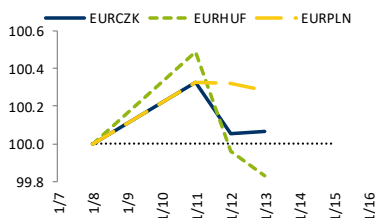




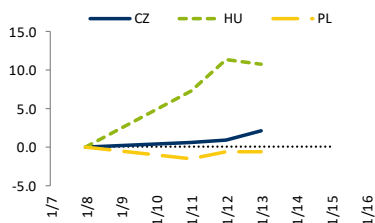
Wednesday, 13 January 2021

Forex markets (index)



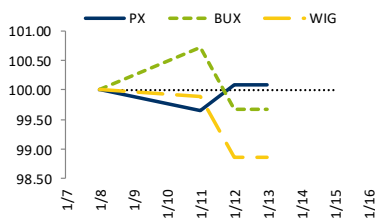
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.17	26.17	0.02
EURHUF	358.7	359.2	-0.13
EURPLN	4.523	4.525	-0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.305	1.293	1.2
HUGB 10Y	2.22	2.23	-0.3
PLGB 10Y	1.23	1.23	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1076.3	1076.3	0.00
BUX	44247	44247	0.00
WIG	59159	59159	0.00

Our regional insights:

Lockdown pushed the Czech inflation deeply below the CNB projection in December

The Czech consumer prices surprising fell by 0.2% month-on-month in December, mainly due to cheaper prices for some foods before Christmas. This in is quite a change, because in the run-up to Christmas food has usually become more expensive (in a seasonal fashion).

Hence, as a result **the year-on-year headline inflation fell to 2.3% last month, undershooting the central bank's forecast by 0.7% of a percentage point.** In other words, inflationary pressures in the economy are clearly easing, especially considering that almost half of inflation is pushed by higher excise duties on cigarettes and alcohol. In addition, the easing of inflationary pressures can be seen in the former main inflationary factors - not only in food but also in housing, where growth in rents or energy prices are slowing down.

Inflation may soon fall below 2%, and thus below the CNB's target. The reason is, on the one hand, weaker consumer demand, but also their ever-increasing orientation towards e-shops. At the time of the lockdown, it is quite a practical way to easily get almost anything. In addition, with the help of various price comparators and from the comfort of home. The competition in retail is intensifying again over time and keeps prices in check. The strengthening koruna, which is also tightening monetary conditions in the Czech Republic, should also help lower inflation.

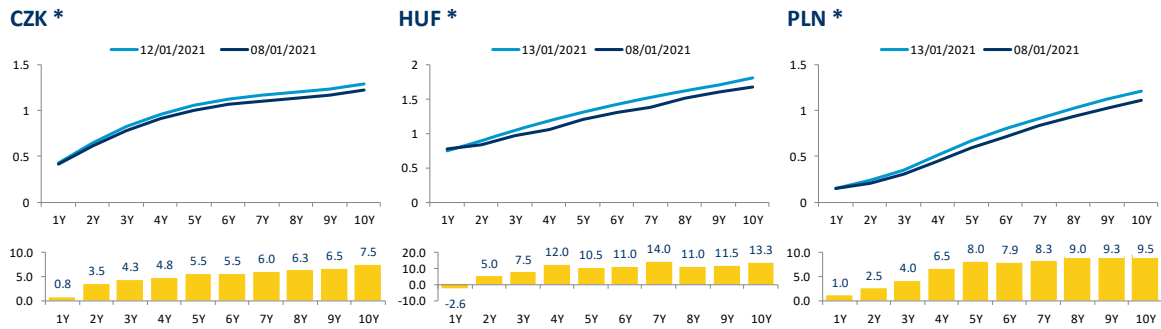
All in all, taking into account the December inflation and its further outlook we can say that the recent market bets on CNB's rate hikes are clearly premature.

The zloty closely eyes today's NBP meeting

Although the Polish forex market has calmed after December's forex interventions again the zloty, it will very closely monitor today central bank meeting. The NBP, and especially governor Glapinsky, should explain its new strategy for monetary easing deeper otherwise it can soon face questions whether the NBP established itself as a new regional currency manipulator.

Meanwhile **a rate cut could be on the table, even though the NBP policy rate has already landed at 0.1% in the spring of 2020. Nevertheless, we do not expect this move at today's meeting.** The NBP Governor Glapinsky has indicated that interest rate cuts can come only when the central bank, in the wake of the third pandemic wave, will have to revise the inflation outlook downwards. In this context, it is not likely that the NBP base rate will be cut to zero immediately as the third wave in Poland has not yet erupted and the next inflation report is not expected to be on the table until the beginning of March.

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	01/13	9:00	Retail sales ex autos	%	11/01/2020						-4.8	-0.9
CZ	01/13	9:00	CPI	%	12/01/2020		-0.2	2.3	0.1	2.6	0	2.7
CZ	01/13	10:00	Current account	CZK B	11/01/2020						23.0	7.8
CZ	01/13	12:00	CZ bond auction 2015-2026, 1.00%	CZK B	01/01/2021						5	
CZ	01/13	12:00	CZ bond auction 2020-2029, 0.05%	CZK B	01/01/2021						6	
CZ	01/13	12:00	CZ bond auction 2020-2040, 1.50%	CZK B	01/01/2021						5	
PL	01/13	14:00	Current account	EUR M	11/01/2020						1846	2241
PL	01/13	14:00	Trade balance	EUR M	11/01/2020						1563	1732
PL	01/13	14:00	NBP meeting	%	01/01/2021	0.1					0.1	0.1

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