

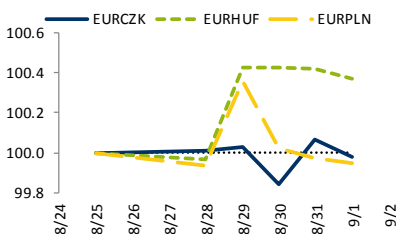


Central European Daily

Friday, 01 September 2017

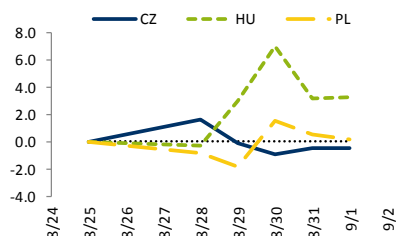
Regional insights

Forex markets (index)



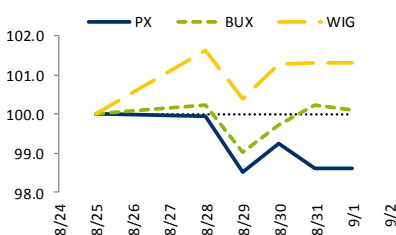
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.09	26.11	-0.08
EURHUF	305.7	305.8	-0.05
EURPLN	4.251	4.252	-0.03

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.958	0.958	0.0
HUGB 10Y	2.93	2.93	0.0
PLGB 10Y	3.28	3.28	-0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1022.3	1022.3	0.00
BUX	38044	38092	-0.13
WIG	64974	64974	0.00

Koruna not strong enough to prevent the CNB from further tightening?

The Czech koruna has hit a three year high against the US dollar. Nevertheless, this is hardly going to prevent the Czech national bank from further interest rate hikes. While the Czech currency has strengthened significantly towards the USD and, as a consequence towards several Asian currencies (won, yuan), the koruna remains fairly stable against the euro and other European currencies – main trading partners. As a consequence, the effective exchange rate had strengthened by only, approximately, 5% by mid-July [from the CNB's decision to refrain from market intervention, at the beginning of April] and has remained flat since then. The companies involved in .trade with USA and Asia face much more significant strengthening – such as "office machinery" sector (+7.5% since the end of interventions).

On the other hand, companies with trade oriented with the Eurozone and EU face relatively mild appreciation – for example products such as milk, meat or electricity (roughly +3.5%). Nevertheless, CNB does not distinguish between the sectors. What is important are not selective sectors and exchange rates, but rather the effective exchange rate which has stayed more or less flat since the last August forecast (when the decision was made to raise rates) that assumed further koruna strengthening. Besides that, GDP was well above the CNB forecast in the second quarter (in this respect today's GDP revision/details are very important too).

These two pro-inflationary factors could force the CNB to hike interest further sooner than anticipated – possibly as soon as this Autumn.

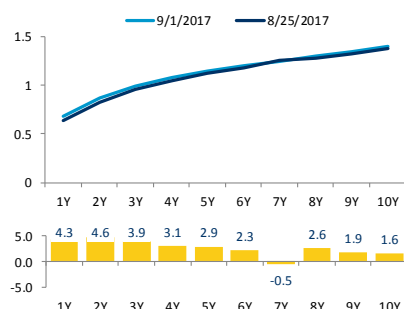
This was explicitly mentioned by two central bankers – vice governor Mojmir Hampl and Marek Mora, who is quite close to the governor Jiri Rusnok. Vice governor Mojmir Hampl even called for a possible rate hike as early as September.

This is not our base scenario now, as ***we believe the CNB Bank Board may prefer to wait for their new forecast in November, which gives Bank Board members room to wait for a staff projection. Nevertheless, a September rate hike can hardly be excluded. We should add that neither September (27th) nor November (2nd) rate hikes are fully priced in the money market rates now. Hence, we believe the CZK FRA rates could climb further up over the autumn. We doubt this can help the koruna to gain further as it seems to be severely overbought.***

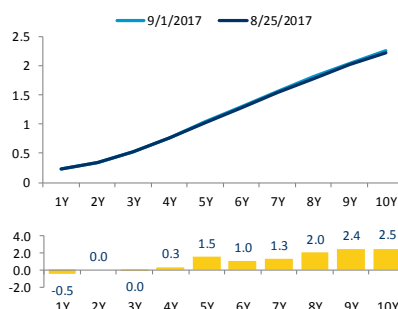
Some foreign players might be willing to jump out of their open koruna positions in case the ECB signals intentions to taper QE during the autumn. Additionally, huge amounts of maturing CZK T-bills could trigger selling of the koruna on the Czech FX market during September.

Interest-rate Swap Curves

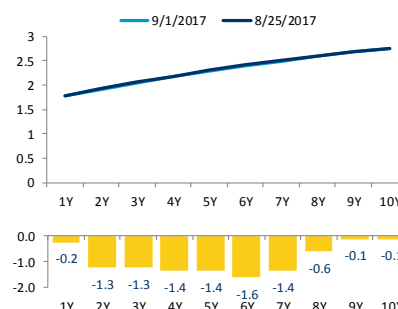
CZK *



HUF *



PLN *



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

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	PMI manufacturing	08/01/2017			56.6		56.5		54.2	
PL	9:00	PMI manufacturing	08/01/2017			52.5		53		52.3	
CZ	9:00	GDP	% 2Q/2017 *P			2.5	4.7	2.3	4.5	2.3	4.5
HU	9:00	Trade balance	EUR M 06/2017 *F			998				1060	
CZ	9:30	PMI manufacturing	08/01/2017					55.8		55.3	
CZ	14:00	Budget balance	CZK B 08/01/2017							25	
CZ	17:00	Review rating - Fitch	A+ 2nd revision								

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