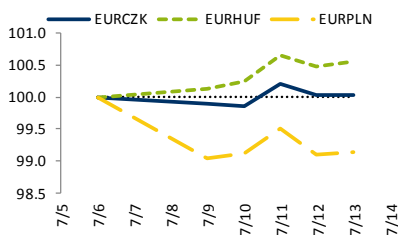




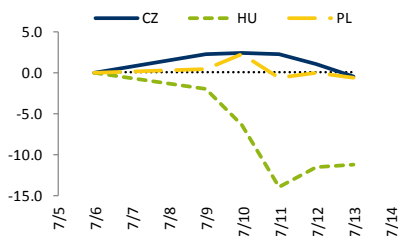
Friday, 13 July 2018

Forex markets (index)



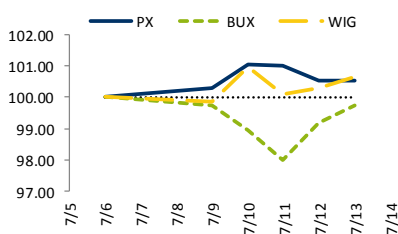
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.91	25.90	0.01
EURHUF	324.7	324.4	0.09
EURPLN	4.319	4.317	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.131	2.147	-1.6
HUGB 10Y	3.33	3.33	0.1
PLGB 10Y	3.17	3.17	-0.2

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1083.3	1083.2	0.01
BUX	35688	35486	0.57
WIG	56862	56671	0.34

Regional insights

The CNB does not target the koruna rate, but sees its weakness as inflationary factor

The Czech National Bank has released the Minutes from the latest Board meeting, when it hiked its official rates this morning. Interestingly, the Minutes showed that “board members assessed the risks to the inflation forecast at the monetary policy horizon as being inflationary. The exchange rate of the koruna, which was weaker than forecasted, was repeatedly mentioned as the most significant inflationary factor”. On the other hand the CNB Minutes stressed that “the koruna exchange rate forecast was neither a commitment, nor a preferred exchange rate level from the CNB’s point of view”.

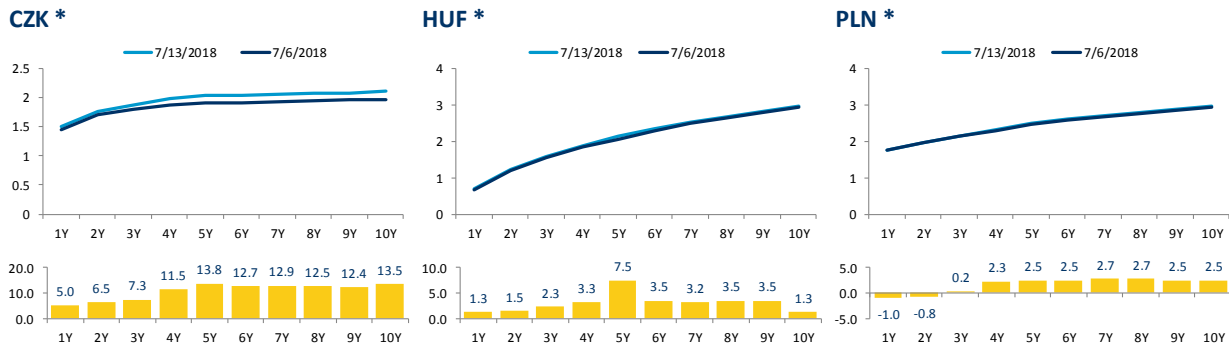
Recall that the current EUR/CZK rate significantly deviates from projected rate (EUR/CZK 24.80), while the current headline inflation also visibly overshoots both the CNB target and projection. Anyway, as the CNB already admitted the June inflation was 0.7 percentage point above its forecast published in early May.

NBP’s rhetoric and projection keep dovish bias

While the Polish zloty, together with other regional currencies, moves sideways – it still looks vulnerable, which is partly due to ongoing dovish policy of the Polish central bank. Recall that the NBP, unlike the CNB, does not intend to signal any tightening of its monetary policy in order to cool the domestic labour market. This was again confirmed by the NBP Governor Glapinski’s at his press conference on Wednesday, which reiterated its dovish view that official interest rates will remain unchanged until the end of 2020. As Glapinski said, that for the NBP (like other central banks in the region), it will be an important moment when the ECB raises its interest rates. As we know, this will not happen until September 2019. Moreover, the NBP’s cautious approach is valid because inflation still remains below the target (2.5%), and even the new central bank’s forecast does not suggest that inflation will increase significantly above it in 2019 (the 50% confidence interval for projected inflation stands at 1.9-3.5%).

In our view, the outlook for Polish inflation is more pessimistic. We believe that inflation could accelerate in the second half of the year and gradually approach 3%. Also, our forecast for the zloty is not positive given the globally growing risk aversion (implied by Fed’s quantitative tightening and ECB’s end of APP this year). Therefore, we believe that the NBP will raise interest rates already in 2019 and probably before the ECB does.

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	9:00	CNB minutes	06/01/2018								
PL	10:00	CPI	% 06/2018 *F							0.1	1.9

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