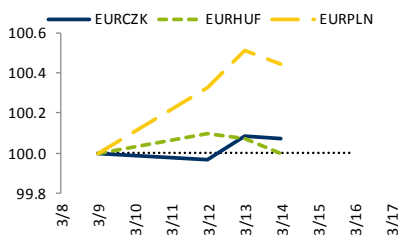
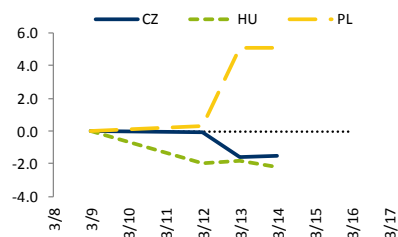




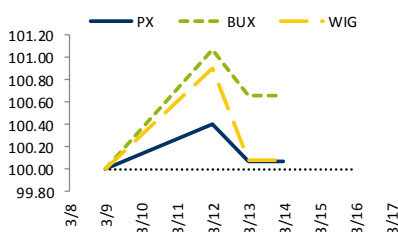
Wednesday, 14 March 2018

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.49	25.49	-0.01
EURHUF	311.6	311.8	-0.08
EURPLN	4.210	4.213	-0.07

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.896	1.895	0.1
HUGB 10Y	2.67	2.67	-0.1
PLGB 10Y	3.34	3.34	0.0

Equity indices (index)

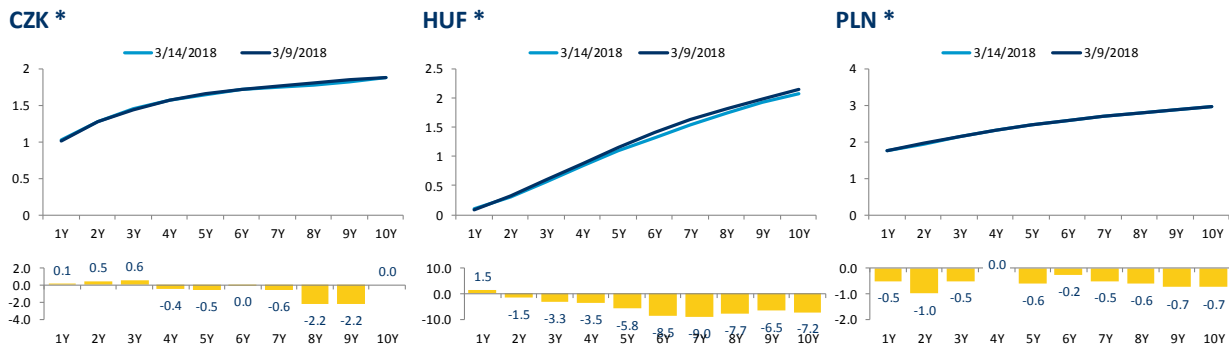
	LAST	PREVIOUS	CHANGE (%)
PX	1124.4	1124.4	0.00
BUX	38664	38664	0.00
WIG	61740	61740	0.00

Our regional insights:**While the zloty nervously awaits the February inflation its fundamentals remain solid**

The Polish zloty has been underperforming its regional PEERs this week, which might be caused by market's fears that tomorrow's release of the February inflation will be lower-than-expected (as was the case in the Czech Republic and Hungary). Recall that the market (consensus) calls for 1.8% year-on-year headline inflation, which would imply further deviation from the NBP target. In our view a lower-than-expected inflation figure in February cannot be expected as price spikes of some food (eggs and butter) recorded at the end of last year look to be over and it is going to put downward pressure on the Polish headline inflation in the whole first quarter of 2018 (beside a negative base effect). So, should the February inflation be even lower than 1.8% y/y (which is the level seen approximately by NBP's March projection), it could be prompt further dovish talk from Polish rate-setters and obviously the zloty might not like (especially in a case when interest rates on developed economies have been trending higher).

Fundamentally, however, the zloty should not have any problem with fundamentals of the Polish economy. Beside excellent growth story (recall 5% growth rates), the Polish currency might benefit from very favourable developments of country's balance-of-payments statistics. Recall that the Polish current account recorded a small annual surplus, which was the best result since 1995. While imports were partly curbed by lower oil prices we should highlight the strong export performance of Polish goods and especially services. As a result the surplus of the C/A item – the balance on services – reached almost EUR 18bn last year. Moreover, Poland is also able to generate significant surplus on its capital account, which obviously represents huge transfers from EU cohesion funds (EUR 6bn in 2017). Hence, taking into account permanent positive inflow of foreign direct investments, which improve the financial account (this item was very close to balance in 2016 and 2017), the zloty stands on fundamentally strong footing. Thus, we believe that domestically-driven problems of the Polish currency should be rather short-lived. Actually, they might be related either to unpleasant monetary policy divergence (more hawkish Fed versus more dovish NBP) or to domestic politics (recall government's disputes with the European Commission about the Polish legislative reform).

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	Unit	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	9:00	Construction output	%	01/01/2018		5						-3.2
CZ	9:00	Industrial output	%	01/01/2018		7.7			5.4			2.7
CZ	9:00	Retail sales	%	01/01/2018		7.0				6.3		2.2
PL	10:00	CPI	%	02/01/2018					0.2	1.8	0.3	1.9
CZ	9:00	PPI	%	02/01/2018					0	0.1	0.5	0.5
CZ	10:00	Current account	CZK B	01/01/2018	30				29			-2.92
PL	10:00	Wages	%	02/01/2018					0.6	7.2	-7.7	7.3
PL	14:00	Current account	EUR M	01/01/2018					965			-1152
PL	14:00	Trade balance	EUR M	01/01/2018					-35			-1268

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