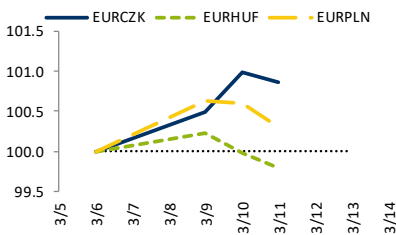




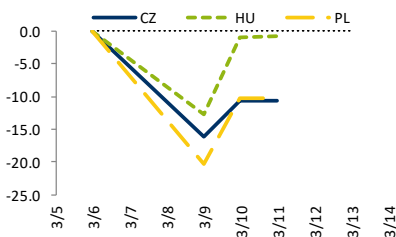
Wednesday, 11 March 2020

**Forex markets (index)**



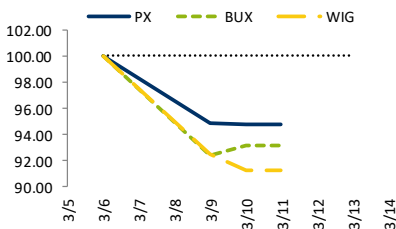
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.65	25.68	-0.12
EURHUF	335.2	335.9	-0.19
EURPLN	4.314	4.326	-0.28

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.024	1.024	0.0
HUGB 10Y	1.88	1.88	0.1
PLGB 10Y	1.53	1.53	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	912.8	912.8	0.00
BUX	38381	38381	0.00
WIG	45043	45043	0.00

**Our regional insights:**

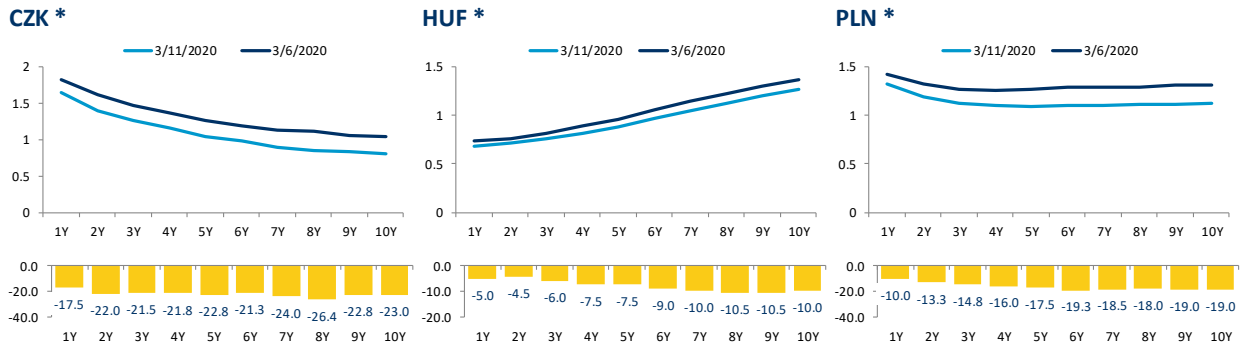
**The Czech Republic closes all schools, the CNB mulls a rate cut and the koruna weakens**

The Czech government has decided to act pre-emptively against the spreading coronavirus (the last figure of confirmed cases is 64) as the National Security Council ordered the closing of all schools as of yesterday for an indefinite period. Also due to the coronavirus all public and private events with more than 100 participants are banned. The ban does not target public transport, restaurants or shopping malls, so the economy could operate in a reduced regime.

Obviously, the ban helped to increase speculations that the Czech National Bank will be forced to follow easing of other G7 central banks and it will cut its repo rate, which was hiked just in the previous Board meeting in February. These bets were actually confirmed by two comments from CNB's Bank Board members – from Ales Michl and from Governor Jiri Rusnok. While Michl openly said that he would propose a 25 bps cut on the next meeting (on March 26<sup>th</sup>), the Governor was more cautious. Rusnok said that there was no reason to react to the Fed as we (the economy) still had de facto full employment and inflation significantly above the target (the February inflation ticks higher to 3.7% YoY). On the other hand, Rusnok said that he could imagine a decline in official rates (although not so fast as the markets assumes – currently around a 100 bps cut is discounted in 6M horizon).

In our view the governor's cautious words are the most important and the CNB will probably cut its repo rate just by 25 bps in March. Nevertheless further actions will very much depend on the coronavirus development. The next meeting will be in May and at that time the virus situation might swing to both sides. Of course, the koruna must watch the CNB and coronavirus situation (in the EU) very closely. Yesterday, the EUR/CZK pair already touched the 25.75 level and further gains will be possible, if the virus spreads further and the CNB starts to use its huge firepower for easing. Recall that the level of the Czech official rate (2.25%) is still amazingly high – both absolutely and relatively.

## 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	03/11	12:00	CZ bond auction 2017-2027, 0.25%	CZK B 03/01/2020					2			
CZ	03/11	12:00	CZ bond auction 2020-2031, 1.20%	CZK B 03/01/2020					7			
CZ	03/11	12:00	CZ bond auction 2007-2057, 4.85%	CZK B 03/01/2020					0.5			6.3
CZ	03/12	9:00	Construction output	% 01/01/2020		3.0						6.3
CZ	03/12	9:00	Industrial output	% 01/01/2020		-1.9				-1.3		-0.9
CZ	03/13	9:00	Retail sales	% 01/01/2020		2.4				3.3		4.6
PL	03/13	10:00	CPI	% 02/01/2020					0.3	4.4	0.9	4.4

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