Central Europe
Wednesday

Wednesday, 19 June 2019

Forex markets (index)
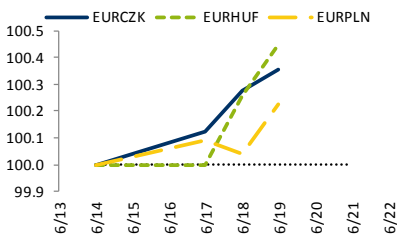
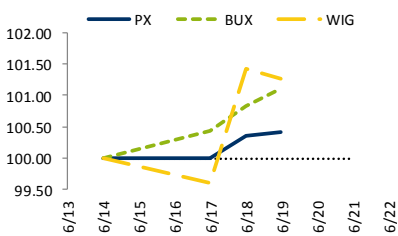|	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.63	25.61	0.08
EURHUF	323.8	323.1	0.19
EURPLN	4.267	4.259	0.19

Gov. bonds 10 Y (bps change)
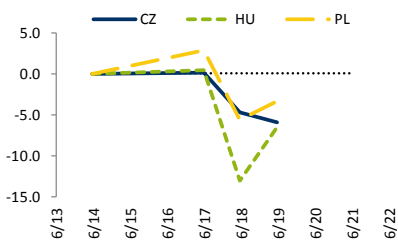
	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.520	1.532	-1.2
HUGB 10Y	2.68	2.62	2.5
PLGB 10Y	2.36	2.33	1.0

Equity indices (index)

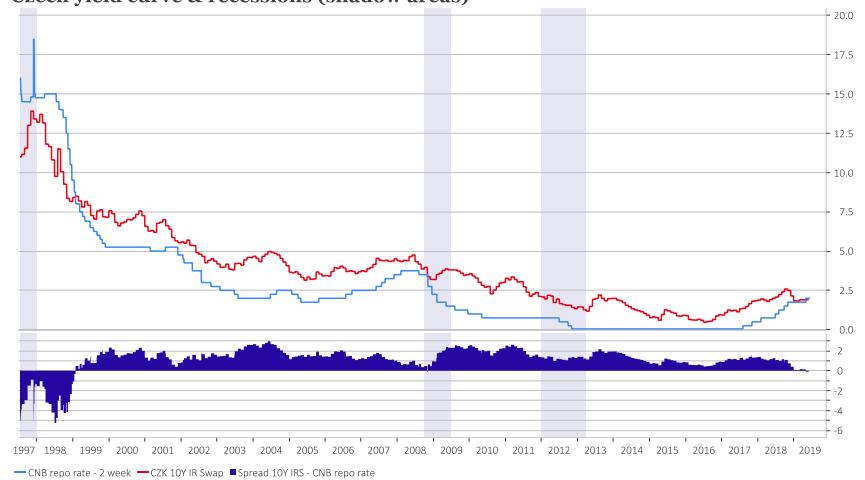|	LAST	PREVIOUS	CHANGE (%)
PX	1055.8	1055.2	0.06
BUX	41039	40922	0.29
WIG	59835	59936	-0.17

Our regional insights:

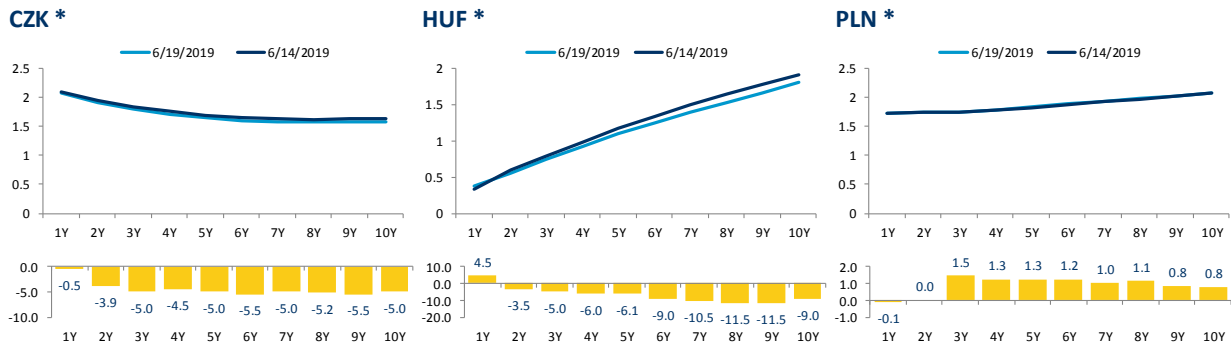## Draghi inverts the Czech yield curve even more

ECB president Draghi drove to price action not only on core bond markets, but in CE fixed-income markets too yesterday. Recall that Draghi in his introductory speech in Sintra the ECB chair made clear that "in absence of any improvement" in the outlook for growth and inflation, additional stimulus will be needed. He referred to all possible tools but three euro-zone central bank officials said lowering the depo rate would be the most likely initial step. Euro bond rates tanked with the bond rally drawing additional support from weak ZEW investor confidence. The German yield curve bull shifts south with stunning yield changes, varying from -6bps (2y) to -7bps (5y, 10y, 30y), to new record lows.

Like in the core markets, regional yield curve (downward) shifts were impressive too. We would specifically point to the Czech yield curve behaviour, which had been inverted before Draghi's speech and it is even more after. For instance, 10Y CZK swap rate dropped by 10 bps and the yield of the 10Y Czech GB fell by 5 bps yesterday. Hence as a result, the spread between the 10Y CZK swap rate and CNB's repo rate (standing at 2.0%) is now visibly negative. The same is applied to the spread between 10Y CZK swap rate and 3M Pribor. It is worth noting that this market situation happened only twice: first, during the Czech currency crisis in 1997 and secondly during the global financial crisis in 2008 and 2009 (see the chart below).

Czech yield curve & recessions (shadow areas)

MACROBOND

Interest-rate Swap Curves

CZK *

6/19/2019 —— 6/14/2019

HUF *

6/19/2019 —— 6/14/2019

PLN *

6/19/2019 —— 6/14/2019

* 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
PL	06/19	10:00	Real gross wages	%	05/01/2019				7.7		7.1	0.4	7.1
PL	06/19	10:00	Employment	%	05/01/2019				2.7		2.9		2.9

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