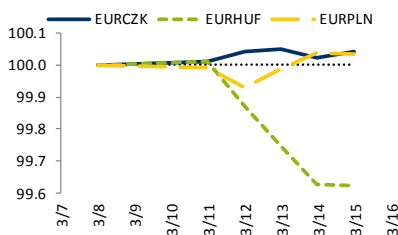




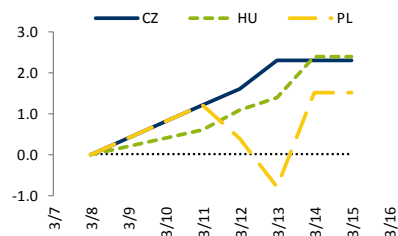
Friday, 15 March 2019

Forex markets (index)



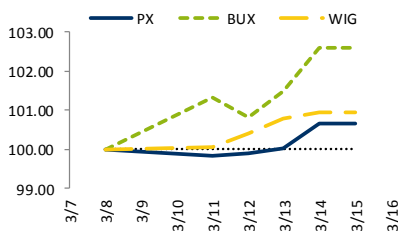
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.66	25.66	0.02
EURHUF	314.4	314.4	0.00
EURPLN	4.303	4.303	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.877	1.877	0.0
HUGB 10Y	3.22	3.22	0.0
PLGB 10Y	2.87	2.87	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1068.4	1068.4	0.00
BUX	41335	41335	0.00
WIG	60003	60003	0.00

Regional insights

The CNB does not have to hurry with rate hikes

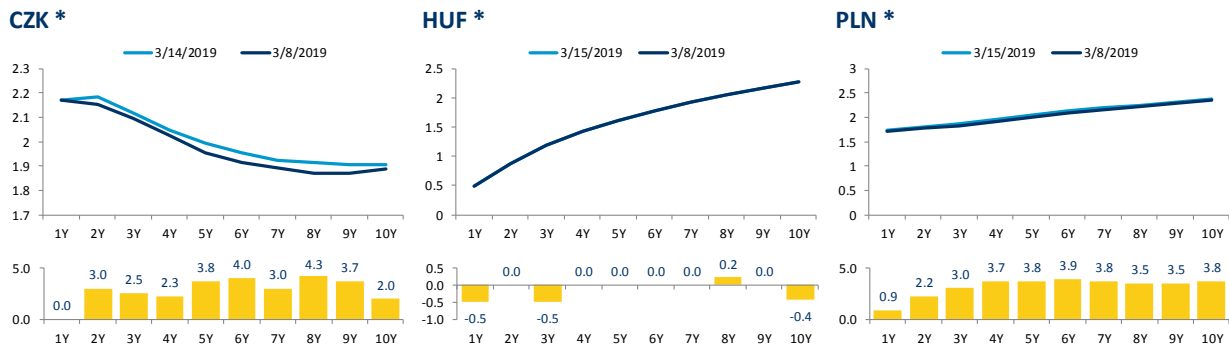
The latest data arriving from both the Czech and European economies is forming a picture that will be crucial for the CNB's decision of any potential interest rate raise at the end of March. The first test of the CNB's forecast in terms of GDP and wage growth showed that the former fared better than the latter. The central bank also has a feedback on the accuracy of its inflation estimate. As expected, the February inflation figure approached the upper boundary of the tolerance interval; nonetheless, the difference from the forecast dropped from the 0.5 pp in January to 0.3 pp. Although core inflation has not gone back up and remained at 3% as in January, the CNB believes the inflationary pressures in the Czech economy remain strong, mainly due to rising wages and continued economic growth.

Although inflation has been increasing more rapidly than expected by the central bank so far, its development requires no urgent interventions by the CNB. There are several potential reasons for that. If nothing else, then half of the inflation stems from the increasing costs of housing, from rents (driven by the tensions in the real estate market), heat, electricity and gas. These are the factors that the central bank policy can only influence to a very limited (if any) extent. Moreover, in its current commentary, the CNB expects inflation to go down in the second half of the year already, so there is no need to worry about the old figure from February anyway. The CNB's prompt response is also contested by the ECB's position, which clearly indicated that an ECB interest rate raise may be expected to happen no sooner than in 2020.

So the Czech central bank does not have to hurry anywhere at least until the current foreign risks and uncertainties have cleared up. Also the persistent contrast between the rather positive (but old) "hard" domestic data and the current weak soft indicators in the form of poor business sentiment or industrial PMI attacking six-year lows should be resolved before any decisions are taken.

The Czech industrial production figures released this morning are another piece in the CNB's macroeconomic jigsaw. Although industrial production declined in January (by 1.1% y/y) as PMI indicated, the new orders figure is slightly positive. For the CNB, today's figures are in favour of postponing further interest rate hikes.

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	03/15	9:00	Construction output	% 01/01/2019		-12		-13.2				3.9	
CZ	03/15	9:00	Industrial output	% 01/01/2019		1		-1.1		1.6		-1.4	
PL	03/15	10:00	CPI	% 02/01/2019				0.4	1.2	0.1	1.2	0.1	0.9

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