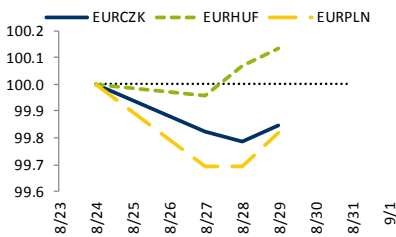




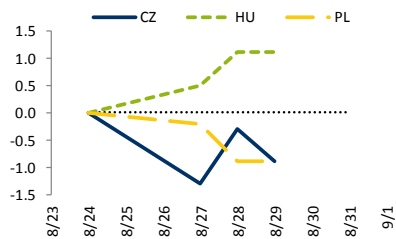
Wednesday, 29 August 2018

Forex markets (index)



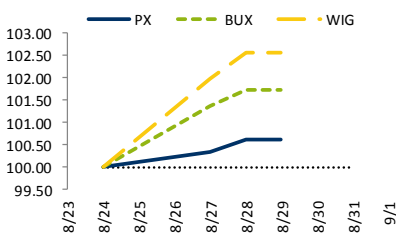
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.71	25.69	0.06
EURHUF	324.1	323.9	0.06
EURPLN	4.273	4.268	0.13

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.082	2.088	-0.6
HUGB 10Y	3.36	3.36	0.0
PLGB 10Y	3.15	3.15	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1079.6	1079.6	0.00
BUX	36819	36819	0.00
WIG	61427	61427	0.00

Our regional insights:

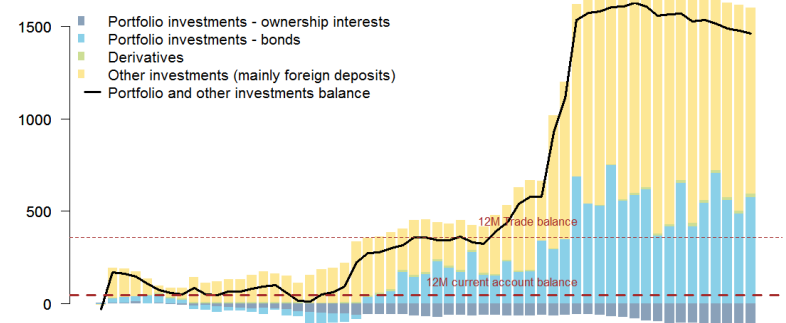
The koruna has not left a summer mode

Low volatility and slow summer trading have returned to the Czech forex market. As for the Czech koruna, we still believe that the sentiment in emerging markets will remain an important factor in the coming months – so, the market should keep monitoring the Turkish lira, the Russian rouble, the Hungarian forint or the Polish zloty. With a worse sentiment (and a higher aversion to risk), foreign capital is tending to leave the long koruna’s positions, which have remained high since the end of the CNB’s foreign exchange interventions. In this respect, it is interesting that no significant part of the short-term foreign capital has been withdrawn from the Czech Republic yet (even during the intensive sell-off in June).

On the other hand, the koruna could be still supported CNB’s tightening cycle. But there should be one warning - the Czech Central Bank has clearly indicated this year that it does not want to fight with a market-driven CZK’s weakening. The CNB would rather monitor the situation on the domestic foreign exchange market and it would only ex-post react with its interest rate policy. We used to believe that the CNB could change this approach over time, but the central bank’s latest macro projection clearly showed that the CNB does not want to commit to more rate hikes and it would rather stay behind the curve (on the other hand, it is worth noting that the CNB forecasts a visibly stronger koruna, which implies slower inflation and interest rates).

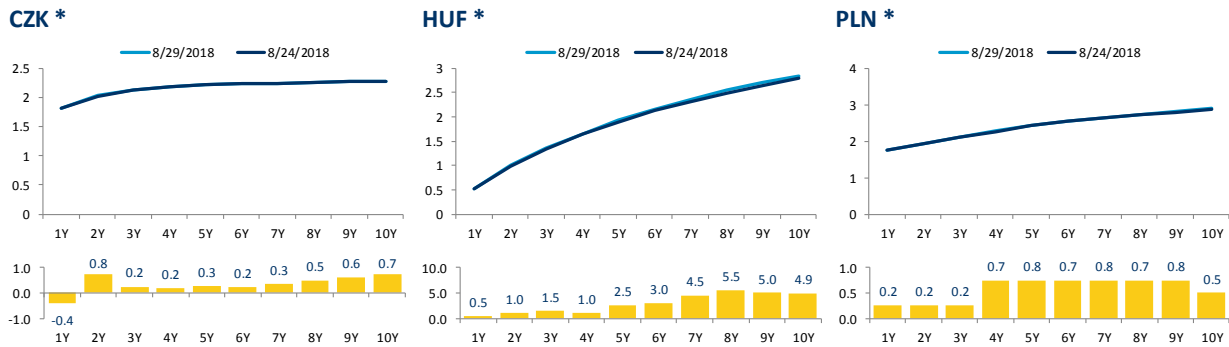
We believe that in such an environment, the Czech koruna can remain vulnerable to swings of market sentiment in emerging markets. As a result, we see the exchange rate of the Czech currency at weaker levels for the rest of the year, while our longer bullish view of the koruna is left without major changes.

Hot money - portf&other investments(cumulation since the start of interventions) in CZK bn



Source: CNB

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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	08/29	9:00	Unemployment rate	%	07/01/2018			3.6		3.6		3.6	
CZ	08/31	9:00	GDP	%	2Q/2018 *P							0.5	2.3
HU	08/31	9:00	Trade balance	EUR M	06/2018 *F							1070	
HU	08/31	9:00	PPI	%	07/01/2018							1.9	7.5
PL	08/31	10:00	CPI	%	08/2018 *P					-0.3	2.0	-0.2	2
PL	08/31	10:00	GDP	%	2Q/2018 *F							0.9	5.1
CZ	08/31	10:00	Money supply M2	%	07/01/2018								5.4
HU	08/31	17:00	Review rating - Fitch		3BB- pos2nd revision								

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