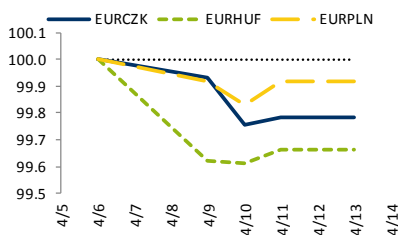




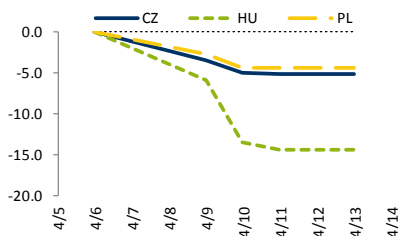
Friday, 13 April 2018

Forex markets (index)



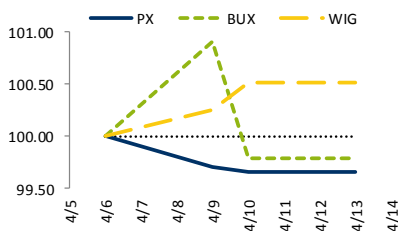
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.32	25.32	0.00
EURHUF	311.5	311.5	0.00
EURPLN	4.192	4.192	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.753	1.753	0.0
HUGB 10Y	2.37	2.37	0.0
PLGB 10Y	3.02	3.02	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1125.0	1125.0	0.00
BUX	37882	37882	0.00
WIG	59860	59860	0.00

Regional insights

The zloty firms as pressure from the EU might ease

The Polish has firmed this week and even more zloty's gains may lie ahead. Beside ongoing strong performance of the economy (our GDP growth must be revised up based on its performance in 2018) and rather neutral NBP's policy, the bullish signals now come from the domestic politics. Recall that Poland's lower house of parliament (Sejm) approved changes to judiciary reforms yesterday in a bid to address EU's concerns that the rule of law in Poland could be violated. *It seems that this time the EU might be (finally) satisfied with the current Sejm amendments to the controversial judicial reform made by the euro-sceptic Polish government, so as a result a risk premium attached to Polish assets could fall, which should be beneficial for the zloty in the mid-term horizon.*

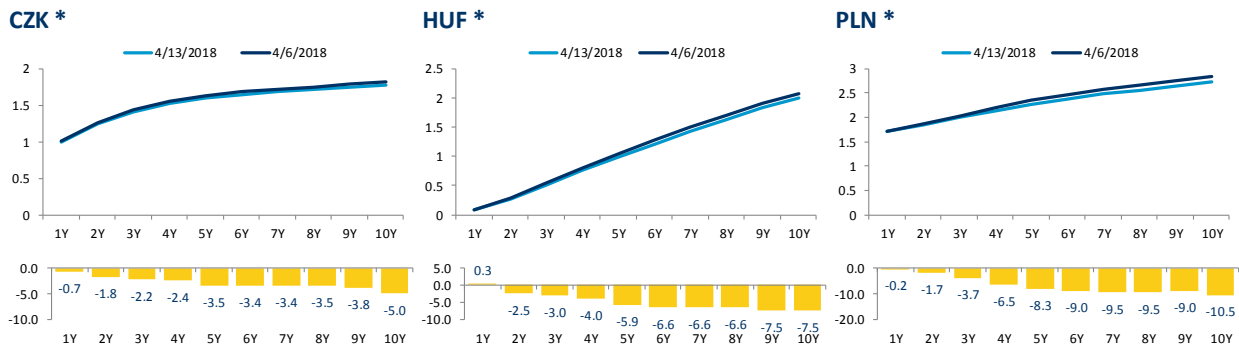
Czech labour is still cheap despite strong wage growth

Wage growth in the Czech Republic increased last year, when the year-on-year average earnings increase reached 8% at the end of the year. However, the result of a comparison of individual countries shows that the Czech Republic's competitive position within the EU did not suffer in any way. Nevertheless, the Czech Central Bank is continuing to monitor wages closely, and "expects" their growth to produce rising inflationary pressures in services. However, for the time being, dramatic increases in service prices have not occurred and inflation remains below the CNB's target.

Although labour costs in the Czech Republic are rising as a result of labour market tensions, they remain the ninth lowest in the EU. **According to Eurostat data, the total hourly labour costs in the Czech Republic are EUR 11.3 and are thus one third compared to Germany.** The increase was not only due to the pressure on wage growth because of the shortage of workers but also partly the appreciation of the koruna against the euro after the abolition of the CNB's FX interventions against the currency. If we ignore the total cost of work, but only look at wages, their average level was 8.2 EUR, i.e. 31% of German wages. The hourly wage of a Czech worker is ten cents higher than Slovakia's and double that of Bulgarian workers.

Over the last nine years, hourly euro wages grew on average by 2.3% per annum (2.2% per annum in Germany) and do not jeopardize the current competitiveness of the Czech economy. Especially when we consider that wages at this time grew almost throughout the EU except for Greece and Cyprus. Since the Czech Republic joined the EU in 2004, the wage level in the Czech Republic has shifted by 11 percentage points from Germany's original 20% to 31% last year. It can be assumed that similar dynamics as last year (about +10% in euro terms) can be expected for this year as well, when wages will continue to accelerate. *As the wage bargaining of trade unions in large successful companies (see promised growth in Skoda Auto of 20% year-on-year) suggests, nominal wage growth in the whole Czech economy could be very solid this year as well (we expect almost 8%/y). If the effect of a stronger koruna is again triggered, wages (in euros) in the Czech Republic could reach 33% of German ones at the end of 2018.*

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
PL	10:00	CPI	% 03/2018 *F			-0.1	1.3			-0.1	1.3
CZ	10:00	Current account	CZK B 02/01/2018	30		30.99		32		28.88	
PL	14:00	Current account	EUR M 02/01/2018					-355		2005	
PL	14:00	Trade balance	EUR M 02/01/2018					-515		-204	
PL	17:00	Review rating - S&P	BBB+ 1st revision								

Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias van der Jeugt	+32 2 417 51 94	Brussels	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
		Institutional Desk	+32 2 417 46 25
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
Dublin Research		Prague	
Austin Hughes	+353 1 664 6889	Prague (Equities)	+420 2 6135 3535
Shawn Britton	+353 1 664 6892		+420 2 2142 4216
Prague Research (CSOB)		Bratislava	
Jan Cermak	+420 2 6135 3578	Bratislava	+421 2 5966 8820
Petr Dufek	+420 2 6135 3560		
Bratislava Research (CSOB)		Budapest	
Marek Gabris	+421 2 5966 8809	Budapest	+36 1 328 99 85
Budapest Research			
David Nemeth	+36 1 328 9989		

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

