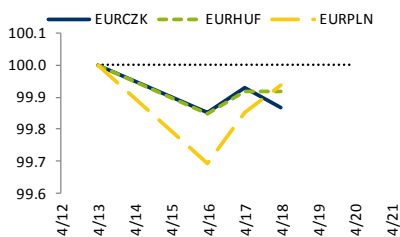




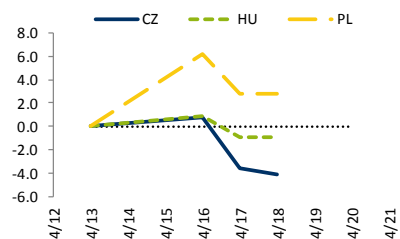
Wednesday, 18 April 2018

Forex markets (index)



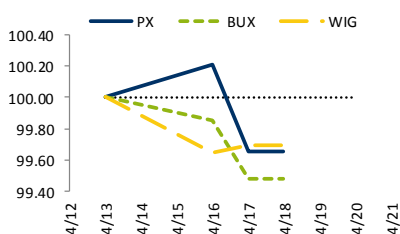
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.26	25.28	-0.06
EURHUF	310.4	310.4	0.00
EURPLN	4.164	4.161	0.08

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.707	1.712	-0.5
HUGB 10Y	2.41	2.41	0.0
PLGB 10Y	3.04	3.04	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1130.3	1130.3	0.00
BUX	38154	38154	0.00
WIG	60294	60294	0.00

Our regional insights:

The koruna one year after the exit from interventions

At the beginning of April, the Czech foreign exchange markets celebrated the first anniversary of the end of the CNB's interventions against the crown. For more than a year, the Czech currency has again been operating under a floating-rate regime. What, however, occurred on the Czech FX market last year?

Last year the koruna strengthened (effectively) by about 8.5% and against the euro by about 6.5% (see graph below). The quickest strengthening of the crown was against the dollar (over 23%) and against the Asian currencies, anchored primarily to the dollar - for example, against the Chinese Yuan, it accounted for almost 13%. Meanwhile, the koruna's profits in the post-intervention period can be described as relatively modest. Especially compared to what the Swiss franc, operating under the same regime, showed after the exit from foreign exchange interventions. Recall that the year after the end of SNB interventions the franc was almost 10% stronger. Nothing similar happened in the Czech Republic because the CNB announced on the markets in advance the approaching end of the interventions and gave a large number of exporters the opportunity to secure their open positions and, above all, to speculate on crown profits before switching the regime.

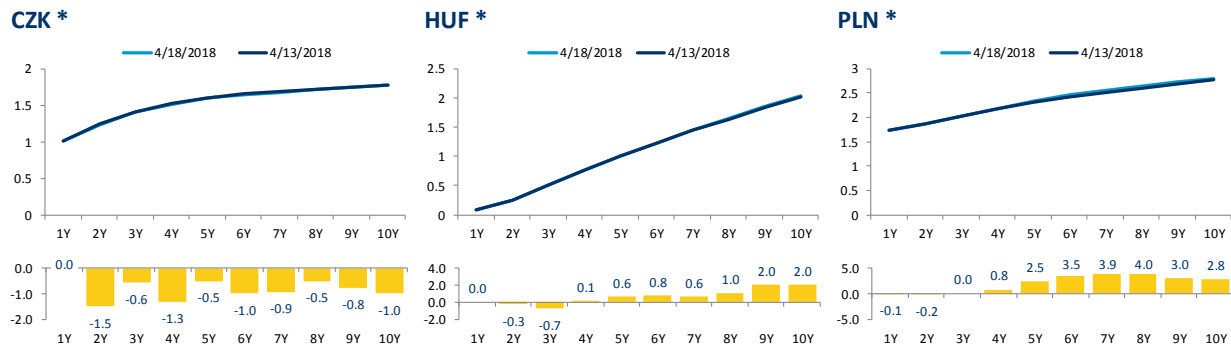
The level of FX hedging of Czech exporters continues to grow and has reached new historical highs this year. But that does not mean that exporters are immune to the strengthening currency. The existence of hedging only weakens and delays the negative impact of the koruna firming. The stronger currency will start to eat into the profit margins of businesses, apparently in the second half of this year. Hence, maturing FX hedging could therefore worry some Czech exporters.

On the other hand, we can imagine a short-term depreciation of the koruna, which could represent a new opportunity for currency hedging. This could happen when part of the foreign speculative capital leaves the Czech Republic. According to our estimates, there are still tens of billions of euros in the Czech financial system, and the level of the speculative capital of the Czech Republic has not declined substantially even one year after the end of CNB FX interventions. Foreign speculators now hold fewer Czech government bonds and more cash.

However, even if the koruna is under depreciation pressure, it will probably only be short-term. The CNB is currently still focused on fighting rising inflationary pressures and a weaker koruna would not help it in this endeavour. In addition, the Czech Central Bank has enough tools to prevent any significant loss of the koruna - from the faster growth of the repo rate to the sale of part of the huge foreign exchange reserves.

Anyway, looking at the Czech FX market right now - I does not seem that the Czech currency is ready to depreciate. The koruna has slowly extending its gains and the EUR/CZK has been sliding closer to the key support level standing at EUR/CZK 25.12.

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	PPI	%	03/01/2018			0.3	0.1	0	-0.2	-0.4	-0.3
PL	10:00	Wages	%	03/01/2018					6.1	6.5	0.2	6.8
PL	10:00	Industrial output	%	03/01/2018					12.4	2.9	-2.2	7.4
PL	10:00	PPI	%	03/01/2018					0.1	0	-0.3	-0.2
HU	9:00	Wages	%, ytd.	02/01/2018						12.5		13.8
CZ	17:00	Review rating - Moody's	A1	1st revision								

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