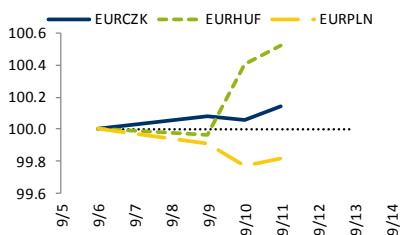
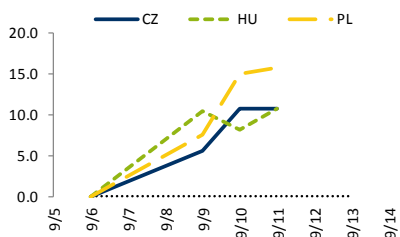




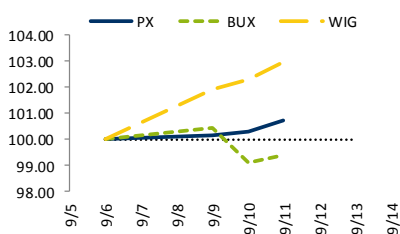
Wednesday, 11 September 2019

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.87	25.85	0.09
EURHUF	331.8	331.4	0.12
EURPLN	4.333	4.331	0.04

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.255	1.255	0.0
HUGB 10Y	2.26	2.23	1.2
PLGB 10Y	2.17	2.16	0.4

Equity indices (index)

	LAST	PREVIOUS	CHANGE (%)
PX	1039.5	1035.0	0.43
BUX	40063	39957	0.27
WIG	58255	57893	0.63

Our regional insights:**Price pressures in the Czech economy do not ease**

While the ECB may continue to be frustrated as the inflation in the euro area is failing to achieve the targeted 2%, the CNB is facing exactly the opposite problem. The inflation is still above the inflation target or more precisely in close proximity to the upper limit of the tolerance band set by the central bank. Czech inflation reached 2.9% both in August and July. At the same time, the 3% inflation is currently the typical value for the whole Central European region (recall that the August inflation was 3.1% in Hungary and 2.9% in Poland year-on-year).

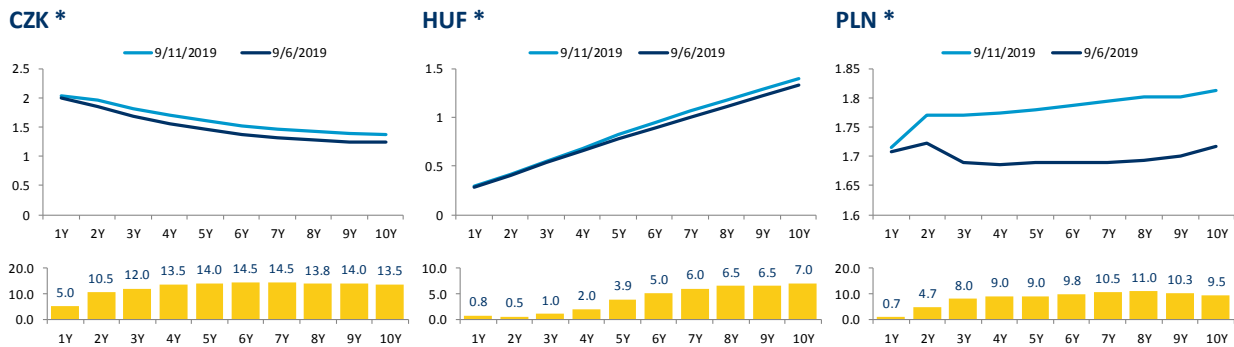
It is still true that the Czech inflation is caused in particular by the growing housing costs that reflect the record levels of real estate prices, increasing rents, energy prices going up (with respect to electric energy alone, it is nearly ten-percent growth) and other dwelling related services. Housing is thus responsible for nearly one half of the current inflation.

Another significant inflation item is food, the prices of which grew by nearly 4% in August year-on-year. Its share accounted for approximately one quarter of the total inflation. In addition, the prices of potatoes rose significantly in August, which is also a regional phenomenon. The question remains which direction the prices of foodstuffs will take after this year's harvest.

However, it is not just the expensive housing or foodstuffs that we can assume to be underlying the inflation, but also the intensive demand on the consumer side, providing space for the growth of the prices of services, for example in the area of recreation. Hence, the growing wage costs have already started to be partially reflected in the services sector. It is so because the prices of services continue to grow briskly, however the prices of goods have not copied this growth thanks to the strong competition in the retail sector.

The inflationary pressures in the Czech economy are unlikely to ease that soon. No signs can be seen that the pressure in the housing market would ease and the pressure on the growth of energy prices has not eased either. The headline inflation can thus continue to keep close to the 3.0% until the end of this year. Moreover, the inflation will be influenced by higher taxes on alcohol and cigarettes at the beginning of the next year and so we will have to wait for the return to the value targeted by the CNB (2.0%) for quite a while. The August inflation, which is, by the way, 0.3 of percentage point over the last CNB's staff forecast, may serve the Bank Board as a strong argument for leaving the interest rate unchanged. And although further monetary-policy easing has been coming in the euro area, the US (and other countries), we assume that the official Czech interest rates should stay unchanged until the end of this year.

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	09/11	12:00	CZ eurobond auction 2019-2021, 0.00%	EUR mil 09/01/2019					100			
CZ	09/11	12:00	CZ bond auction 2015-2026, 1.00%	CZK B 09/01/2019					4			
PL	09/11	14:00	NBP meeting	% 09/01/2019	1.5				1.5		1.5	
PL	09/13	10:00	CPI	% 08/2019 *F							0	2.8
CZ	09/13	10:00	Current account	CZK B 07/01/2019	-15.5				-14		-3.86	
PL	09/13	14:00	Current account	EUR M 07/01/2019					-295		21	
PL	09/13	14:00	Trade balance	EUR M 07/01/2019					-111		-77	

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