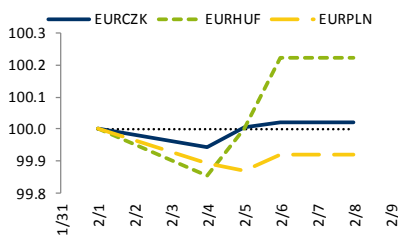




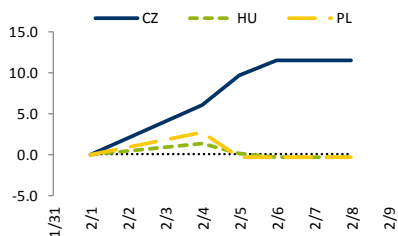
Friday, 08 February 2019

Forex markets (index)



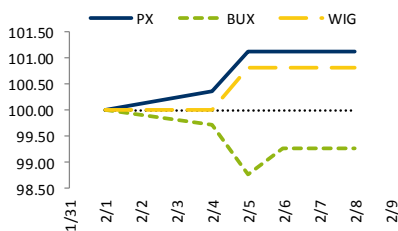
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.72	25.72	0.00
EURHUF	318.3	318.3	0.00
EURPLN	4.289	4.289	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.863	1.863	0.0
HUGB 10Y	2.65	2.65	0.0
PLGB 10Y	2.74	2.74	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1060.0	1060.0	0.00
BUX	40678	40678	0.00
WIG	61147	61147	0.00

Regional insights

The CNB on hold; no more rate hikes projected

Yesterday, the Czech Bank Board kept the interest rates unchanged. However, the vote was not unanimous: two central bankers preferred a further interest rate increase. The Bank Board's decision relied on the latest staff projection stemming from a less optimistic outlook for the euro zone.

The new CNB's projection was downgraded; however, it may still be considered rather optimistic although it envisages no interest rate raise and expects the koruna exchange rate to strengthen a bit more slowly. Nevertheless in CNB's view economic growth should still gain momentum, and the GDP growth rate should overcome the three per cent threshold.

The new projection assumes no interest rate raise within an 18-month time frame; nonetheless, the Governor has not ruled out the possibility of one of the future Bank Board meetings returning to rate raises. According to the Governor, the CNB was not under pressure to raise the rates now and so it opted for waiting until the external uncertainty risk development has become clear. In any case, the return to neutral interest rates has been deferred further into the future.

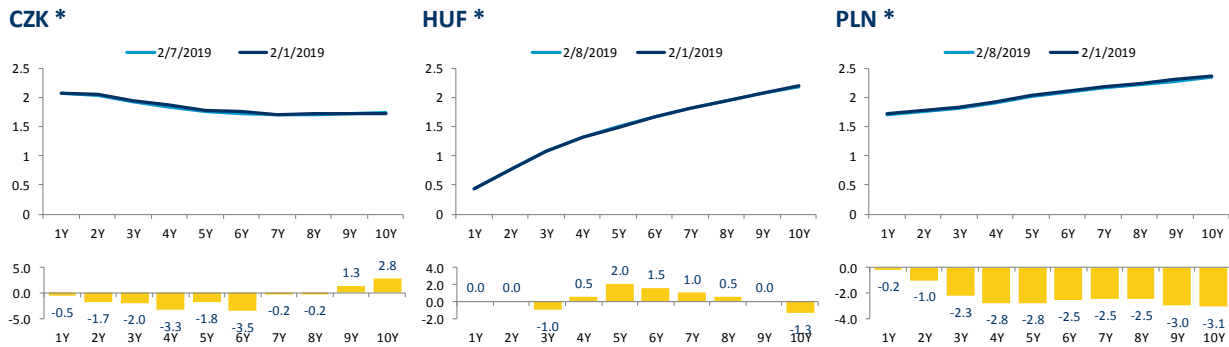
Hence, the former monetary (conditions') rule – a weaker koruna implies rising rates (1% depreciation of the CZK = 25 bps cut) – does not seem to be working any more. With respect to external reasons behind the weak CZK, the CNB is no longer sure whether a rate raise could make the koruna strengthen at all at the moment.

We believe that if the CNB chooses to hike its interest rates this year, it will only come close to the end of the year. At that time, it will be obvious how much the risks and uncertainties have materialised – whether in the form of the Brexit or cooling of the European/German economy.

CNB's prognosis		Feb-19	Nov-18	change
GDP (y/y, %)	2018	2.8	3.1	↓
	2019	2.9	3.3	↓
	2020	3.0	3.3	↓
Inflation (y/y, %)	2018Q4	2.2	2.2	→
	2019Q4	2.0	2.0	→
Monetary relevant inflation (y/y, %)	2018Q4	2.3	2.2	↑
	2019Q4	2.0	2.0	→
PRIBOR 3M (%)	2018Q4	2.0	1.9	↑
	2019Q4	2.1	2.6	↓
CNB's repo rate (%)	2018Q4	1.7	1.7	→
	2019Q4	1.9	2.4	↓
CZK/EUR (average)	2018Q4	24.5	24.4	↑
	2019Q4	24.1	24.2	↓

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	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	02/08	9:00	Unemployment rate 15-64	%	01/01/2019	3.3	3.3	3.2	3.1			
HU	02/08	9:00	Trade balance	EUR M	12/2018 *P		398	380	478			
HU	02/08	11:00	Budget balance	HUF B	01/01/2018							-1445

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