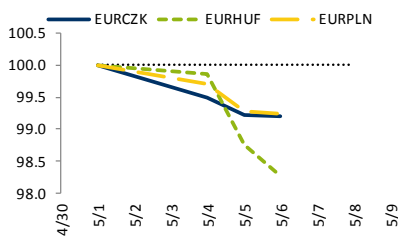




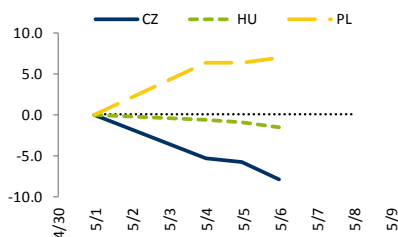
Wednesday, 06 May 2020

Forex markets (index)



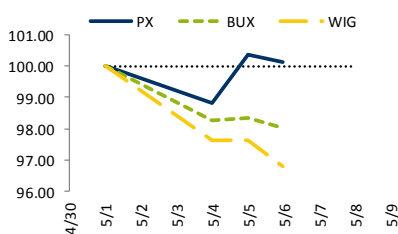
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.02	27.02	-0.01
EURHUF	348.5	350.2	-0.48
EURPLN	4,534	4,536	-0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.127	1.148	-2.1
HUGB 10Y	2.02	2.02	-0.3
PLGB 10Y	1.52	1.51	0.5

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	874.3	876.3	-0.23
BUX	34486	34604	-0.34
WIG	44648	45019	-0.82

Our regional insights:

Another CNB's rate cut on the way

The Czech National Bank (CNB) is likely to lend (again) a helping hand to the Czech economy as early as tomorrow. We expect the CNB repo rate to be further reduced by 50 basis points to 0.5%. The question is whether the CNB with extended powers (after the amendment of the law) will finally decide to reach for new and less orthodox measures too – meaning a possibility of asset (bond) purchases. Among other things, the decision can be supported by a new forecast, which should point out a truly significant slump in the economy in the first half of the year and the extremely high uncertainty associated with the development in the subsequent quarters of the year. So, besides the rate cut, the Bank Board could, if nothing else, discuss other unconventional easing tools (QE), too.

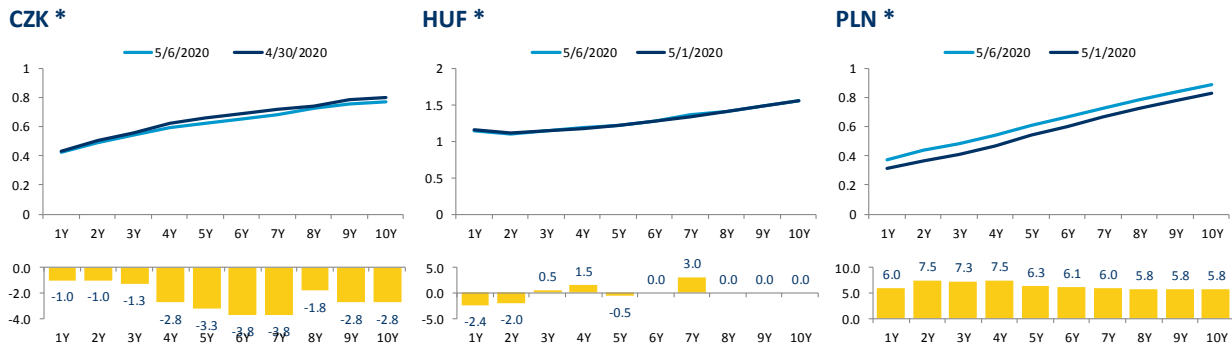
At this point in time, interventions against the Czech koruna are indisputably out of the game. The tool that was significant in the deflationary year of 2013 would now do more harm than good. The Czech koruna, burdened with a high volume of short-term foreign capital, is weak quite naturally. Paradoxically, a significant proportion of Czech exporters would then rather appreciate its stabilization. As in 2013, strong arguments against negative rates in the Czech Republic are still valid.

On the other hand, this time it could make sense to set certain targets for long-term interest rates (on the yield curve of Czech government bonds). In fact, it is the longer-term interest rates that matters for the Czech business sector and households. The last month also showed that the combination of boosted government bond issues and foreign capital outflows is able to return higher risk premiums to the Czech bond market.

It is true that the huge surpluses of koruna's liquidity in the Czech financial system alone may be sufficient to calm down the situation at least for some time. In this environment financial institutions store liquidity surpluses in repo-operations, hence CNB's rate cuts might alone increase the natural demand for government bonds. Accordingly, the extreme actions of the Fed and the ECB help to maintain large volumes of foreign capital in Czech korunas. Thus, the risk premiums in the Czech bond market became stabilized over the last week. Still, this situation is not sure to last.

The CNB Bank Board could therefore signal the efforts to stabilize government bond yields, while it does not necessarily have to declare any specific sums of bonds that it would like to buy. Such a verbal intervention may have a high "signalization" effect and may keep the risk premiums attached to the Czech government debt under control, without the central bank having to purchase high volumes of government bonds in the market.

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	05/06	9:00	Retail sales	% 03/01/2020	-14.5		-15.5		-12.0		3.6	
HU	05/06	9:00	Retail sales	% 03/01/2020			3.5		1.3		11.3	
CZ	05/06	12:00	CZ bond auction 2013-2028, 2.50%	CZK B 05/01/2020					4			
CZ	05/06	12:00	CZ bond auction 2015-2030, 0.95%	CZK B 05/01/2020					4			
CZ	05/06	12:00	CZ bond auction 2017-2033, 2.00%	CZK B 05/01/2020					4			
CZ	05/07	9:00	Construction output	% 03/01/2020	-11.0						5.3	
CZ	05/07	9:00	Trade balance (national)	CZK B 03/01/2020	13				14		22.4	
CZ	05/07	9:00	Industrial output	% 03/01/2020	-22.0				-14.0		-0.9	
HU	05/07	9:00	Industrial output	% 03/01/2020							0.2	1.7

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
Dublin Research			France		
Austin Hughes	+353 1 664 6889		London		+44 207 256 4848
Shawn Britton	+353 1 664 6892		Singapore		+65 533 34 10
Prague Research (CSOB)			Prague		
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Petr Dufek	+420 2 6135 3560		Bratislava Research (CSOB)		
Marek Gabris	+421 2 5966 8809		Bratislava		+421 2 5966 8820
Budapest Research			Budapest		
David Nemeth	+36 1 328 9989				+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

