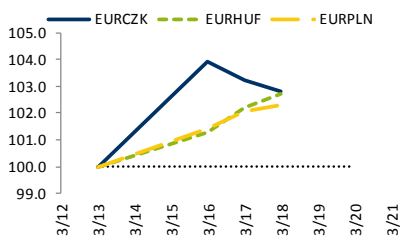
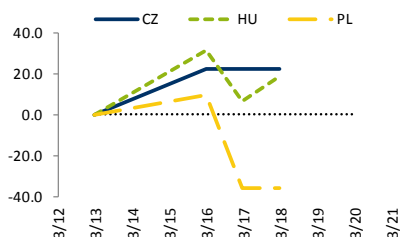




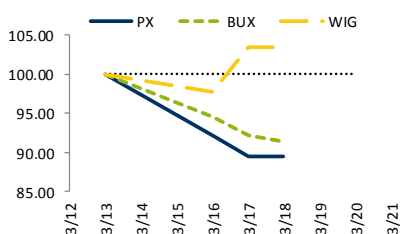
Wednesday, 18 March 2020

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.00	27.12	-0.44
EURHUF	349.2	347.5	0.47
EURPLN	4.479	4.470	0.21

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.604	1.604	0.0
HUGB 10Y	2.95	2.83	4.4
PLGB 10Y	1.79	1.79	0.0

Equity indices (index)

	LAST	PREVIOUS	CHANGE (%)
PX	738.2	738.2	0.00
BUX	31239	31526	-0.91
WIG	39925	39925	0.00

Our regional insights:**The NBP cuts by 50 bps and starts bond purchases**

The NBP has joined other central banks and it has started to support the Polish economy, which has just begun to suffer from the coronavirus epidemics. So, the NBP cut its main interest rate by 50 basis points (to 1.00%). In addition, the NBP lowered the required reserve ratio from 3.5% to 0.5% and to increase the remuneration of the required reserves from 0.5% to the reference. Last but not least the NBP decided to start buying government bonds, although the bond purchase program has not been specified yet. The zloty seems to have expected some of the NBP's action, so its weakening took place before the central bank's decision and subsequently strengthened slightly.

Regarding further development, of course, everything will depend on the evolution of the epidemic in the world. Poland itself has a relatively small number of infected people (238) and has taken radical action relatively early, giving it the hope that society and the economy will not be hit so badly by the virus. However, it is necessary to prepare for the fact that the NBP can go with its reference rate down to zero.

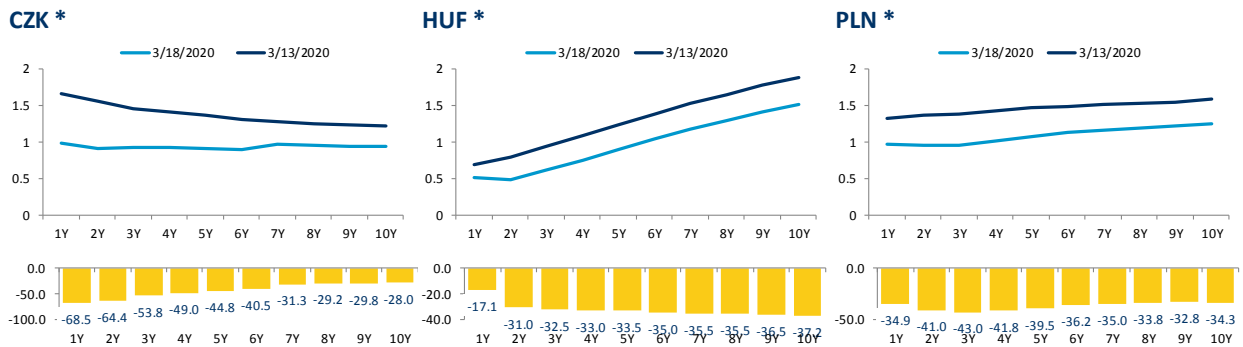
Will the CNB defend the koruna by selling its FX reserves?

The pandemic has also put enormous pressure on the Czech koruna, which has intensified since the CNB's Monday decision to cut the repo rate by 50 basis points. What can we expect in the upcoming days?

Growing economic damage and the inability to calculate the final amount will most probably keep the FX market under extreme pressure. Changes may come about as a result of slower growth of the number of newly infected persons (in the Czech Republic and abroad) or vigorous "out-of-box" measures by central banks (and governments) or if an effective drug to treat the coronavirus is found. We will most probably see a slow in the growth of the daily number of newly infected patients first of all, but we will have to wait a few weeks for this to happen in Europe. This is why we assume pressure on continued losses by the Czech currency. These may also be encouraged by lower market liquidity and the effort of foreign speculative capital to abandon long positions in CZK.

On the contrary, the CNB's efforts to restrict the volatility of the Czech koruna may act as a counterbalance. Within the terms of its extraordinary measures the CNB not only reduced the basic interest rate but also indicated that it would not be happy to see a significant fall by the koruna. Governor Rusnok explicitly stated that the central bank confirms its "readiness to respond to potential excessive fluctuation of the koruna exchange rate using the tools it has available, in compliance with the regime of managed floating of the currency exchange rate". The question is at what limit will the CNB be prepared to respond, or more precisely, to start using massive FX reserves to stabilise the koruna. We should add that the CNB purchased around EUR 90bn during the intervention regime (to fight deflation), which prevented the EUR/CZK exchange rate from falling below 27.0.

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	03/18	10:00	Wages	%	02/01/2020				0.2	7.0	-5.7	7.1
PL	03/19	10:00	Industrial output	%	02/01/2020				-0.2	1.8	4.5	1.1
PL	03/19	10:00	PPI	%	02/01/2020				0	0.3	0.1	0.8
PL	03/20	10:00	Retail sales	%	02/01/2020				-3	6.6	-20	5.7

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