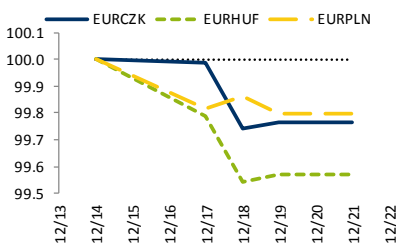




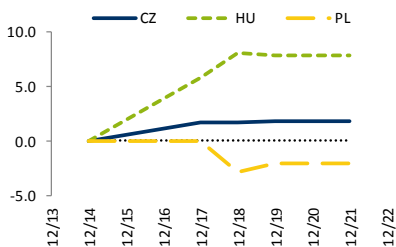
Friday, 21 December 2018

Forex markets (index)



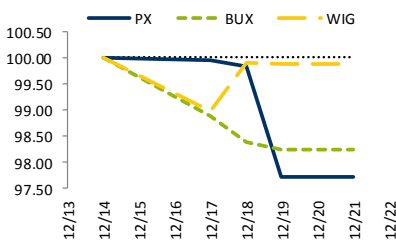
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.73	25.73	0.00
EURHUF	322.4	322.4	0.00
EURPLN	4.282	4.282	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.965	1.965	0.0
HUGB 10Y	3.29	3.29	0.0
PLGB 10Y	2.90	2.90	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1004.9	1004.9	0.00
BUX	39420	39420	0.00
WIG	58705	58705	0.00

Regional insights

CNB: 5:2 on hold this time. Hike left for February

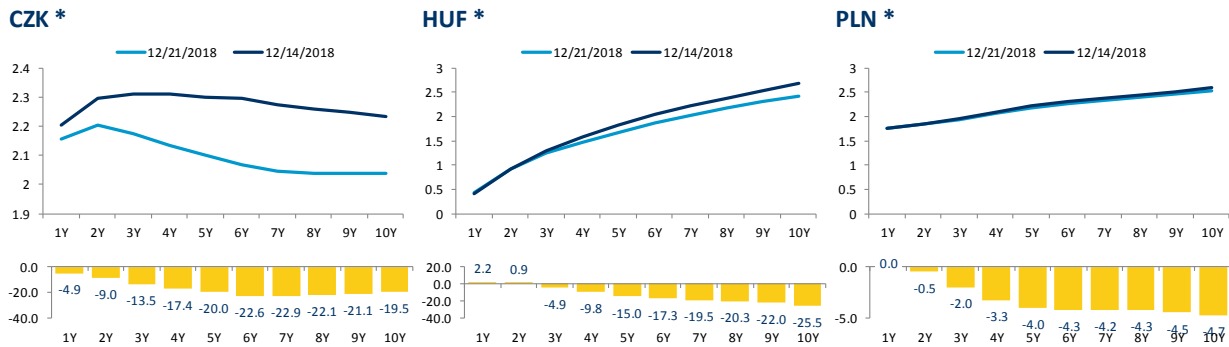
At this year's last session, Czech Central bankers left the CNB interest rates unchanged, although two Board members would like to raise interest rates by another quarter of a percentage point at this time already. The aforementioned two votes used the argument of the overheating economy and strongly anchored inflation expectations creating potential for further rate growth without having to wait, but the majority of the Board preferred a break justified by external risks. Therefore, waiting for new data won priority over an urgent response.

The Bank Board assessed the risks of the forecast as balanced and reaffirmed that an "approximate" interest rate stability is consistent with the forecast. The only thing that currently exceeds the forecast is wage growth (as a result of faster wage increases in the public sector), while both GDP and inflation are lagging behind the CNB predictions. However, the CNB continues to anticipate an increase in inflation right at the beginning of next year although the inflation should drop towards the target again afterwards.

What made an interesting impression at the press conference was the Governor's relativisation of the normal or neutral interest rate levels. Moreover, he also emphasised the fact that the CNB perceives albeit does not target the exchange rate, and has an explanation for why the CZK does not strengthen as rapidly as predicted by the forecast. Therefore, not even the press conference made any suggestion of preparing for another round of interest rate raise, which could compensate for the weaker koruna. The deficit 2019 budget as approved yesterday does not push for more activity on the part of the CNB either.

We still expect the CNB to raise its interest rates at the February meeting already, and then there will be a slightly longer gap. At the next session, the bankers will have a new forecast which could finally be slightly less optimistic than the current one, particularly if it should reflect the deteriorated outlook of the European economy and, on top of that, if the known external risks start to materialise. The biggest risk - the Brexit - has not been included in the CNB's model yet.

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	12/21	9:00	Trade balance	EUR M 10/2018 *F			304					293
PL	12/21	10:00	Unemployment rate	% 11/01/2018					5.8			5.7
PL	12/21	10:00	Retail sales	% 11/01/2018					-2.6	7.9	7.4	9.7

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