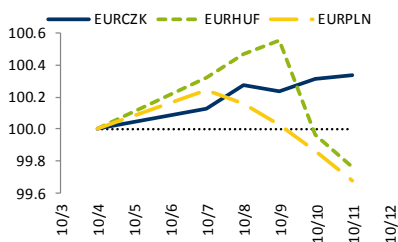
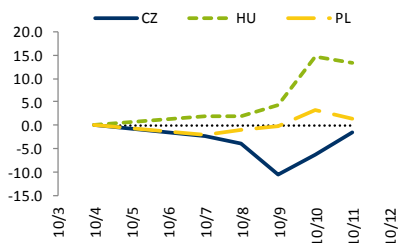




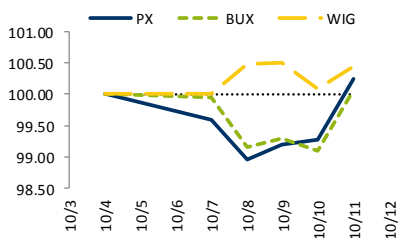
Friday, 11 October 2019

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.83	25.82	0.03
EURHUF	331.7	332.4	-0.20
EURPLN	4.306	4.314	-0.18

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.222	1.176	4.6
HUGB 10Y	1.94	1.95	-0.7
PLGB 10Y	1.91	1.93	-0.9

Equity indices (index)

	LAST	PREVIOUS	CHANGE (%)
PX	1007.0	997.3	0.97
BUX	39850	39466	0.97
WIG	56227	56035	0.34

Regional insights**Poland goes to polls on Sunday. No change is expected**

Poland is going to vote in parliamentary elections on Sunday. Looking at the opinion polls and simulations suggest that there might be no change of the political set-up as the ruling Law and Justice (PiS) will probably win an absolute majority in the Senat. We do believe that such a result is widely expected by financial markets, so there should be no strong reaction on Monday morning.

The September inflation cools CNB's hiking ambitions

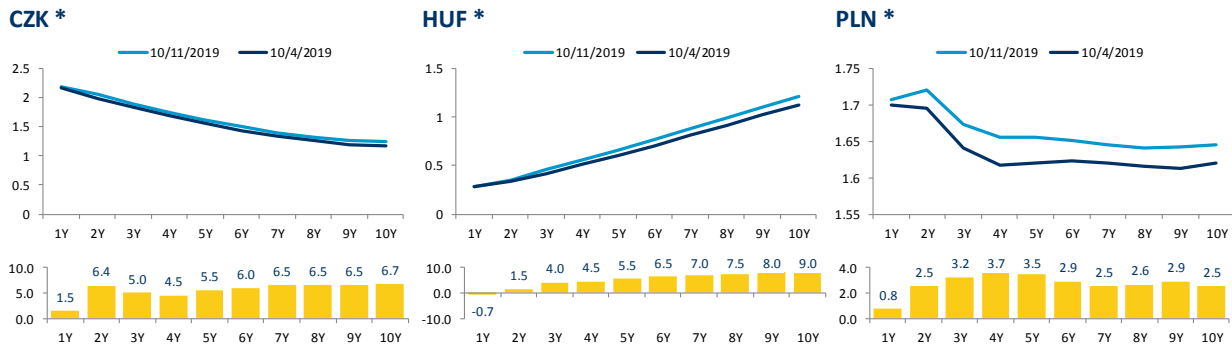
Consumer prices in the Czech Republic fared better than we had expected in September as year-on-year inflation decreased by two-tenths of a percentage point to 2.7%. Comparing September to August, holidays got cheaper (by almost a quarter) as the season ended, as did food. In contrast, the principal inflation factor continues to be housing – including related services – with prices increasing by 5% on average. Above all, there has been a considerable increase in the price of electricity, which now costs nearly 10% more than in the same period of last year. However, there has also been an increase in the prices of natural gas, water and, most significantly, rents (3.8%), which reflect increased housing demand as well as, with a delay, the increasing prices of flats.

The decreased inflation in September and the fact that overall inflation is lower than forecast by the CNB indicate stability in official interest rates. While the yield curve implicitly suggests a decrease in the CNB's key interest rate in the years to come, the central bank itself hints they are more likely to be raised, even as early as at the November bank board meeting. This is because important figures from the Czech economy still look relatively good and inflation has been rather higher than expected, surprisingly. This does not change with the September statistics.

However, we are still to see how the CNB recalculates other inflation indicators that it takes into account in its decision-making, such as core inflation (net or monetary policy-based); nevertheless, it is more likely to keep waiting given the lurking risks and uncertainties abroad. Recall that the CNB's current forecast suggests the repo rate will be raised once by the end of the year (but decreased very soon afterwards).

Thus, the CNB will suggest more with its new forecast in November, which might confirm a steady fall in inflation as earlier inflationary pressures are diminishing, especially for food. So, headline inflation really should get close to the target value within a year's time scale. While a planned increase in excise duty on alcohol and cigarettes remains a domestic uncertainty, this alone can be disregarded by the 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
CZ	10/14	10:00	Current account	CZK B 08/01/2019	-23				-11.05		-26.96	
PL	10/14	14:00	Current account	EUR M 08/01/2019					-543		-814	
PL	10/14	14:00	Trade balance	EUR M 08/01/2019					-408		-376	
PL	10/15	10:00	CPI	% 09/2019 *F							-0.1	2.6
CZ	10/16	9:00	PPI	% 09/01/2019					0.1	1.8	0.1	2.1
PL	10/16	14:00	Core CPI	% 09/01/2019					0.1	2.3	0.2	2.2
PL	10/17	10:00	Wages	% 09/01/2019					-0.1	7.2	-1.1	6.8
PL	10/18	10:00	Industrial output	% 09/01/2019					10.2	5.2	-6	-1.3
PL	10/18	10:00	PPI	% 09/01/2019					0.3	0.5	0.2	0.7

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
			France		+32 2 417 32 65
			London		+44 207 256 4848
			Singapore		+65 533 34 10
Dublin Research			Prague		
Austin Hughes	+353 1 664 6889		Prague (Equities)		+420 2 6135 3535
Shawn Britton	+353 1 664 6892				+420 2 2142 4216
Prague Research (CSOB)			Bratislava		
Jan Čermák	+420 2 6135 3578				+421 2 5966 8820
Petr Dufek	+420 2 6135 3560				
Bratislava Research (CSOB)			Budapest Research		
Marek Gabris	+421 2 5966 8809				+36 1 328 99 85
Budapest Research					
David Nemeth	+36 1 328 9989				

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