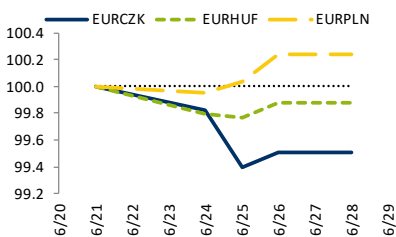




Central Europe
Friday

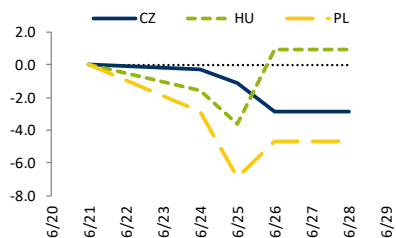
Friday, 28 June 2019

Forex markets (index)



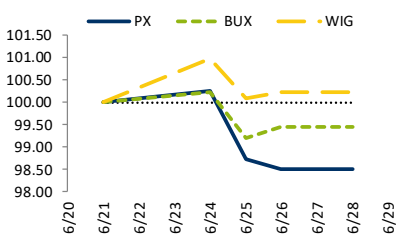
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.49	25.49	0.00
EURHUF	323.7	323.7	0.00
EURPLN	4.265	4.265	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.470	1.470	0.0
HUGB 10Y	2.64	2.64	0.0
PLGB 10Y	2.33	2.33	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1037.8	1037.8	0.00
BUX	40168	40168	0.00
WIG	59564	59564	0.00

Regional insights

The CNB does not panic as it remains in a neutral mode

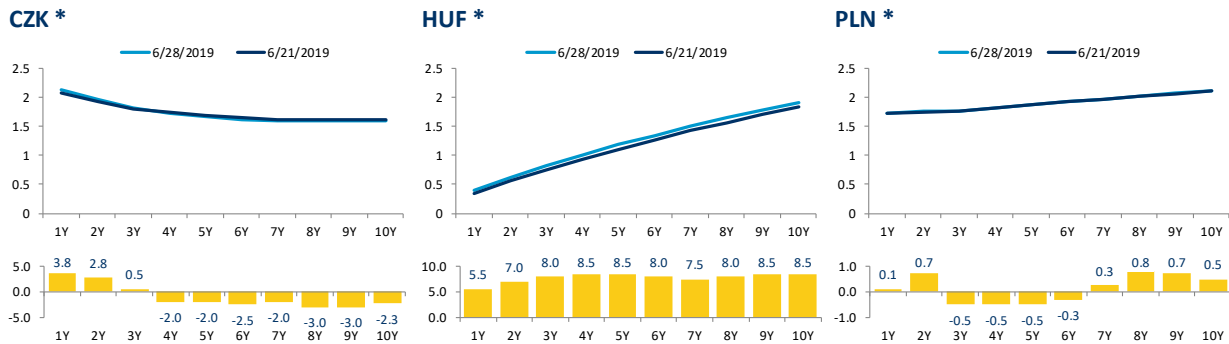
The latest CNB Bank Board meeting delivered no surprises in terms of both actions and rhetoric. The result of the Bank Board's vote indicated that the vast majority of Czech central bankers are currently running in a neutral mode. One vote for a hike of the repo rate and the absence of any opinion in favour of rate reductions sent a clear message to the markets that, looking into the future, the CNB has no big concerns that would require an urgent action in the form of rate reductions. In this respect, the Czech central bank's neutrality has a stabilizing effect, which was appreciated by the Czech koruna that has already reached its annual maximum against the euro. Nevertheless, the financial markets are still "convinced" that the time when Czech rates will go down is coming near, and they calculate with one, two or three official interest rate reductions within a one-, two- and three-year time frame, respectively. Identically, the declining yields of Czech government bonds, which are already well below the repo rate, could indicate a clear vision of market contrasting to the CNB's forecast, which assumes interest stability. On the other hand, the market is still under the influence of extremely high CZK liquidity, which, by the way, has increased almost seven times (to CZK 2.7 trillion) since before the intervention against the CZK, and which is trying to find a use in the domestic assets with interest gains incomparably higher anything on offer in the euro area.

The longer pause, currently indicated by the CNB Bank Board, is a logical step that, for the time being, cannot be interpreted to say that the Czech central bank is going to respond to the ECB's dovish steps (or even the Fed's announced interest cuts). The CNB will continue to monitor the development of the domestic economy and will react only if the inflation tendencies diminish significantly. Nonetheless, based on the currently quite solid shape of the Czech economy, the rates are likely to remain stable over a longer time. Naturally, the precondition for this scenario is the absence of negative external risks such as trade war escalation.

The Polish inflation ticks above the NBP target in June

The Polish headline inflation passed the 2.5% mark in June, which is the NBP inflation target. Recall that the Polish consumer price index increased by 0.3% mom and 2.6% yoy according to the flash estimate. The June headline index was again driven by more expensive food prices (0.3% mom, 5.7% yoy) and probably by core inflation, which accelerated from 1.7% in May to 1.9% yoy in June.

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	06/28	9:00	GDP	% 1Q/2019 *F			0.6	2.8	0.6	2.6	0.6	2.6
HU	06/28	9:00	Wages	%, ytd. 04/01/2019				9		10.6		10.2
HU	06/28	9:00	PPI	% 05/01/2019			0.5	2.7			1	4.1
PL	06/28	10:00	CPI	% 06/2019 *P		2.4	0.3	2.6	0.2	2.4	0.2	2.4
CZ	06/28	10:00	Money supply M2	% 05/01/2019				6.4				6.3

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)		Bratislava	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
Budapest Research (K&H)		Budapest	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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 data of the report and are subject to change without notice.

