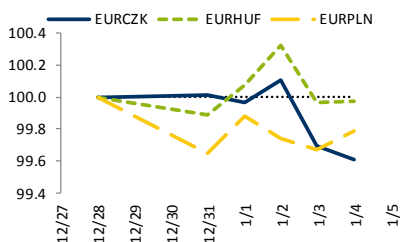




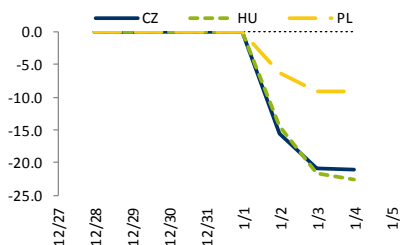
Friday, 04 January 2019

**Forex markets (index)**



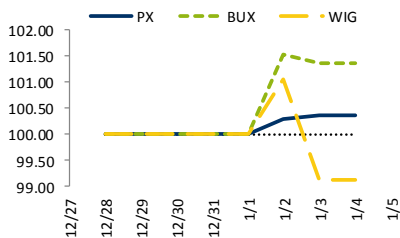
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.63	25.65	-0.09
EURHUF	321.2	321.1	0.01
EURPLN	4.295	4.290	0.12

**Gov. bonds 10 Y (bps change)**



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.675	1.677	-0.2
HUGB 10Y	2.75	2.75	-0.3
PLGB 10Y	2.72	2.72	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	990.1	990.1	0.00
BUX	39673	39673	0.00
WIG	57192	57192	0.00

**Regional insights**

**The Polish inflation slides to 1.1% year-on-year**

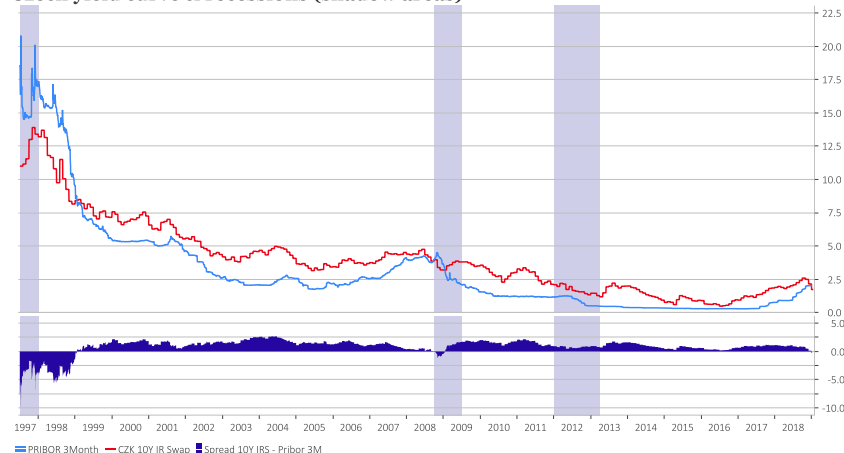
The Polish headline inflation dropped further as it grew only 1.1% y/y in December of 2018. On month-on-month basis the headline inflation stagnated. The biggest downward pressure came from fuel prices, which slipped by 3.2% m/m in the last month. Although there are no detail inflation statistics yet we estimate that the core still hovered around 0.7% y/y – hence it runs still deeply below the NBP inflation target (2.5%).

**The Czech yield curve has become inverted**

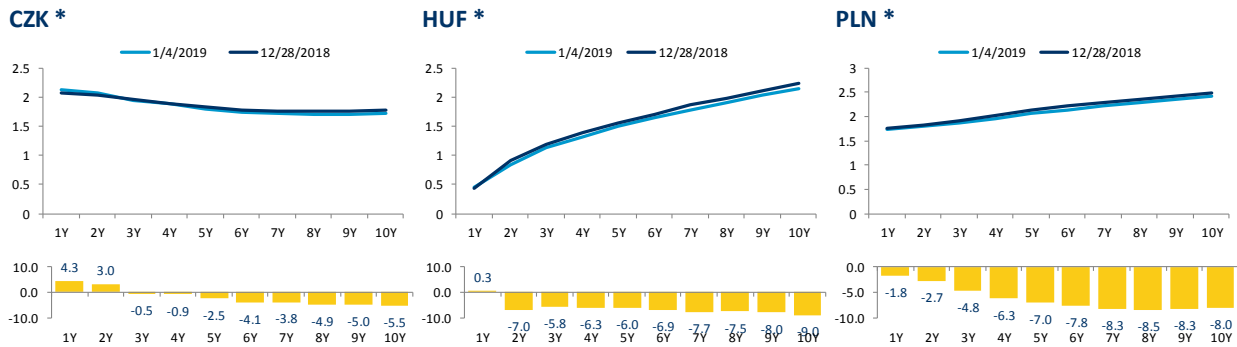
The Czech swap curve has become inverted since the end of 2018, which might be a signal that monetary policy of the Czech National Bank is too restrictive. Currently, the 3-moth Pribor rate stands at 2.01% while the 10Y (interest) swap rate hovers just above the 1.7% level. Hence, there is a visibly negative spread between the long and short-term CZK interest rates (see the chart on the next page).

**The inverted CZK yield (swap) curve has been a relatively rare phenomenon as it had happened only twice in the past – the first time, during and after the currency crisis in 1997 and secondly during the global financial crisis in 2008.** In both cases, the inverted CZK yield curve was matched (followed) by the recessions of the Czech economy. So, it will be interesting whether some of the CNB Board members will notice this warning signal from the Czech fixed-income market. Just released Minutes from the December Bank Board meeting when the CNB hiked its repo rate by another 25 bps have not mentioned the yield curve explicitly, although the Board discussed an appropriate level of the real repo rate at this stage of the cycle. According to the Minutes ‘it was said several times that the time had come when making monetary policy decisions would be more difficult than in 2018’.

**Czech yield curve & recessions (shadow areas)**



## 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
CZ	01/04	9:00	CNB minutes	12/01/2018								
HU	01/04	9:00	PPI	%			-0.2	5.1			0.6	6.4
PL	01/04	10:00	CPI	%			0	1.1	0.1	1.1	0	1.3

## Contacts

Brussels Research (KBC)			Global Sales Force		
Mathias van der Jeugt	+32 2 417 51 94		<b>Brussels</b>		
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
<b>Dublin Research</b>			France		
Austin Hughes	+353 1 664 6889		London		+44 207 256 4848
Shawn Britton	+353 1 664 6892		Singapore		+65 533 34 10
<b>Prague Research (CSOB)</b>			Prague		
Jan Cermak	+420 2 6135 3578		Prague (Equities)		+420 2 6135 3535
Petr Dufek	+420 2 6135 3560				
<b>Bratislava Research (CSOB)</b>			Bratislava		
Marek Gabris	+421 2 5966 8809				+421 2 5966 8820
<b>Budapest Research</b>			Budapest		
David Nemeth	+36 1 328 9989				+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

