

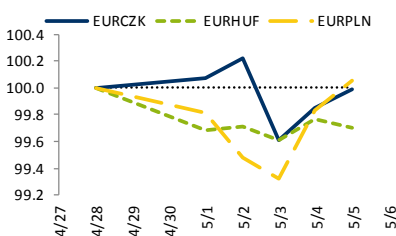


Central European Daily

Friday, 05 May 2017

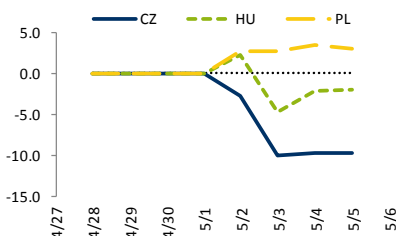
Regional Overview

Forex markets (index)



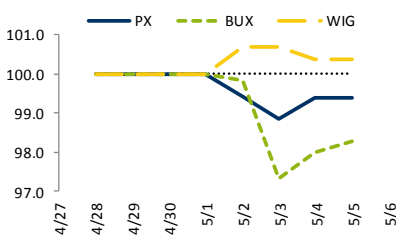
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 26.85 | 26.81 | 0.13 |
| EURHUF | 312.1 | 312.3 | -0.06 |
| EURPLN | 4.229 | 4.220 | 0.22 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 0.639 | 0.639 | 0.0 |
| HUGB 10Y | 3.19 | 3.19 | 0.1 |
| PLGB 10Y | 3.46 | 3.46 | -0.1 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1001.8 | 1001.8 | 0.00 |
| BUX | 32394 | 32290 | 0.32 |
| WIG | 61863 | 61863 | 0.00 |

Macro, FX & Rates: No surprise from the CNB

(CZ) Macro: As widely expected, the Czech National Bank kept interest rates at their current level. The new staff macro forecast does not differ significantly from the past. The CNB continues to assume that it will be able to meet its inflation target this year and next year. Only at the end of 2018 could inflation go below the two-percent level, albeit very slightly. Compared to the previous forecast, the new one is slightly lower but the changes are somewhat cosmetic. Similarly, the same can be said for monetary policy inflation and the GDP forecast. What is important is that the Bank Board considers the risks of the forecast to be more pro-inflationary. According to the CNB, the uncertainty of the forecast is the exchange rate or its possible volatility in both directions.

Even the interest rate forecast has not changed significantly and the CNB continues to expect the 3M PRIBOR to grow rapidly in the third quarter of this year. If the forecast is to be met the CNB would have to raise its rates by 20 points this year at least once and at the same time convince the markets that the next two steps will follow in 2018.

However, we consider this scenario less likely, especially with regard to the possible effects on the development of the crown exchange rate. The CNB will probably not want and given the expected inflation, it will not even need to support the crown to strengthen faster by extending the interest rate differential. Inflation will return to its goal from its peak, so no drastic action is actually needed. The return to normal discussed by the governor will only take slightly longer than the forecasts indicate because of the ECB's policy. Finally, the CNB's forecast for the past two years consistently assumes a rapid rise in market interest rates but reality does not indicate this. The first increase in interest rates will only be decided by the Czech National Bank in our opinion in 2018, when it will be clear that the ECB's policy has begun to normalize.

Even though the CNB has taken the first step towards standardizing its monetary policy by its exit, **the Bank has not yet published the forecast of the EUR/CZK. Interestingly, however, the text of the statement shows that the CNB (in its models) expects it to strengthen because of the convergence of the Czech economy and the current interest rate differential.**

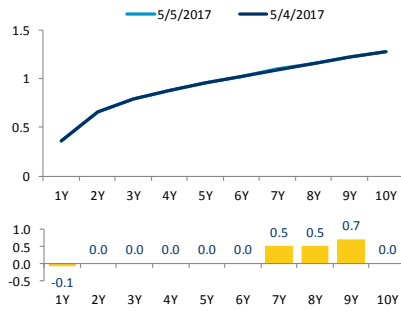
Equities: Erste results a bit worse than expected

(CZ, HU) Erste Bank: Erste performed a bit worse than the market anticipated. The negative surprise comes fully on lower than expected NII, however the negative surprise was partially mitigated by higher than expected net fees and low CoR. Outlook was confirmed. *Erste is on track to deliver strong FY17 figures on i) cost under control, ii) solid CoR, iii) significant reduction of banking taxes (especially in Austria) and iv) improvements in Romania.*

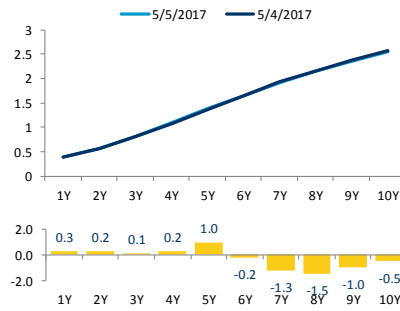
(HU) MOL: MOL reported strong set of quarterly results today B/Mkt when beating the market consensus across the lines with free cash flow up by 54% y/y on the back of seasonally low capex (USD 109mn vs. USD 178mn in 1Q16) due to cold winter. Company confirmed its FY17 outlook as seems to be well on track to deliver 2017 EBITDA above USD 2bn.

Interest-rate Swap Curves

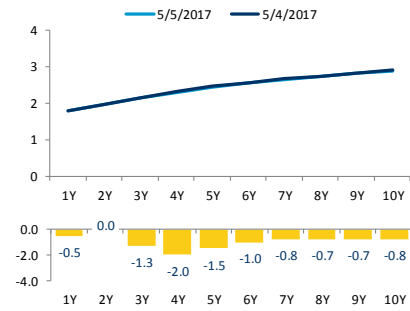
CZK *



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 |
| CZ | 0:00 | Earnings Erste Group Bank | CZK 1Q/2017 | | | | | | | | |
| HU | 0:00 | Earnings MOL Group | HUF 1Q/2017 | | | | | | | | |
| HU | 9:00 | Industrial output | % 03/2017 | | | 0.4 | 9.4 | 0.5 | 6 | 3.4 | 7 |

Contacts

| Brussels Research (KBC) | | Global Sales Force | |
|-----------------------------------|------------------|--------------------|------------------|
| Piet Lammens | +32 2 417 59 41 | Brussels | |
| Peter Wuyts | +32 2 417 32 35 | Corporate Desk | +32 2 417 45 82 |
| Mathias van der Jeugt | +32 2 417 51 94 | Institutional Desk | +32 2 417 46 25 |
| Dublin Research | | France | +32 2 417 32 65 |
| Austin Hughes | +353 1 664 6889 | London | +44 207 256 4848 |
| Shawn Britton | +353 1 664 6892 | Singapore | +65 533 34 10 |
| Prague Research (CSOB) | | Prague | +420 2 6135 3535 |
| Jan Cermak | +420 2 6135 3578 | Prague (Equities) | +420 2 2142 4216 |
| Petr Baca | +420 2 6135 3570 | | |
| Tomas Sykora | +420 2 2142 4128 | | |
| Bratislava Research (CSOB) | | Bratislava | +421 2 5966 8820 |
| Marek Gabris | +421 2 5966 8809 | | |
| Budapest Research | | Budapest | +36 1 328 99 85 |
| David Nemeth | +36 1 328 9989 | | |

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

