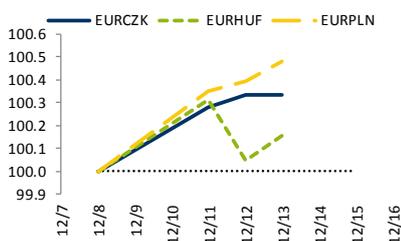




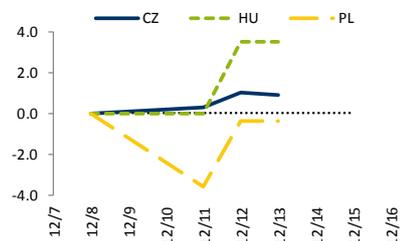
Wednesday, 13 December 2017

Forex markets (index)



	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.64	25.64	0.00
EURHUF	314.4	314.1	0.11
EURPLN	4.216	4.212	0.08

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.593	1.594	-0.1
HUGB 10Y	2.14	2.14	0.0
PLGB 10Y	3.24	3.24	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1059.5	1059.5	0.00
BUX	38018	38018	0.00
WIG	62532	62532	0.00

Our regional insights:

New Czech government will be appointed, ...

Czech President Zeman will appoint the minority government of Prime Minister Andrej Babiš from ANO party today. Recall that the ANO party of Mr Babiš won 29.6% or 78 seats (from 200) in the Chamber of Deputies in the October general election. **The confidence vote is scheduled for January 9th and it seems unlikely that the ANO minority government will be approved by the Czech parliament this time. Nevertheless the ANO might get a second chance to form a (coalition) government in February. However, it will be after the presidential elections (held in January). By this time (in February), the (second) confidence vote could be more interesting for Czech financial markets.**

..., but the koruna eyes the CNB meeting

Meanwhile, the Czech koruna remains under modest downward pressure as the key CNB Bank Board meeting (held next Thursday) has been approaching. While today's Fed decision and more importantly tomorrow's ECB meeting could be interesting for the koruna, CNB's meeting will be really crucial.

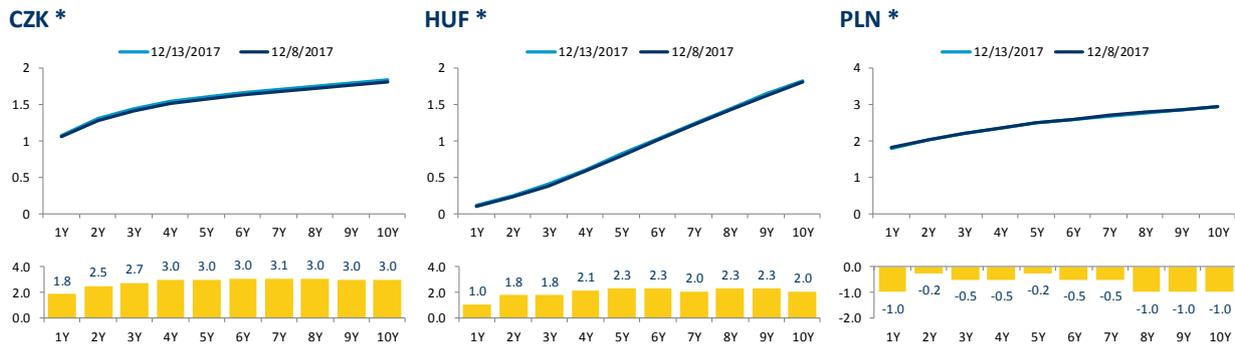
It is worth noting that, on Monday, the Czech Statistical Office released the last important Czech macro figure ahead of the CNB meeting – it showed the consumer price index grew only 0.1% month-on-month in November. On the one hand, last month, fuel prices and some food prices rose, on the other hand package holidays were cheaper. Hence, the year-on-year rate of inflation fell to 2.6% after the five-year high for a five-year period (2.9%). In December, the headline inflation could fall by one tenth of a percentage point to 2.5%.

In what direction inflation continues will, to a great extent, determine housing expenditures. That is more precisely, how much will power distribution companies begin to transfer higher electricity prices from the recent sharp increase in their commodity to their customers. We also expect inflation to be influenced by rents that are rising as a result of higher market demand and the delay in responding to rocket growth in real estate prices in the Czech Republic.

There is also room for an even more pronounced slowdown in Czech inflation, due to the previous strengthening of the koruna against the euro and, in particular, the dollar. However, strong consumer demand hinders a more significant fall in consumer prices. In addition, we expect higher prices for services, especially where wage costs play a large role.

All in all, we expect that next year inflation will remain above the CNB's target, so there will be nothing stopping the central bank normalizing interest rates. Nevertheless in our view, the CNB will rather postpone its hike from December to early February when a new macro projection will be released.

Interest-rate Swap Curves



* 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
CZ	10:00	Current account	CZK B 10/01/2017	3				3.2		-2.44	
PL	14:00	Current account	EUR M 10/01/2017					203		-100	
PL	14:00	Trade balance	EUR M 10/2017					610		764	

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