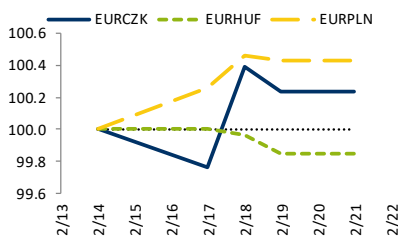




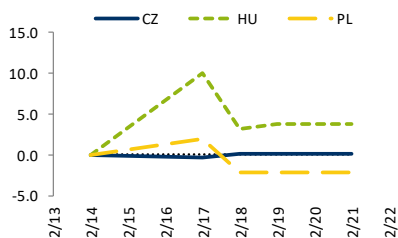
Friday, 21 February 2020

### Forex markets (index)



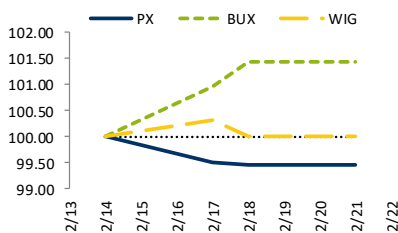
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.94	24.94	0.00
EURHUF	335.2	335.2	0.00
EURPLN	4.268	4.268	0.00

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.525	1.525	0.0
HUGB 10Y	2.30	2.30	0.0
PLGB 10Y	2.16	2.16	0.0

### Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1096.9	1096.9	0.00
BUX	45547	45547	0.00
WIG	57894	57894	0.00

## Regional insights

### The Czech koruna: further gains expected?

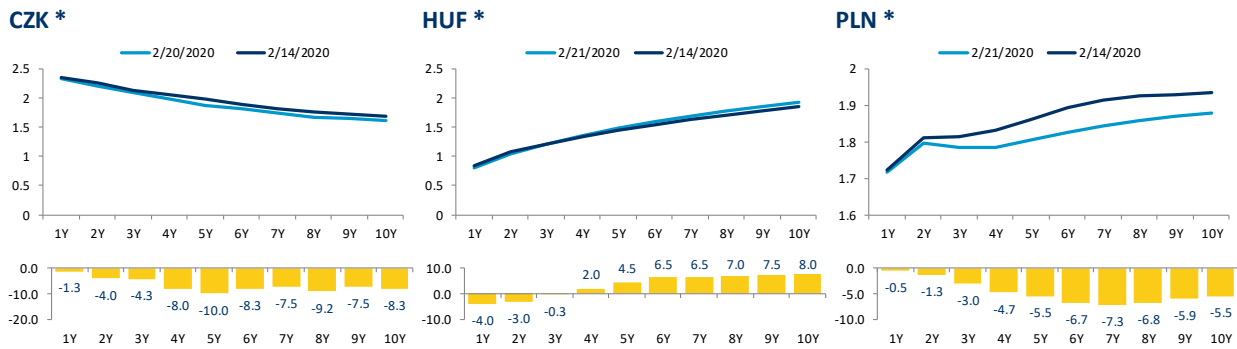
As concerns caused by coronavirus have been mounting, the Czech koruna changed the course over the last few days, returning to close to 25.00 EUR/CZK. This only confirms that it is the global sentiment that largely drives koruna today. However, a distinction must be made between whether the global capital flows are just a volatility driver or whether they can have a permanent influence on the Czech koruna.

In the last two years, it was the case that the high volume of foreign capital in the Czech koruna (that had flowed in before the end of interventions) was a brake constantly impeding its gains. As a result, the Czech koruna took into account neither the rapid growth of the economy and increasing inflationary and wage pressures nor the gradually rising interest rates, i.e. the factors that should have otherwise jump-started Czech koruna gains. A related problem for the Czech koruna was that global investors were living in permanent fear of the many global threats, in particular trade wars and the risk of a hard Brexit. It was the constant tension combined with the high volume of foreign capital in Czech korunas that ended up in the situation where the unchanged outflow of capital from Czech korunas was akin to a permanent "ball and chain" to the currency. A ball and chain that did not let it deviate from the 25.50-25.60 EUR/CZK zone too much.

But then something changed at the beginning of 2020. Firstly, the systemic threats looked far less frightening, in particular the hard Brexit risk (which haunted Central Europe the most) is out of the game for a while, as is the waging of the trade war between China and the US. The coronavirus bogeyman is up there instead. However, many global investors perceive it (contrary to the trade wars and Brexit) as a temporary shock that will abate over time. Then, the more pressing question is whether the breakdown of negotiations between the EU and the UK will re-enter the game..., which is a far more serious threat to the CEE region.

The line-up of the Czech koruna at the beginning of 2020 can however hardly be explained only by the subsiding of the significant global threats. The Czech koruna gains were noticeably more substantial than the gains of the neighbouring zloty and forint. Clearly, the reason is the further increase in the Czech interest rates, which has extended the gap between the Czech and euro rates to the highest levels since the end of the 1990s (275 bps). Contrary to the Polish or Hungarian national banks, the Czech National Bank is thus sending out a clear signal that it takes the higher inflation seriously. And although the Czech koruna is full of foreign capital, more of it is starting to flow in. It remains to be seen how long the Czech koruna will keep its present appeal. The economy has been slowing down, the inflation should decelerate in the second half of the year, and unless the Czech koruna stops gaining, a decline in interest rates may still be seen this year. As a result, the golden days of the Czech currency may fade away as fast as they arrived...

## 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	02/21	10:00	Retail sales	%	01/01/2020					-20	6.1	14.6	7.5

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