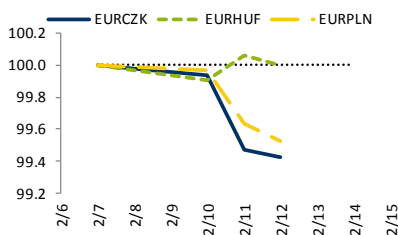




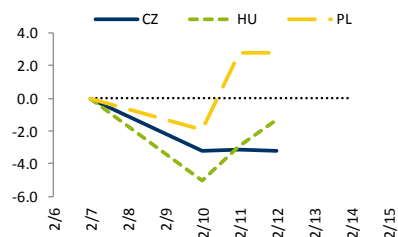
Wednesday, 12 February 2020

**Forex markets (index)**



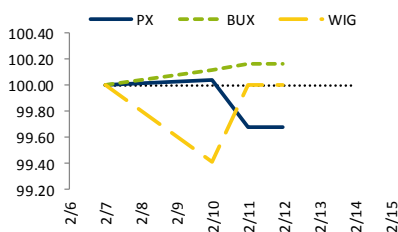
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.92	24.93	-0.05
EURHUF	338.5	338.7	-0.06
EURPLN	4.253	4.257	-0.11

**Gov. bonds 10 Y (bps change)**



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.486	1.487	-0.1
HUGB 10Y	2.00	1.99	0.8
PLGB 10Y	2.11	2.11	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1107.2	1107.2	0.00
BUX	44560	44560	0.00
WIG	57817	57817	0.00

**Our regional insights:**

**The Czech koruna extends its gains after a surprising rate hike from the CNB last week**

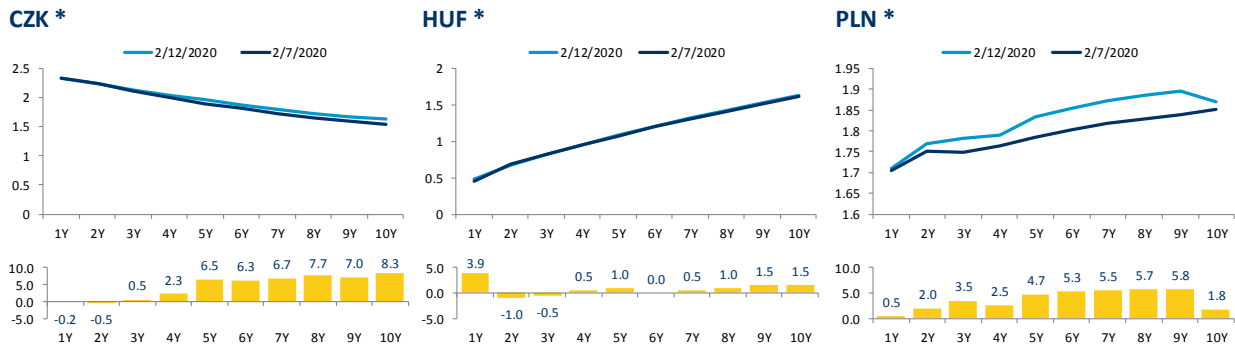
The Czech koruna started the year 2020 unprecedentedly well. Partly due to the more favourable global sentiment, partly due to a surprising interest rate hike as the CNB increased its repo rate up to 2.25% last week. Thanks to that the EUR/CZK pair broke below the 25.00 threshold for the first time and it has continued slide lower.

However, it should be borne in mind that the last hawkish step of the CNB was probably unique. The Bank Board decision to hike official rates was a tight one and the new staff forecast itself anticipates the possibility of a rate cut already in the second half of 2020. In addition, we expect weaker growth in the Czech economy this year compared to the CNB forecast. This is not good news for the koruna. As a result we do not want to rewrite our longer term koruna outlook, and we keep the target for the end of the year unchanged.

However, the coming weeks may still be more favourable for the Czech currency. The high interest rate differential between the Czech and euro rates (reaching a decent 2.75 percentage point) in times of global optimism may attract new short-term foreign capital. Likewise, the koruna can benefit from relatively lower level of FX hedging of Czech exporters - they can return to the more volatile market in the coming weeks and sell the euros faster than anticipated.

On the other hand, global sentiment feeding recent gains of riskier assets as it supports high(er)-yielding currencies (such as the koruna) is fragile and a number of events (coronavirus impact, Phase 2 of China US trade deal, US presidential elections, EU-UK trade agreement negotiations) may worsen the mood and kick off global markets for a correction. In such a scenario, the koruna, burdened by a high volume of foreign capital and the prospect of stable or lower rates, would hardly stand aside.

## 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	02/12	12:00	CZ bond auction 2020-2025, 1.25%	CZK B 02/01/2020					5			
CZ	02/12	12:00	CZ bond auction 2007-2057, 4.85%	CZK B 02/01/2020					0.5			
HU	02/13	9:00	CPI	% 01/01/2020					0.6	4.4	0.3	4.0
CZ	02/13	10:00	Current account	CZK B 12/01/2019	-10.0				-8		-3.2	
PL	02/13	14:00	Current account	EUR M 12/01/2019					-561		1457	
PL	02/13	14:00	Trade balance	EUR M 12/01/2019					-740		829	
CZ	02/14	9:00	GDP	% 4Q/2019 *A	0.2	1.9			0.3	2.0	0.4	2.5
CZ	02/14	9:00	CPI	% 01/01/2020	1	3.2			1	3.1	0.2	3.2
HU	02/14	9:00	GDP	% 4Q/2019 *P					0.4	4.3	1.1	5.0

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