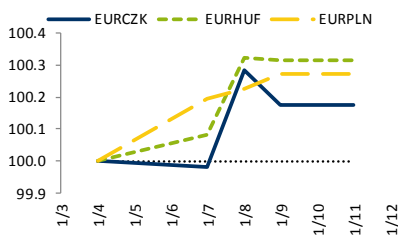




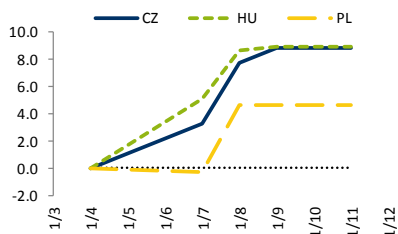
Friday, 11 January 2019

Forex markets (index)



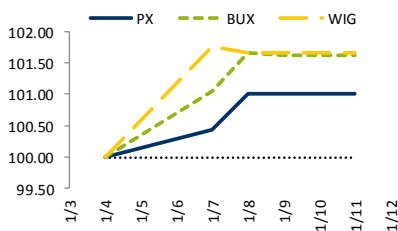
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.62 | 25.62 | 0.00 |
| EURHUF | 321.9 | 321.9 | 0.00 |
| EURPLN | 4.299 | 4.299 | 0.00 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.805 | 1.805 | 0.0 |
| HUGB 10Y | 2.93 | 2.93 | 0.0 |
| PLGB 10Y | 2.85 | 2.85 | 0.0 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1014.4 | 1014.4 | 0.00 |
| BUX | 40794 | 40794 | 0.00 |
| WIG | 58907 | 58907 | 0.00 |

Regional insights

The CNB still on the way to hike in early February

In December, the Czech consumer inflation presented no surprise when it remained at 2%. The December inflation thus stays behind the latest CNB forecast, which predicted a 2.5 % growth in consumer prices y-o-y towards the end of 2018.

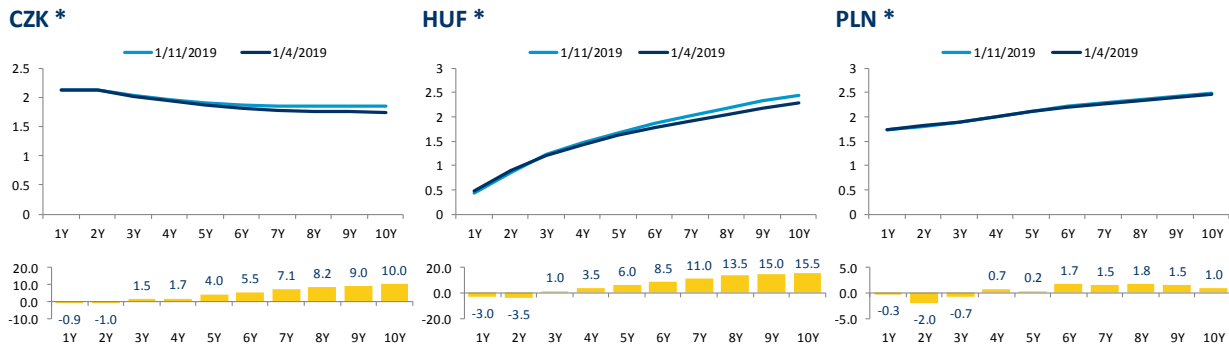
The inflation remained, identically to November, at a two-percent level year on year. One half of the inflation continues to reflect - quite as expected - the increasing costs of housing. This mainly means the more and more expensive energy and growing rents. On the other hand, the rise in food prices has basically stopped when compared to November.

We assume that the Czech headline inflation is going to rest slightly above the CNB's target in 2019. It should only come back to the two-percent target towards the year end. However, the January result should provide a good indicator of further inflation development. It will show how much the rents, electricity and gas prices and basically all of the important housing-related costs have increased again. 2019, too, is undoubtedly going to be a year of more expensive housing in the form of higher rents.

In our view, even though the inflation has stopped short of the CNB's forecast, the Czech central bank is still likely to raise the interest rates again in February. We believe, the CNB Bank Board will be pushed to tighten its monetary policy not only because of strong domestic demand (see today's strong releases the Czech retail sales for December) but also because of the CZK exchange rate. The koruna, despite its better performance in the beginning of the year, is still far behind the levels predicted by the CNB's projection. In this respect, it is also worth noting recent hawkish statements of the CNB's Governor, Rusnok, and the new Bank Board member, Michl, whom both suggested that would see an opportunity to deliver more hikes and to bring official interest rates to more 'normal' levels.

Let's add that the only thing that could discourage the CNB from further tightening is the current negative news from the German economy balancing on the verge of technical recession. Nevertheless, the next CNB meeting (scheduled for February 7) is still relatively far away, and so we are very likely to hear about the views of other Bank Board members before then. Moreover, in early February, there should already be available flash estimates of the German and Eurozone GDP growth for the last quarter of 2018.

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 | 01/11 | 9:00 | Retail sales | % 11/01/2018 | 3.9 | | 3.3 | | 1.8 | | 3.1 | |
| CZ | 01/11 | 9:00 | GDP | % 3Q/2018 *F | | | 0.6 | 2.4 | 0.6 | 2.4 | 0.6 | 2.4 |

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