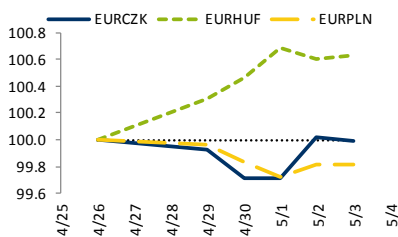




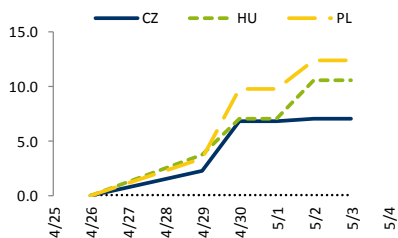
Friday, 03 May 2019

Forex markets (index)



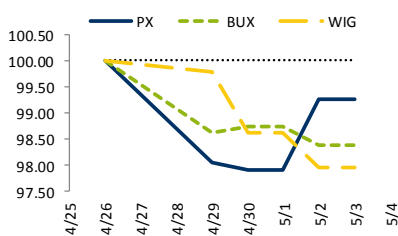
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.70	25.70	-0.02
EURHUF	324.3	324.2	0.03
EURPLN	4.287	4.287	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.966	1.966	0.0
HUGB 10Y	3.31	3.31	0.0
PLGB 10Y	3.02	3.02	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1083.5	1083.5	0.00
BUX	42367	42367	0.00
WIG	59744	59744	0.00

Regional insights

The CNB goes against the wind and hikes again

Unlike the last three meetings, when the CNB Bank Board voted 5:2 to keep interest rates unchanged, all its members decided to vote for the 25 bps rate hike yesterday. Interestingly, **the CNB repo rate was hiked to 2.0% at the same time the Bank Board had to take into account the new staff projection, which is paradoxically less optimistic than the previous one (see the table below). The CNB now expects the Czech economy to grow by only 2.5% this year (originally 2.9%) while the koruna to appreciate much slower than the bank had predicted.**

What then prompted the CNB to hike rates again, or to continue with interest-rate normalization? According to the CNB statement, the main reason for further tightening can be found in persisting domestic inflation pressures. In this respect it is interesting that the new CNB's inflation outlook for this year has increased whereas in the monetary-policy relevant horizon, which should be crucial for setting rates (the next 12-18 months), the projection remained broadly unchanged.

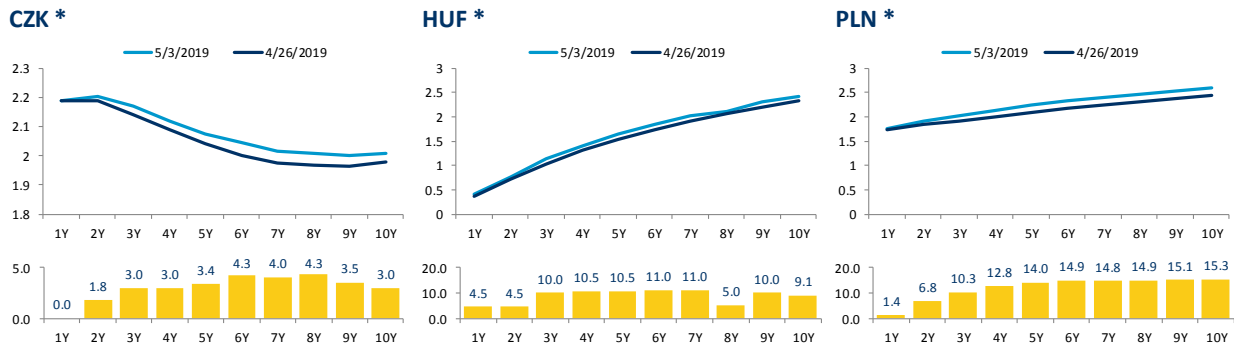
What to expect next? The CNB projection opens space for one more rate hike, assuming a three-month PRIBOR at 2.4%. However, it will be the koruna and incoming macroeconomic data to decide whether the ČNB finds courage to take such a step. For the time being, they appear rather weak (recall yesterday's Czech PMIs, which slipped to 46.6 points). At the same time the koruna responded to the fresh rate hike by a slight weakening.

CNB's prognosis

CNB's prognosis		May-19	II-19	change
GDP	2019	2.5	2.9	↓
	(y/y, %)	2020	2.8	3.0
Inflation	2019Q4	2.7	2.2	↑
	(y/y, %)	2020Q4	2.0	2.0
Monetary relevant inflation	2019Q4	2.7	2.3	↑
	(y/y, %)	2020Q4	2.0	2.0
PRIBOR 3M	2019Q4	2.4	2.0	↑
	(%)	2020Q4	2.1	2.1
CNB's repo rate	2019Q4	2.1	1.7	↑
	(%)	2020Q4	1.8	1.9
CZK/EUR	2019Q4	24.9	24.5	↑
	(average)	2020Q4	24.6	24.1

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

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