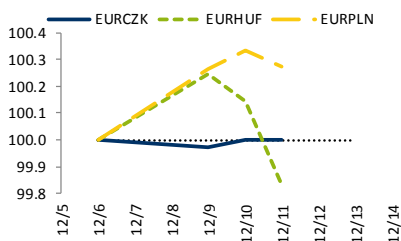




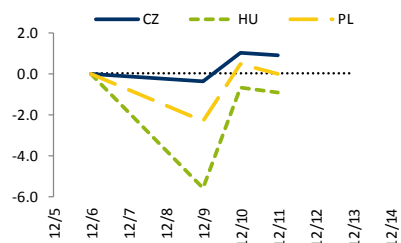
Wednesday, 11 December 2019

Forex markets (index)



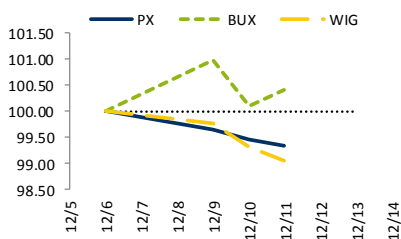
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.53	25.53	0.00
EURHUF	330.2	331.3	-0.31
EURPLN	4.287	4.289	-0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.467	1.468	-0.1
HUGB 10Y	1.78	1.78	-0.1
PLGB 10Y	2.00	1.97	1.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1084.1	1085.3	-0.12
BUX	44384	44249	0.31
WIG	55462	55609	-0.26

Our regional insights:

Czech inflation surprised on the upside

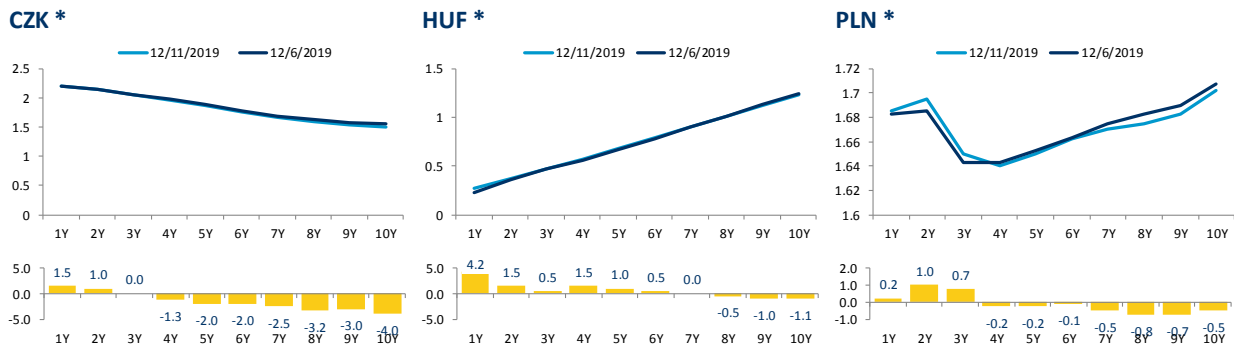
Czech consumer prices surprised on the upside in November with the annual inflation rate reaching 3.1%. Month-on-month, prices increased by 0.3%, mainly due to the rapid rise in food prices that increased by 1.2% mom and more than five percent compared to the same month the last year. Meanwhile, housing costs have increased by 5% yoy, and electricity prices have surged by 11.5% yoy in response to earlier energy price increases in Germany.

Three quarters of contribution to overall inflation is due to more expensive housing and food, i.e., consumer basket items, which can be only marginally affected by the monetary policy. This interpretation of the inflation development is also confirmed by yesterday's commentary issued by the CNB's analytical department. However, in addition to food and housing, higher inflation is also resulting from other more expensive services, especially in hotels and restaurants where, as a result of higher labour costs and strong (also foreign) demand, prices have continued rising ever since the introduction of the electronic sales.

While the Czech economy is slowing down, inflation has picked up. The CNB will thus face the dilemma of how seriously it should take the November inflation into account in light of the negative news regarding the economy – whether to give priority to the current (old) inflation or to the increasingly clear signals of the economic growth slowdown. While the CNB is targeting future inflation, the Bank Board must necessarily take into account that it cannot in fact influence items such as the price of pork, flour or potatoes before Christmas. Similarly, prices of power energy in Germany, which influence energy costs in the Czech Republic, are beyond the reach of the Czech monetary policy as well.

In any case, the November inflation figure will affect the outcome of the CNB Bank Board's decision at the meeting planned for next week. The possibility that the CNB will raise the official interest rates next Thursday is now higher; however, in light of the negative news from both domestic and foreign economies, their stability remains somewhat more likely. An indication of the intended Brexit direction may also come into play after the British elections.

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
PL	12/13	10:00	CPI	%							0.1	2.6

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

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