

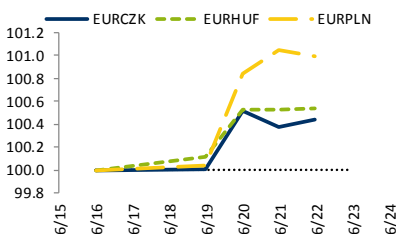


Central European Daily

Thursday, 22 June 2017

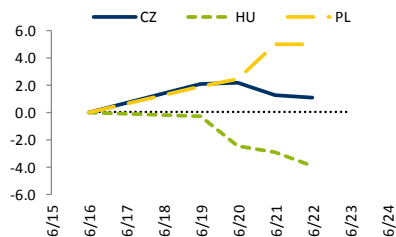
Regional Overview

Forex markets (index)



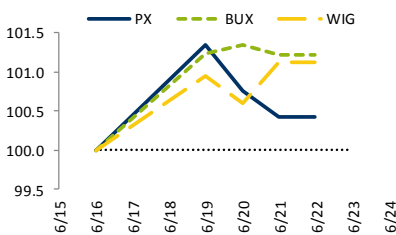
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.31	26.29	0.07
EURHUF	309.3	309.2	0.00
EURPLN	4.254	4.256	-0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.943	0.945	-0.2
HUGB 10Y	2.94	2.95	-0.3
PLGB 10Y	3.19	3.19	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	995.0	995.0	0.00
BUX	35945	35945	0.00
WIG	61162	61162	0.00

Macro, FX & Rates: CNB's governor calls for later hikes

(CZ) Forex & Rates: CNB's governor Rusnok has joined other Czech central bankers as he stressed that the central bank would postpone its hiking cycle if the koruna extends its gains. Recall that according to the CNB latest projection the central bank should hike official rates already in the third quarter of this year. Rusnok called this opinion as a model-view, while he said he did not share this CNB's staff projection on rates.

In our view Czech headline inflation will remain just over two percent (CNB's target) and will probably lag behind the latest CNB forecast. Moreover, the stronger koruna is tightening the monetary conditions. It is not very long ago that a central bank representative said that a one percent appreciation of the koruna corresponded to 25bps rate hike. Despite yesterday's modest sell-off the koruna has been still maintaining profits of around 3% (against the euro), which corresponds to 75 basis points in the central bank's logic.

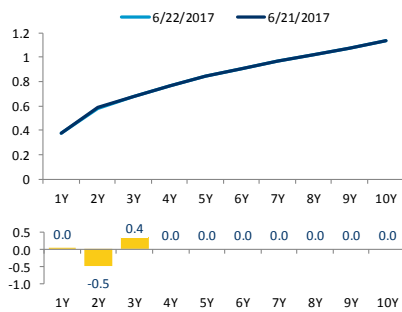
Moreover, looking at the development of the long-term fundamentals behind the Czech koruna (relative growth, relative inflation, external equilibrium), it is clear that they have improved significantly since the start of the interventions. According to our estimates, the Czech economy would, on the basis of long-term fundamentals, theoretically be able to withstand koruna up to 10% stronger from the intervention levels (EUR/CZK 27.00). More critical from the koruna point of view, we see the period when the ECB turnover will actually be in play. At this point more significant outflow of foreign capital could weigh on the koruna.

To sum up: the current CNB forecast optimistically predicts that CNB's official rates will rise in the third quarter of this year. We are more cautious as we expect the first rate rise next year - at the time QE tapering is already on the table in the Eurozone.

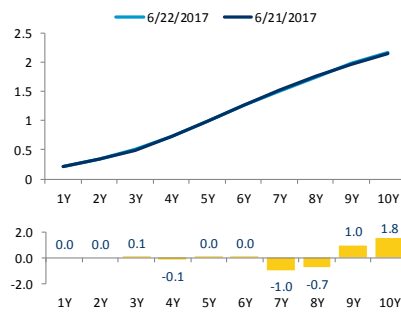
(RO) Forex: Not only the Czech koruna, but also other regional currencies faced some downward pressure. While part of the story could be global sell-off in emerging markets some contagion could come also from Romania. The Roman lei faced north versus the euro after the no-confidence vote against the Romanian Prime Minister was successful in the parliament (the Premier got ousted). From the level of 4.60 it strengthened to around 4.5860 although in the long term analysts forecast decline of the lei. The currency did not remain in the strengthening channel, this morning it faced south to the level of 4.5950.

Interest-rate Swap Curves

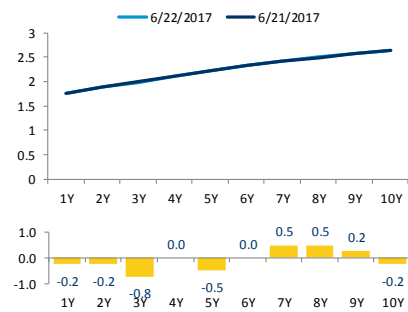
CZK *



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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