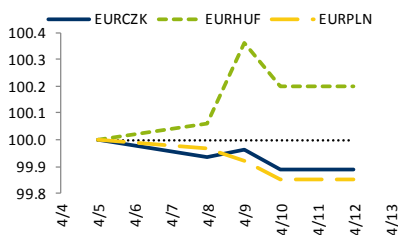




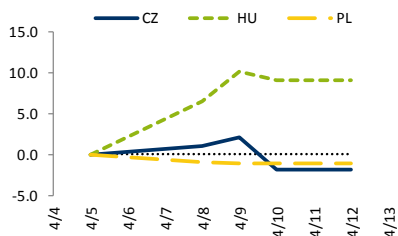
Friday, 12 April 2019

## Forex markets (index)



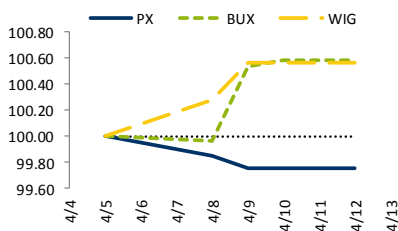
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.61	25.61	0.00
EURHUF	321.9	321.9	0.00
EURPLN	4.283	4.283	0.00

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.901	1.901	0.0
HUGB 10Y	3.11	3.11	0.0
PLGB 10Y	2.91	2.91	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1083.4	1083.4	0.00
BUX	42085	42085	0.00
WIG	61097	61097	0.00

## Regional insights

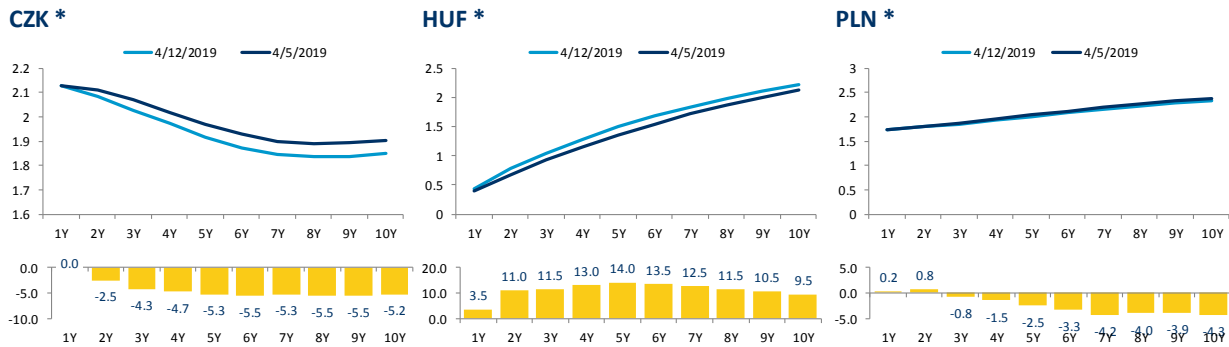
## Although the Czech inflation hits the upper boundary of targeted band, the CNB might be reluctant to hike again

The Czech money market's rate hike bets have ticked slightly up this as traders try to digest the March inflation readings. Recall that the year-on-year headline inflation has reached its highest level in more than six years. The Czech inflation has been higher particularly due to high real estate prices, expensive rents and the skyrocketing price of electricity (+ 11.9%), which gradually reflecting high energy prices on foreign stock exchanges partly influenced by the "green" policies within the EU. Food, particularly vegetables and noticeably the ever-more expensive potatoes, is another contributor to inflation, albeit to a degree much lower than housing. The third position is occupied by alcohol and cigarettes. In comparison to last March, only shoes and clothing are cheaper.

All-in-all the three-percent inflation hits the higher margin of the CNB's targeted tolerance band (1-3%). Nevertheless, starting with the summer, the Czech inflation should go down quickly again once the negative base effect from the last year kicks in. We estimate that at the end of the year, the inflation should fall below 2.5%.

Hence, against this macroeconomic backdrop we continue to expect the CNB to deliver another rate hike in the second half of this year. At that time, it will be clear how significant the weakening of growth in Western Europe is, how Brexit went or did not go and, first and foremost, how much the current negative performance of our main trading partners is reflected in the developments of the Czech economy. Last but not least, it will be clear whether the downturn in the German economy was just a short-term episode. Although we do not expect a rate change to be passed at the upcoming meeting in May, it is worth noting even if just because it will present the CNB's new forecast. The current forecast - still in place - is based on the optimistic assumption of an accelerating economy and a rapid strengthening of the koruna. As the koruna played a very important role in the rate determination, it will be interesting to see how the CNB views the exchange rate development in its new forecast. So far, the CNB has assumed that the koruna would strengthen by more than 2% to an average of 25.20 per euro in the 2Q. However for the time being, not even the existing spread of interest rate differential seems a sufficient driver for the CZK to strengthen with respect to the volume of speculative capital and the high levels of exporters' exchange rate hedging.

## 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	04/12	10:00	Current account	CZK B 02/01/2019	18		26.65		26.5		25.02	
PL	04/12	14:00	Current account	EUR M 02/01/2019					-400		2316	
PL	04/12	14:00	Trade balance	EUR M 02/01/2019					-262		279	

## 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
Dieter Lapeire	+32 2 417 25 47		France		+32 2 417 32 65
<b>Dublin Research</b>			London		+44 207 256 4848
Austin Hughes	+353 1 664 6889		Singapore		+65 533 34 10
Shawn Britton	+353 1 664 6892				
<b>Prague Research (CSOB)</b>			<b>Prague</b>		
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Petr Dufek	+420 2 6135 3560				
<b>Bratislava Research (CSOB)</b>			<b>Bratislava</b>		
Marek Gabris	+421 2 5966 8809				+421 2 5966 8820
<b>Budapest Research</b>			<b>Budapest</b>		
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.

