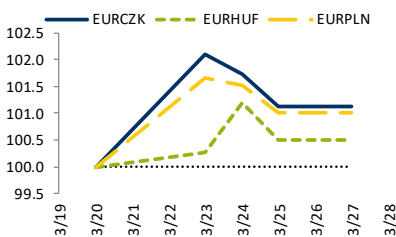




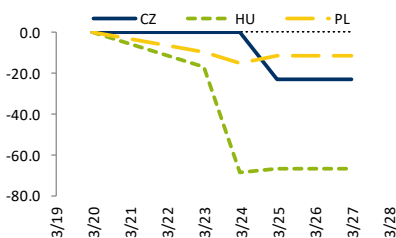
Friday, 27 March 2020

Forex markets (index)



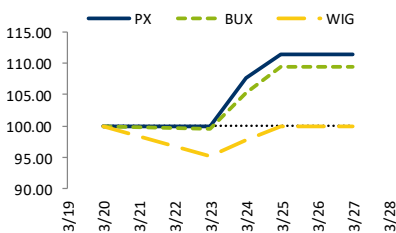
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.55	27.55	0.00
EURHUF	352.2	352.2	0.00
EURPLN	4.582	4.582	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.371	1.371	0.0
HUGB 10Y	2.24	2.24	0.0
PLGB 10Y	1.84	1.84	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	822.7	822.7	0.00
BUX	33906	33906	0.00
WIG	41175	41175	0.00

Regional insights

The CNB cuts by another 75 bps. More to come...

Although in February, the CNB was still afraid of inflationary pressures and hiked its main interest rate up to 2.25%, its repo rate now stands by 125 bps lower. Yesterday, the Czech Bank Board reduced the official rate by a further 75 bps, so the two-week repo rate is at 1.00%. Hence still visibly above zero lower bound.

The decision was unanimous and the Bank Board took it on the basis of an extraordinary internal update of the macroeconomic forecast. No further details were provided, perhaps with the exception of one figure for the second quarter. For the time being, the CNB expects a fall in GDP by 4%. However, in general it expects the economy to experience a strong recession, which will be with us for the rest of the year.

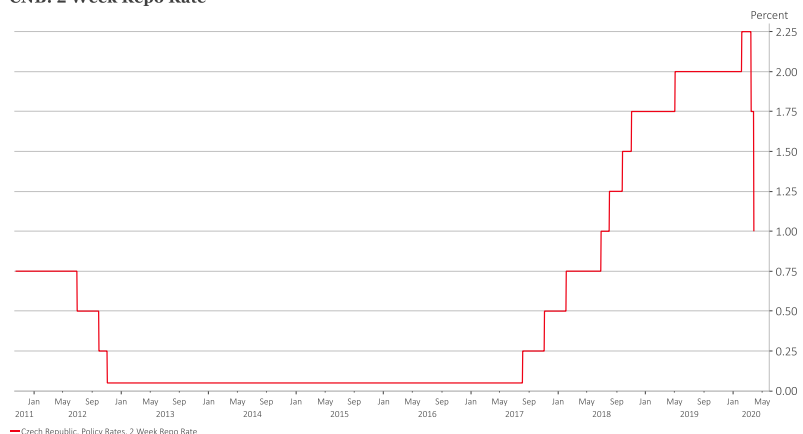
Not even the weak Czech koruna, which in itself eases monetary conditions and has upside effects on inflation, although the economic downturn and cheap oil play a stronger role on the downside at the moment, prevented the CNB from lowering the rates. Once again, the CNB vaguely declared its willingness to intervene in case of excessive rate fluctuations, nevertheless did not state any details except for this general and essentially permanent commitment. Perhaps only the fact that it can decide about its intervention at any time.

Apart from the official rates, the CNB is also lowering the countercyclical buffer rate for banks to 1%, which is, taking into account the economic cycle, a positive nevertheless only complementary step.

Perhaps the greatest expectations were oriented towards the possibility to introduce open market operations or, in simpler terms, towards some form of quantitative easing, however the CNB did not announce anything specific. Although the central bank can take some steps even without an approved amendment to the Act on the Czech National Bank, perhaps nothing will come of it.

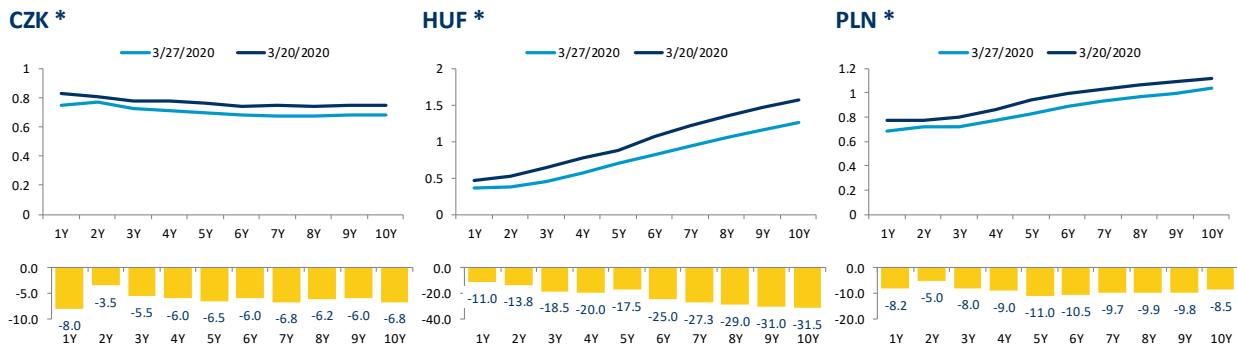
In our view the economic situation in the upcoming weeks may turn out significantly worse than the CNB expects, and so we most likely won't avoid another 50 bps rate cut as soon as in the second quarter.

CNB: 2 Week Repo Rate



— Czech Republic, Policy Rates, 2 Week Repo Rate

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	03/27	9:00	Unemployment rate	%			3.5		3.4		3.4	

Contacts

Brussels Research (KBC)			Global Sales Force		
Mathias van der Jeugt	+32 2 417 51 94		Brussels		
Peter Wuyts	+32 2 417 32 35		Corporate Desk		+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95		Institutional Desk		+32 2 417 46 25
			France		+32 2 417 32 65
			London		+44 207 256 4848
			Singapore		+65 533 34 10
Dublin Research			Prague		
Austin Hughes	+353 1 664 6889		Prague (Equities)		+420 2 6135 3535
Shawn Britton	+353 1 664 6892				+420 2 2142 4216
Prague Research (CSOB)			Bratislava		
Jan Čermák	+420 2 6135 3578				+421 2 5966 8820
Petr Dufek	+420 2 6135 3560				
Bratislava Research (CSOB)			Budapest		
Marek Gabris	+421 2 5966 8809				+36 1 328 99 85
Budapest Research					
David Nemeth	+36 1 328 9989				

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