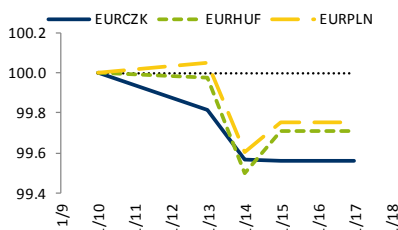




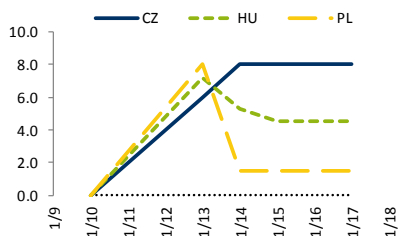
Friday, 17 January 2020

Forex markets (index)



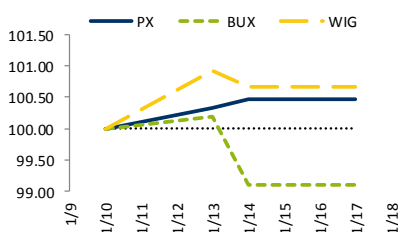
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.15	25.15	0.00
EURHUF	333.1	333.1	0.00
EURPLN	4.223	4.223	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.658	1.658	0.0
HUGB 10Y	2.06	2.06	0.0
PLGB 10Y	2.27	2.27	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1139.1	1139.1	0.00
BUX	44960	44960	0.00
WIG	59119	59119	0.00

Regional insights

The story of the Czech koruna's bull run

The Czech koruna climbed to its seven-year highs this week, or, in other words, it has reached the strongest levels since the CNB abandoned the foreign exchange interventions (against its currency). What is the secret of the last wave of optimism and does it have a chance of lasting?

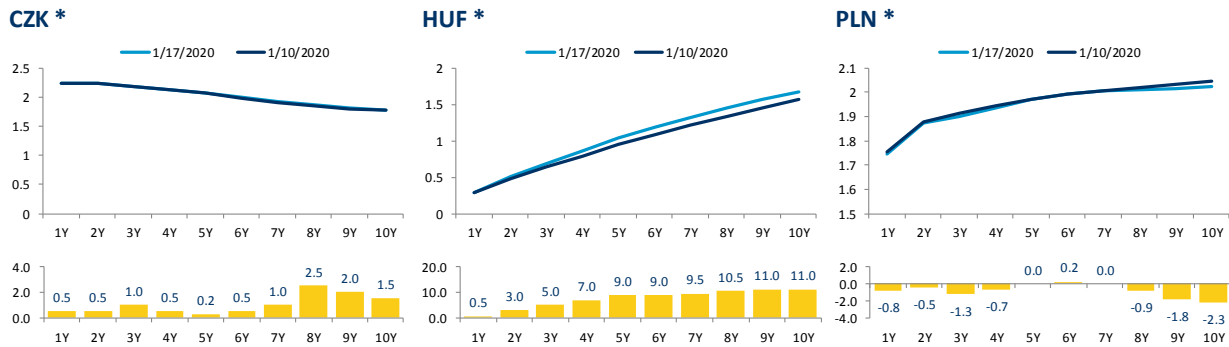
The immediate impulse for profits of the Czech koruna is the good sentiment on the global markets, which are savouring the relief around Brexit and the trade wars, as well as the first green shoots indicating the stabilization of German industry. This is also one reason why the American stocks attack new maximums and most of the riskier investments are successful, including the Central European currencies (a clear exception is the forint, which faces an extremely low domestic real interest rate).

But it is not only about the global sentiment. Inflation in the entire Central European region surprised in the last two months by its significant acceleration. In all countries, it is sticking at more than one percentage point above the target of the central banks and the situation will become even worse in the months to come. **On the Czech money market, this led investors to wipe out any and all bets on a cut of the official interest rates in the near future.** This sent the two-year interest rates of the Czech koruna to the highest levels for more than one year, thanks to which the differential between the Czech and Euro rates attacks the historical maximums (2.5 percentage points). And this keeps improving the attractiveness of the Czech koruna under the promising global conditions - especially when some central bankers from the CNB indicate that a further increase of the repo rate might be at stake.

And last but not least, **it should be added that the level of the foreign exchange hedging of the Czech exporters declined at the end of 2019, which is a critical and fundamental factor of the CZK exchange rate development.** The Czech export companies can thus be taken slightly by surprise by the last profits of the Czech koruna and some are returning to the market faster, supporting the profits with their demand for hedging.

So, what can we expect next? Although the beginning of the year surprised us with distinct global optimism and faster profits of the Czech koruna, we remain cautious about changing the forecast for this year. The global sentiment is unstable and a number of events (phase 2 of the US-China trade deal, the American presidential election, negotiations about the EU-UK trade deal) may worsen investors' sentiment in the course of the year. Especially when we take into account the fact that a number of risky assets are currently rather expensive and neither the FED nor the ECB would be able to help them with another additional monetary expansion this year. Therefore, it is not hard to imagine how the capital is flowing out of the entire Central European region. The Czech koruna, which has been burdened by the high volume of foreign hot speculative capital since the end of the CNB's interventions, would hardly be spared in the massive outflows.

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

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