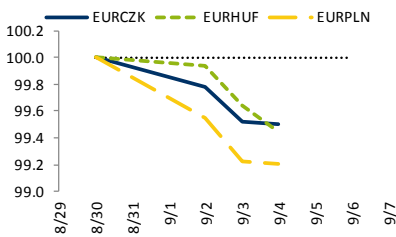




Central Europe
Wednesday

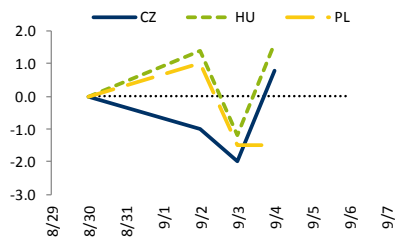
Wednesday, 04 September 2019

Forex markets (index)



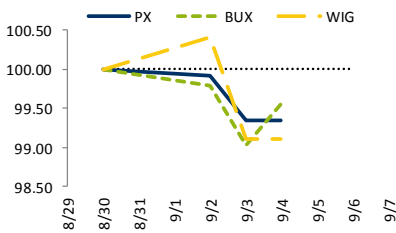
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.83	25.83	-0.02
EURHUF	329.5	330.1	-0.19
EURPLN	4,345	4,346	-0.02

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.005	0.977	2.8
HUGB 10Y	1.89	1.86	1.5
PLGB 10Y	1.81	1.81	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1030.4	1030.4	0.00
BUX	39615	39405	0.53
WIG	56237	56237	0.00

Our regional insights:

The koruna recovers as wage growth remains strong

Not only the geopolitical risk associated with the threat of a hard Brexit, but also weakness of the other regional currencies put the Czech koruna under pressure at the end of last week, with the EUR/CZK currency pair even coming close to 26.0. However, during the week, the koruna reversed its losses, also thanks to the incoming fresh Czech macroeconomic data. This involved not only the slightly-better-than-expected business mood result in industry as represented by the August PMI, but also hard data on wages. Indeed, specifically the data on Czech wages for the second quarter of this year confirmed the tight labour market had barely eased and the Czech economy was still far from a dramatic slowdown. Wages retained their recent growth rate, with average nominal earnings increasing by 7.2% year-on-year, compared to 7.4% at the beginning of the year. The expectations that the wage growth could abate this year have not yet materialised.

How can this wage growth figure be interpreted? Although wages grow faster than the CNB expected in its forecast, the growth itself is not something the Czech economy could not afford. Thanks to the lower labour costs (compared to the core Euro Area Core), the Czech economy continues to operate in a marked competitive advantage mode, as a result of which it is mainly companies operating with minimum margins or low added values that are particularly open to the risks associated with a faster wage growth rate. In addition, the current growth in wages prompts a faster technology switch for automation and robotization, or necessitates lower labour intensity of production.

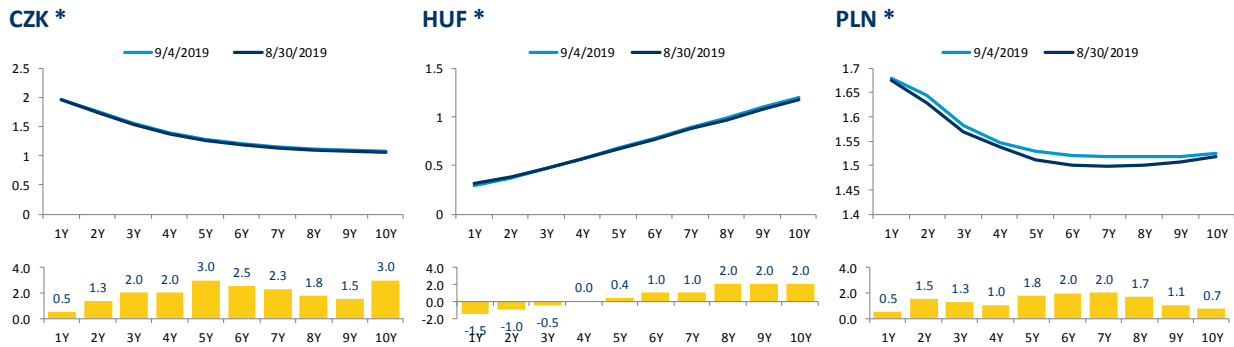
In view of the potential inflationary consequences, the current wage growth therefore does not pose a major threat. Some labour-intensive services are likely to increase in price due to the higher costs, but this will hardly discourage the already strong demand. As regards goods, the higher wages are not likely to translate into markedly higher prices as the market continues to operate in a highly competitive environment. Moreover, according to our estimates, the pace at which Czech wages grow should slow down in the second half of the year due to lower economic growth and depletion of certain temporary (positive) effects.

CZ: Average monthly wage



Zdroj: Refinitiv Datastream / Fathom Consulting

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	09/04	9:00	Retail sales	% 07/01/2019				6.4		5.6		5.2
CZ	09/05	9:00	Retail sales	% 07/01/2019		4.3				6.2		0.2
CZ	09/06	9:00	Construction output	% 07/01/2019		1.5						2.4
CZ	09/06	9:00	Trade balance (national)	CZK B 07/01/2019	-5				0.9			18.4
CZ	09/06	9:00	Industrial output	% 07/01/2019		0.5				2.9		-3.8
HU	09/06	9:00	Industrial output	% 07/01/2019						6.9		-1.8
HU	09/06	9:00	Trade balance	EUR M 07/2019 *P								4.1

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

