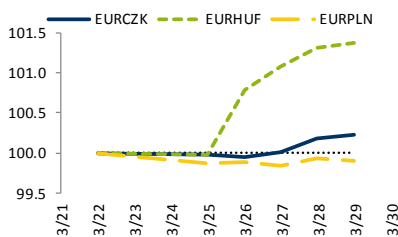




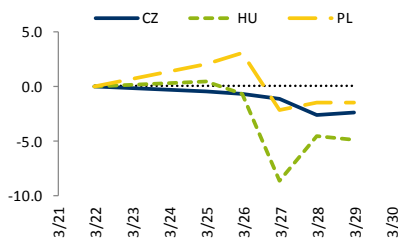
Friday, 29 March 2019

Forex markets (index)



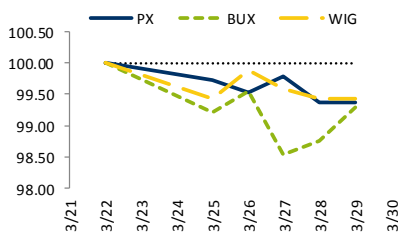
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.83	25.81	0.05
EURHUF	320.6	320.4	0.07
EURPLN	4.294	4.296	-0.03

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.869	1.867	0.2
HUGB 10Y	2.86	2.86	-0.1
PLGB 10Y	2.81	2.81	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1072.6	1072.6	0.00
BUX	41631	41414	0.53
WIG	59753	59753	0.00

Regional insights

CNB on hold and policy bias downgraded to neutral

Yesterday, The Czech central bank (CNB) decided to leave the interest rates unchanged even in March, particularly due to the uncertainties related to developments outside the country. Still, two Bank Board members continue to vote for interest rate raises. However, **the overall Bank Board's bias has been shifting towards more neutral stance. In contrast to the previous meeting, the Bank Board does not perceive risks as slightly pro-inflation but rather as balanced this time.**

According to the CNB Governor Rusnok, the koruna, which is slightly weaker than expected by the central bank, remains a pro-inflation risk. On the other hand, the Bank Board views the weaker economic performance of main trading partners and the faster disappearance of domestic inflationary pressures (somewhat slower wages and domestic consumption) as anti-inflation factors.

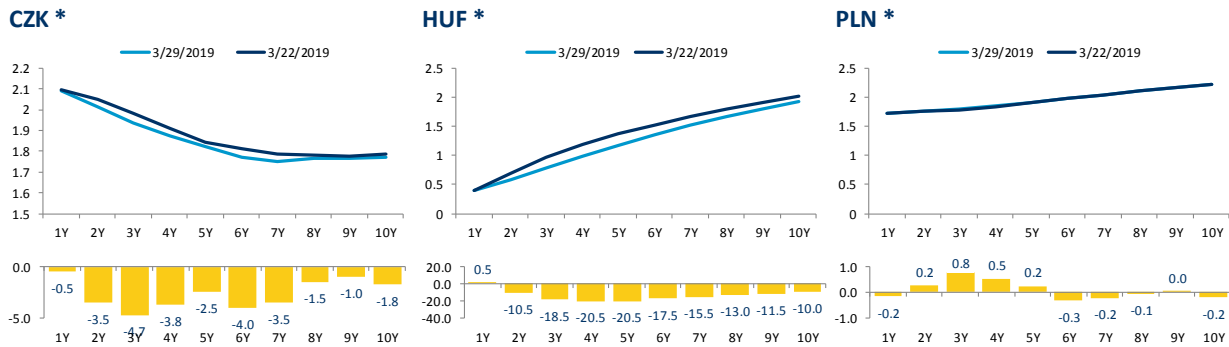
At the press conference, Governor Rusnok specifically mentioned the situation in Germany. Despite its stabilisation, the German industry remains very weak in a number of key areas (automotive, metalworking or manufacturing). A huge part of the German improvement in January was generated by the energy industry and refinery production. Moreover, the leading indicators have given no signs of quick turnaround in the German industry yet. While the poor performance of the industry is compensated for by services and trading, these are sectors with no strong connections to the Czech economy. In our opinion, the weak Germany and the euro area are a major stop to any further Czech rate hikes. In this respect we should add, the CNB has not emphasised political uncertainty like the Brexit or trade wars yet, although they are mentioned in the CNB Bank Board comments.

That is why the monitoring any further developments in Germany, together with the Czech economic news, is going to be essential in the months to come. We still count on one more CNB's rate hike, namely in the second half of the year. From the perspective of the forex and the Czech money market, the outcome of the CNB meeting were no big surprise and any further development will be affected by the sentiments in both the mature and emerging markets. In the days to come, this may be determined by the events associated with the Brexit or the regional Turkish election (this weekend).

Polish markets eye Fitch rating review

While **Polish markets have monitored March's inflation readings this morning (the headline inflation accelerated to 1.7% yoy)**, they also eye Fitch's sovereign rating review scheduled for this afternoon. It will be the first assessment (coming from a rating agency) of government's pre-election stimuli. We believe that the rating agency will be cautious. We expect some verbal warnings, but no change of the rating outlook (it should remain STABLE for the A- rating).

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	03/29	9:00	Wages	% ytd. 01/01/2019			10.6		9.9		10.2	
HU	03/29	9:00	PPI	% 02/01/2019			-0.3	2.7			-0.5	3.8
CZ	03/29	10:00	Money supply M2	% 02/01/2019				5.9				5.7
PL	03/29	10:00	CPI	% 03/2019 *P			0.3	1.7	0.2	1.6	0.4	1.2

Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias van der Jeugt	+32 2 417 51 94	Brussels	
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
Dieter Lapeire	+32 2 417 25 47	France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	+420 2 6135 3535
Jan Čermák	+420 2 6135 3578	Prague (Equities)	+420 2 2142 4216
Petr Dufek	+420 2 6135 3560		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	Bratislava	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	Budapest	+36 1 328 99 85

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