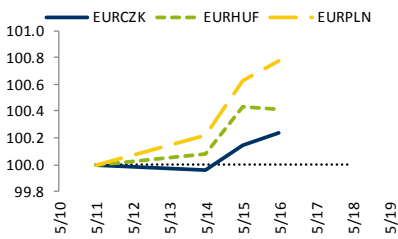




Central Europe
Wednesday

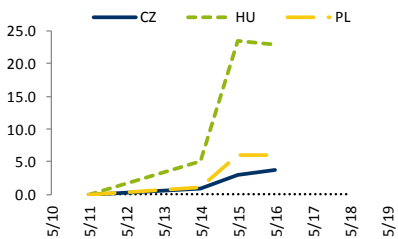
Wednesday, 16 May 2018

Forex markets (index)



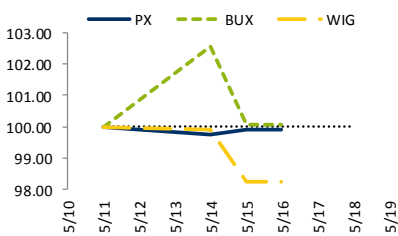
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.57	25.54	0.09
EURHUF	316.5	316.6	-0.02
EURPLN	4.297	4.291	0.15

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.856	1.847	0.9
HUGB 10Y	3.00	3.01	-0.2
PLGB 10Y	3.28	3.28	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1106.3	1106.3	0.00
BUX	37664	37664	0.00
WIG	59724	59724	0.00

Our regional insights:

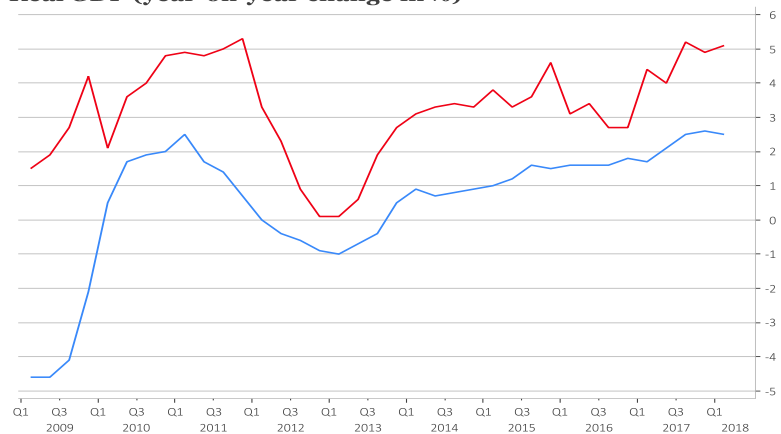
Strong growth stories have not shielded the zloty and the forint from raising dollar rates

The global core bond sell-off accelerated yesterday as good US eco data keep the possibility of three more Fed rate hikes this year more than alive. This pushed some emerging markets and regional currencies onto the defensive, despite the published GDP growth figures for the first quarter looking positive. Although Polish and Hungarian economic growth exceeded expectations, the data had a very short-lived (positive) impact on both the zloty and the forint. Hence, both Central European currencies, like some other emerging markets, are beginning to worry about the widening interest rate differential between the dollar and domestic interest rates, which might lead to outflow of short-term capital from the region.

Looking once more at the growth data released yesterday, Polish growth (GDP grew 5.1% year on year), and Hungarian growth (GDP grew 4.4% y/y) suggest that the strong story of real convergence is continuing and it should fundamentally support the zloty and the forint as well. Nevertheless, the two economies are experiencing very low inflation below the inflation target of the NBP and the NBH, which does not give rise to the hope that these central banks will support the exchange rate by raising short-term interest rates. It is on this point that the Czech koruna differs, as the CNB has already started the cycle of tightening the monetary policy and the actual inflation is practically on the central bank's target.

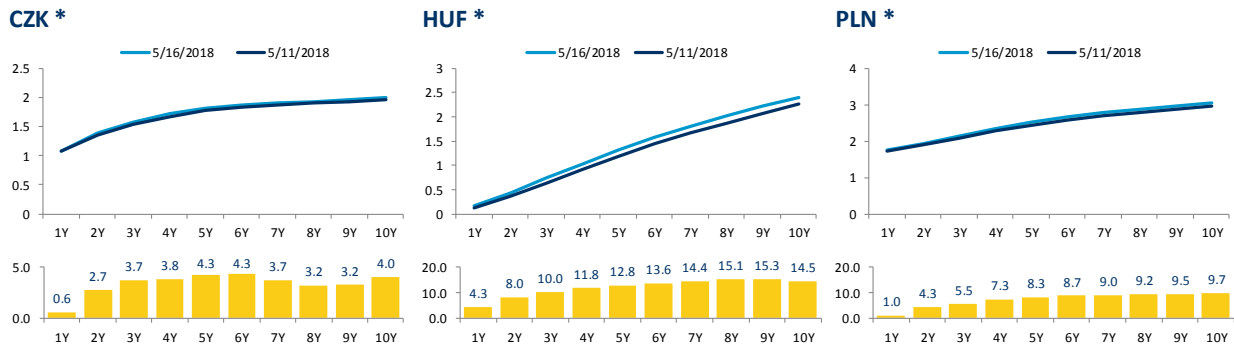
Under these circumstances, the results of today's interest-rate-setting meeting of the Polish Central Bank may be important for the zloty. If NBP Governor Glapinsky maintains his dovish rhetoric indicating that official interest rates will not change in Poland until the end of 2019, then the sell-off the Polish currency may continue for some time (assuming that the dollar interest rates do not fall) and the EUR/PLN might test the 4.30 level.

Real GDP (year-on-year change in %)



— Euro Area, Gross Domestic Product, Preliminary Flash Estimate (Unrevised), SA, Chained, Change Y/Y — Poland, Total-100, Total, Index
Source: **Macrobond**

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	0:00	Earnings Tauron Polska	PLN 1Q/2018								
PL	14:00	Core CPI	% 04/01/2018			0.4	0.6	0	0.7		
PL	14:00	NBP meeting	% 05/01/2018	1.5		1.5		1.5			
PL	0:00	Earnings Jastrzebska Spolka Weglowa	PLN 1Q/2018								
PL	0:00	Earnings LPP	PLN 1Q/2018								
CZ	0:00	Earnings Pegas NW	CZK 1Q/2018								
CZ	0:00	Earnings Kofola	CZK 1Q/2018								
HU	0:00	Earnings FHB Mortgage Bank PLC	HUF 1Q/2018								
HU	0:00	Earnings Raba Jarmuipari Holding	HUF 1Q/2018								

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
Mathias Janssens	+32 2 417 51 95		Institutional Desk		+32 2 417 46 25
Dublin Research			France		+32 2 417 32 65
Austin Hughes	+353 1 664 6889		London		+44 207 256 4848
Shawn Britton	+353 1 664 6892		Singapore		+65 533 34 10
Prague Research (CSOB)					
Jan Cermak	+420 2 6135 3578		Prague		+420 2 6135 3535
Petr Dufek	+420 2 6135 3560		Prague (Equities)		+420 2 2142 4216
Bratislava Research (CSOB)					
Marek Gabris	+421 2 5966 8809		Bratislava		+421 2 5966 8820
Budapest Research					
David Nemeth	+36 1 328 9989		Budapest		+36 1 328 99 85

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