

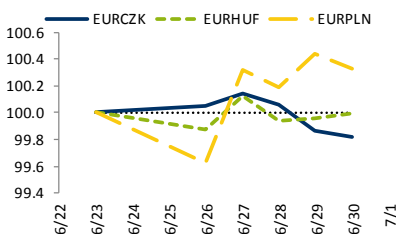


Central European Daily

Friday, 30 June 2017

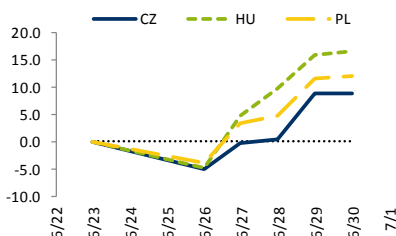
Regional Overview

Forex markets (index)



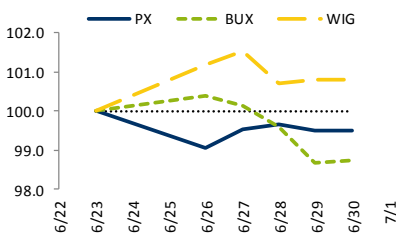
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.22	26.23	-0.05
EURHUF	309.7	309.6	0.04
EURPLN	4.237	4.242	-0.11

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.037	1.036	0.1
HUGB 10Y	3.09	3.08	0.3
PLGB 10Y	3.35	3.34	0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	975.8	975.8	0.00
BUX	35155	35130	0.07
WIG	61476	61476	0.00

Macro, FX & Rates: The CNB joins the hawkish line

(CZ) Rates: The CNB Bank Board's May meeting was marked by satisfaction with the economic development and confirmation of the current forecast, and above all **the surprising willingness to raise official interest rates in the third quarter of this year.** The current deviations of the main macroeconomic parameters and, above all, inflation are, according to the central bank, marginal, and it considers the risks of the forecast as slightly pro-inflationary. This means in the words of the CNB that it can continue according to the staff projection and raise official already rates in the third quarter of this year. It would undoubtedly be a very transparent and spectacular step, but the reality will not be so easy and clear to carry out

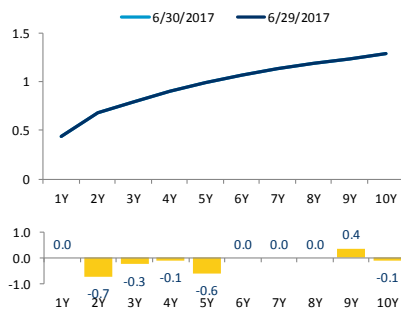
Let's start with inflation and its risks. Inflation is below the CNB forecast and it is quite probable that this bias will increase further in the months to come. It may even be that inflation will return to the target much earlier than in the first quarter of next year, as the CNB expects. These inflationary risks, which are based mainly on the belief in the faster growth of domestic economic activity and wages (or their spill over to inflation), which the CNB considers as pro-inflationary also closing the koruna (long) positions of investors. So, to a certain extent, the CNB believes in a slower appreciation of the currency, or even perhaps a weakening. These are quite strong arguments, but we doubt they will be fulfilled. In the first place, wages have not yet stimulated inflation, except for some exceptions. Last but not least, the koruna likes to hear words about higher rates. Just looking at yesterday price action - after the governor's press conference the EUR/CZK slipped to 26.20 CZK/EUR, so the "pro-inflationary koruna" could become an "anti-inflationary koruna" soon.

*Anyway, in our view the CNB will not spoil anything in the economy if it does not hurry with raising rates and waits for the confirmation of inflation risks, which it highlights now and especially for the ECB, which will probably see in the autumn how it actually re-calibrates its policy. **Still, the risk of earlier CNB's rate hike has been rising even though we see it as more probable at around of the turn of the year.***

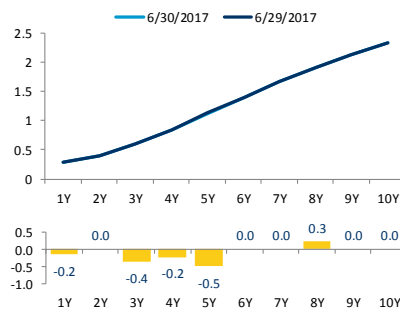
Meanwhile in a short-run, we looking for July 12th as the nearest date with Czech key fundamental data, because the June inflation figure will be released. It can show how accurate the CNB's view of inflation is.

Interest-rate Swap Curves

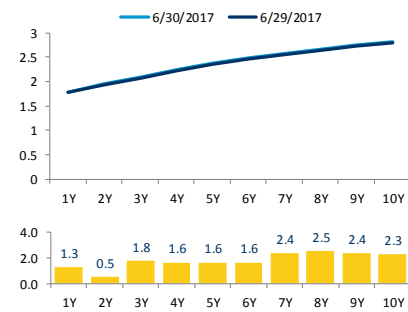
CZK *



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	9:00	GDP	% 1Q/2017 *F			1.5	3	1.3	2.9	1.3	2.9
HU	9:00	PPI	% 05/01/2017			-0.5	2.7			0.4	4.4
HU	9:00	Trade balance	EUR M 04/2017 *F			865				878	
CZ	10:00	Money supply M2	% 05/01/2017								11.6
PL	14:00	CPI	% 06/2017 *P	1.8				0	1.7	0	1.9

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