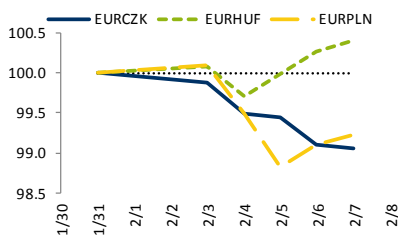




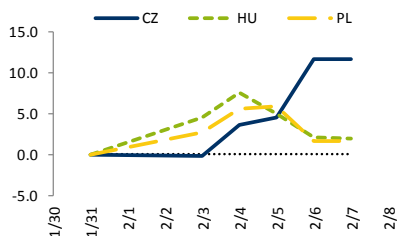
Friday, 07 February 2020

Forex markets (index)



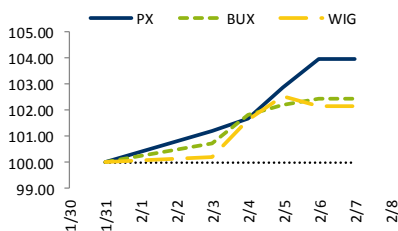
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.99	25.00	-0.04
EURHUF	338.4	338.0	0.14
EURPLN	4.263	4.259	0.12

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.573	1.573	0.0
HUGB 10Y	2.05	2.05	-0.1
PLGB 10Y	2.14	2.14	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1114.6	1114.6	0.00
BUX	44128	44128	0.00
WIG	57900	57900	0.00

Regional insights

The CNB – the only hawk in town delivers an unexpected model-based 25 rate hike

Quite unexpectedly and despite increasingly worse macro readings from the Czech economy, the CNB decided to raise the official interest rates yesterday. **At the ratio of 4:3, the CNB Bank Board decided to increase the repo rate by a quarter of a percentage point.** Actually, this was in line with the central bank's new staff forecast, with which it is consistent that the interest rates grow initially, followed by their fall in the second half of the year.

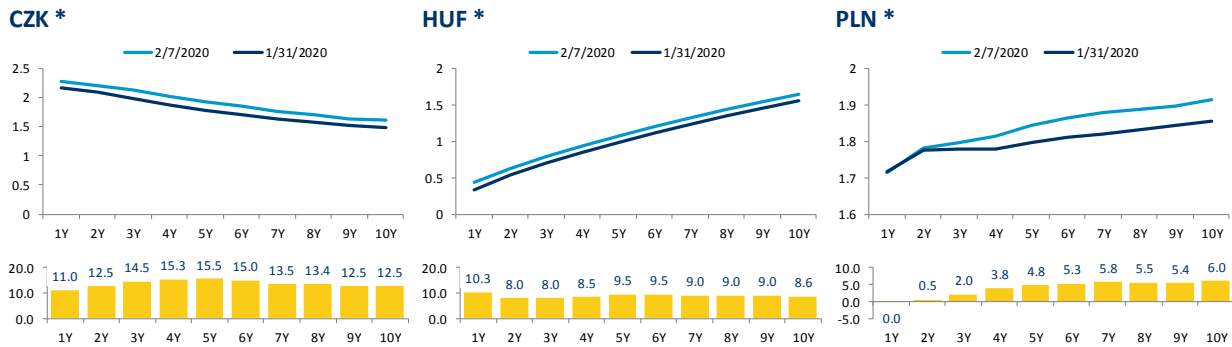
Therefore, the Bank Board is abandoning the interest rate smoothing for now and has decided to respond actively by a narrow majority. The decision was obviously not simple, perhaps because the announcement of the negotiation outcome and the press conference were postponed by an hour.

The Bank Board decided to raise the rates, although the new inflation forecast clearly points to a 2% decline in inflation at the monetary policy horizon. Even the closely monitored monetary-policy-relevant inflation is expected to fall below 2 percent based on this outlook. Thus, the CNB apparently believes that after last year's slowdown, economic growth has accelerated since the beginning of this year. According to the Central Bank, the government and private investments will also contribute to growth; however, wage growth should slow down. The economy should add 2.3% this year, according to the CNB. Hence, the CNB being one of the most optimistic institutions in terms of growth during this year, as well as during the next year.

The most interesting thing about the new forecast is that the CNB expects the Czech koruna exchange rate to be stable when the EUR/CZK pair should not fall below the 25.0 level. All this in a situation of extremely wide interest rate differential against the euro interest rates. For the entirety of this year, the CNB expects the exchange rate to be at around EUR/CZK 25.30. However, the market has been ignoring these figures from the Central Bank model and the Czech koruna strengthened to its seven-year high after the meeting.

As far as the interest rates are concerned, the CNB model output really recommended another hike but subsequently, as early as in the second half of 2020, rates should gradually decline according to the model. All in all according to the CNB new staff forecast, the official interest rates at the current level of 2.25% should reach the maximum levels. We believe that interest rate stability is likely to occur in the near future, however the question of whether the CNB optimistic forecast would really come true remains open.

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
HU	02/07	9:00	Trade balance	EUR M 12/2019 *P			134		290		484	
CZ	02/07	10:00	FX reserves of the CNB	EUR B 01/01/2020							133.3	

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		+32 2 417 32 65
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 6135 3535
Petr Dufek	+420 2 6135 3560				+420 2 2142 4216
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

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

