

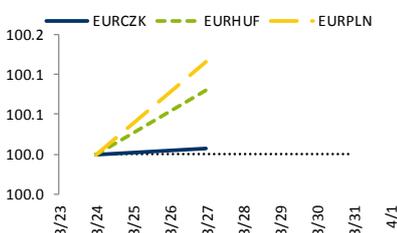


Central European Daily

Monday, 27 March 2017

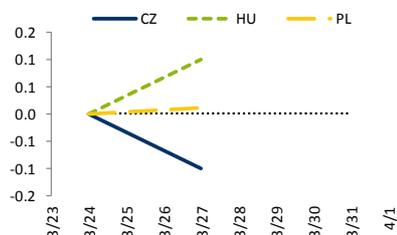
Regional Overview

Forex markets (index)



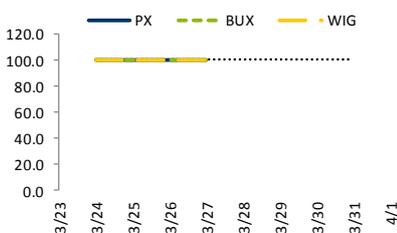
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.02	27.02	0.01
EURHUF	310.6	310.3	0.08
EURPLN	4.267	4.262	0.11

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.930	0.931	-0.1
HUGB 10Y	3.37	3.37	0.0
PLGB 10Y	3.55	3.55	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	982.5	982.5	0.00
BUX	32097	32097	0.00
WIG	59070	59070	0.00

Weekly Preview: All eyes on CNB's meeting on Thursday

(HU, CZ, PL) Macro: This week, we have monetary-policy meetings in Hungary (Tuesday), Czech Republic (Thursday) and a flash estimate of March inflation in Poland (Friday). While the NBH will definitely leave its policy unchanged, **the CNB Bank Board might be crucial from the policy point of view. Bear in mind that CNB's FX commitment (to hold EUR/CZK above 27.0) ends this Friday (March 31st), or the day after the scheduled Bank Board meeting.**

Macro, FX & Rates: Bullish bets on CZK v. C/A surplus

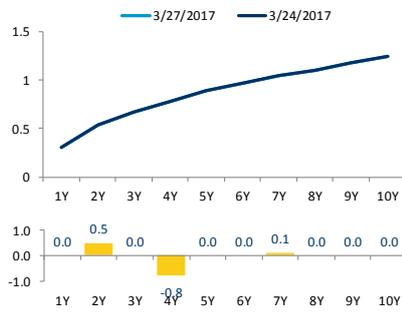
(CZ) FX, Macro We have released a flash report (<http://bit.ly/2omQAzn>), which points to increasing speculations on the CZK strengthening after CNB's exit from intervention regime. According to the latest available figures about the free liquidity in the Czech banking sector, we believe that March new long koruna's positions (and the accumulation of CNB foreign exchange reserves) were only slightly below the record set in January. In March, the foreign exchange reserves have increased by a currently estimated additional 10.5 billion euros bringing its total since the beginning of the intervention at approximately 80 billion euros.

After making a cross-check with the Czech balance-of-payments flows (recorded from the beginning of the CNB's interventions regime) we have found about two thirds (approx. 40 billion euros) consisted of portfolio and other investments (bonds, deposits, derivative positions), which are very probably simply "bets" on a stronger koruna. These bets may reflect either speculative positions (more likely) or additional above-normal hedging of exporters (less probable according to the surveys). These **"bets" on stronger koruna grew probably further over February and March - for the moment by an estimated 50-60 billion. This is several times more than the annual surpluses of the Czech external balance** - the annual current account surplus in the Czech Republic is "only" about 2 billion euros with a trade surplus of about 13 billion euros.

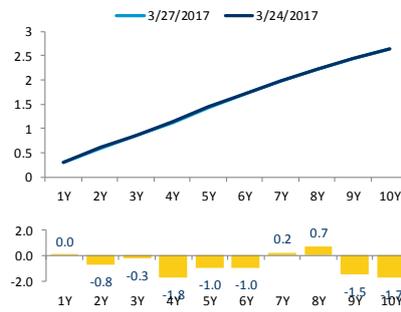
From this perspective, the Czech koruna looks already overbought - if some players want to quickly liquidate their long CZK positions after the end of intervention, they may have to rely on the willingness of the CNB to sell part of its massive FX reserves. Therefore, we do not rule out that when interventions stop, it may be under pressure for a while and will only return to its naturally stronger levels after several months.

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

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