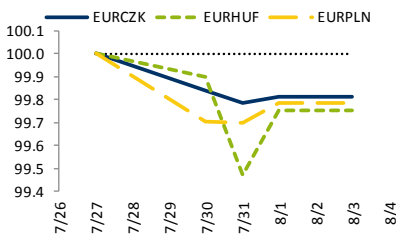




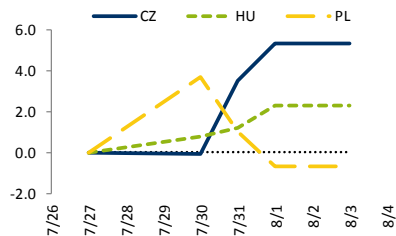
Friday, 03 August 2018

Forex markets (index)



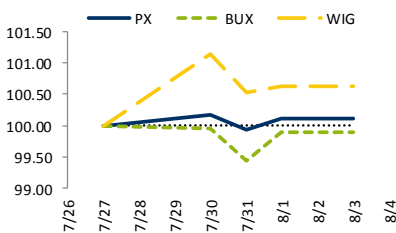
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.59	25.59	0.00
EURHUF	321.3	321.3	0.00
EURPLN	4.274	4.274	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.179	2.179	0.0
HUGB 10Y	3.25	3.25	0.0
PLGB 10Y	3.14	3.14	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1094.4	1094.4	0.00
BUX	35909	35909	0.00
WIG	60023	60023	0.00

Regional insights

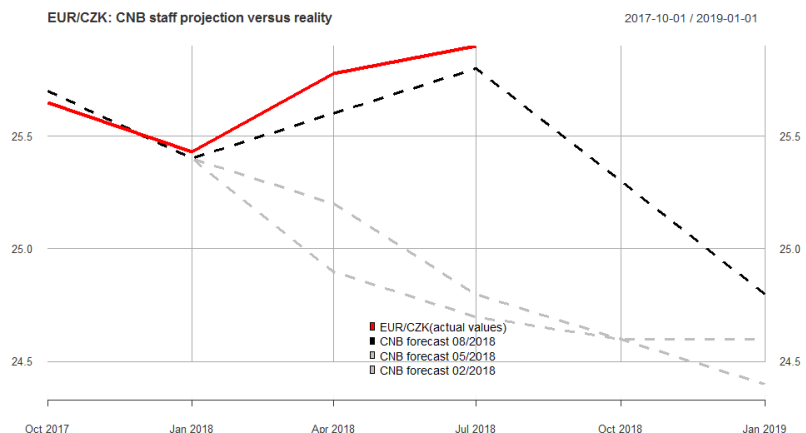
The CNB hikes, but the koruna feels disappointed

Yesterday, the CNB Bank Board has unanimously increased its base rate to 1.25%, Lombard rate to 2.25% and discount rate to 0.25%. The decision adopted by the Bank Board was underpinned by a new central bank's macroeconomic forecast based on slower appreciation of the koruna and higher inflation.

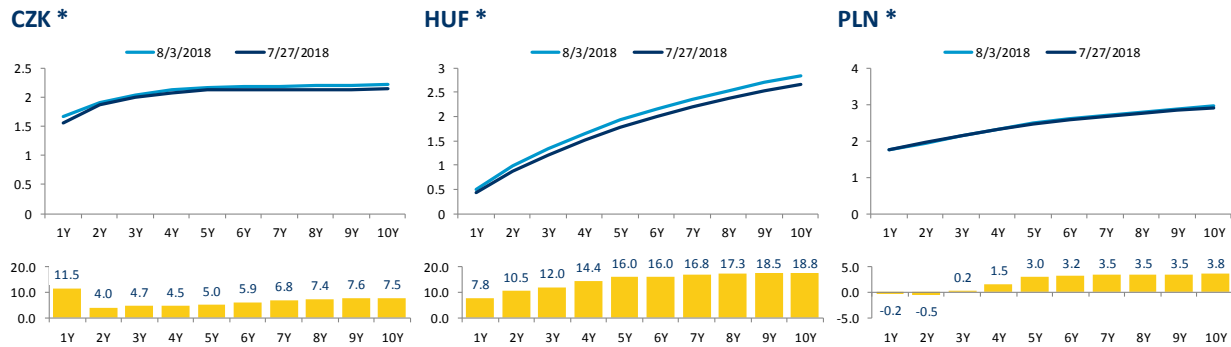
A bit surprisingly, in spite of faster rate increase this year the CNB remains conservative in the longer term - especially for the 2019. Still, the CNB talks about reaching neutral 3% level of the rates but not within the present monetary policy horizon.

The Czech koruna, however, might feel disappointed by the CNB and the story behind that is about expectations. Yesterday's hike had been more or less priced in the market, but a part of the market had believed the decision could be accompanied by more significant change in the CNB (staff) forecast: assumption of weaker koruna and higher rates. That would probably help the koruna as it would signal, the CNB was ready to hike much more in the subsequent quarters. Nevertheless the CNB weekend its koruna's forecast more significantly only for this and next quarter while it assumes fast(er) strengthening of the Czech currency in 2019 (see the chart below). As a result the projection does not predict any further hikes in 2019 and sees tightening of monetary conditions through the strong(er) exchange rate. That is probably the main negative message for the koruna.

Hence, *our updated forecast says that (in line with the fresh CNB prediction) central bankers will deliver one more 25 bps hike by the end of 2018. As for 2019, though, we do not believe the CNB Board that it will add no further hikes. Our main scenario counts with two more hikes, or even three hikes (25 bps each), if koruna's exchange rate should lag remarkably behind the CNB forecast.*



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	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	08/03	9:00	Retail sales	%								
								6.7				7.7

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