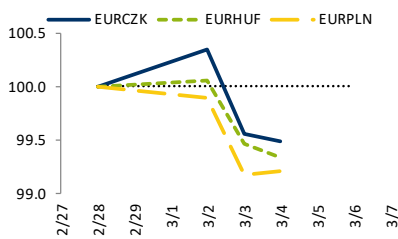
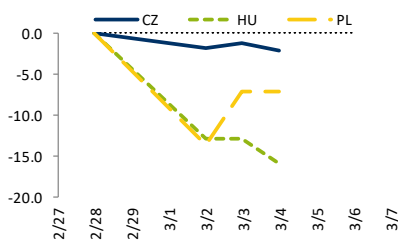




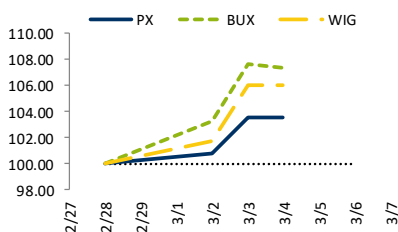
Wednesday, 04 March 2020

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.34	25.36	-0.07
EURHUF	335.6	336.1	-0.13
EURPLN	4.300	4.298	0.03

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.154	1.164	-1.0
HUGB 10Y	2.01	2.04	-1.5
PLGB 10Y	1.71	1.71	0.0

Equity indices (index)

	LAST	PREVIOUS	CHANGE (%)
PX	1011.5	1011.5	0.00
BUX	43194	43301	-0.25
WIG	52231	52231	0.00

Our regional insights:**As the Czech economy slows and the Fed cuts, the market has priced in deep cuts from the CNB**

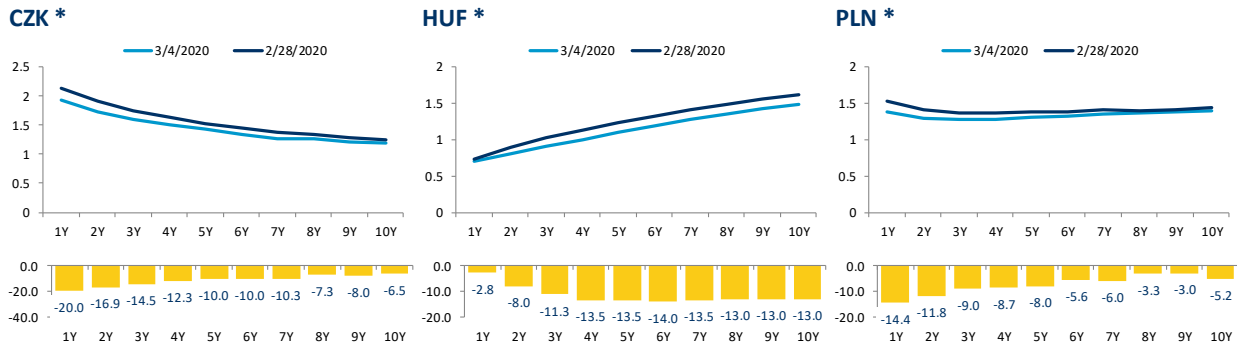
According to detailed data published by the Czech Statistical Office yesterday, the growth of the Czech economy slightly slowed down in the last quarter of last year. Compared to the previous quarter, GDP increased by 0.3%, and it increased by 1.8% year-on-year. This is the slowest growth in the last three years, as the last time the Czech economy's pace dropped below two percent was at the end of 2016. Even in the last quarter, economic growth was strongly supported by household consumption driven by an improvement in the financial situation associated with rising wages and a high employment rate. This time, investments were the biggest contributor to growth, namely the construction of flats, as well as industrial buildings and infrastructure. After a short break, companies, presumably under pressure from persistent employee shortages, also started to invest in machinery and ICT again. This time, the economic performance was negatively influenced by the foreign trade result, which was influenced by a weak foreign demand limiting exports on one hand, and a strong domestic demand pushing the growth of imports on the other.

In the end, the GDP growth lagged the expectations of the CNB by one tenth of a percentage point and, contrary to these expectations, the GDP outcome was based solely on the domestic demand. It turns out that the CNB was quite optimistic in its staff forecast, which is also true for the development at the beginning of this year. Recall that the CNB forecast implies that quarter-on-quarter growth would triple this quarter. However, given the previously apparent negative tendencies in the industry and especially when looking at current development of foreign demand (negatively affected by the coronavirus fears and related contingency measures), it is evident that this optimism is exaggerated. Due to the negative reports on the spread of coronavirus, the financial markets are already expecting the CNB to start lowering the rates within three months, and the decrease in the repo rate by 100 basis points is now expected in one year horizon. In our opinion, the CZK yield curve relies on an extremely negative scenario assuming the worst consequences of the spread of the virus. Rather, we believe that in such adverse case the CNB would (only) erase February's (surprising) hike of the official interest rates and declare its willingness to actively respond to stimuli from the main central banks (recall yesterday's 50 bps rate cut from the Fed).

NBP's inflation schizophrenia

During today's meeting, the NBP Monetary Policy Council shall analyse a new (staff) inflation projection, which is very likely to push the estimated inflation for this year higher, above the NBP inflation target (2.5%). The Polish central bankers will thus find themselves in a schizophrenic situation, as the projected inflation forecast will point to around 4%, while the negative shock in the form of the spreading coronavirus (in the EU) will inevitably slow the Polish economy. In this situation, NBP's President Glapinsky will easily repeat his informal forward guidance that the most likely scenario for development of the official interest rates will be their long-term stability.

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	03/04	9:00	Retail sales	% 01/01/2020				7.6		6.0		6.1
PL	03/04	14:00	NBP meeting	% 03/01/2020	1.5				1.5			1.5
CZ	03/06	9:00	Real wages	% 4Q/2019						3.4		4.0
HU	03/06	9:00	Industrial output	% 01/01/2020						-0.9		-4 -3.7

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