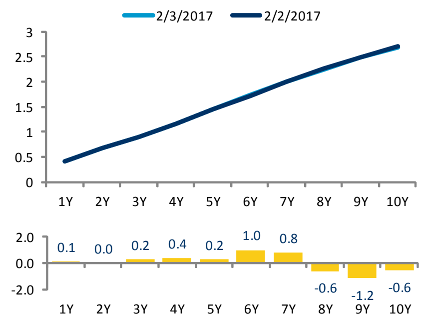
(PL) OPL: OPL expects to pay its EUR 127.5mn European Commission fine in 2017, but expects the payment to be made in H2 rather than in H1. *This is not a new story as back in 2011, the European Commission imposed on the firm a EUR 127.5mn fine for abusing the dominant position on the broadband market. OPL hoped for the fine to be reduced or annulled after it struck a deal with rival Netia, but an EU court maintained the fine. Still the fine equals to 8% of OPL mcap or almost entire 2017's expected free cash flow (Bloomberg consensus at EUR 159mn). It is likely to have negative consequences on the dividend…*

Interest-rate Swap Curves

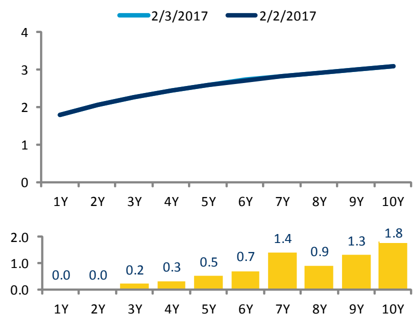
CZK *



HUF *



PLN *



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points

Calendar

Country	Time	Indicator		Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	9:00	Retail sales	%	12/01/2016								4.7

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