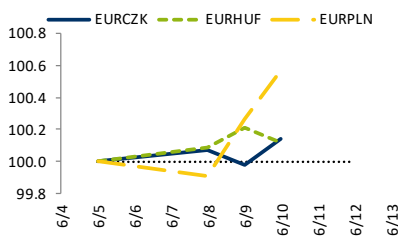




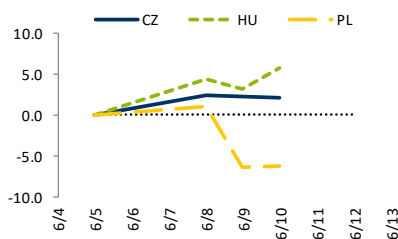
Wednesday, 10 June 2020

Forex markets (index)



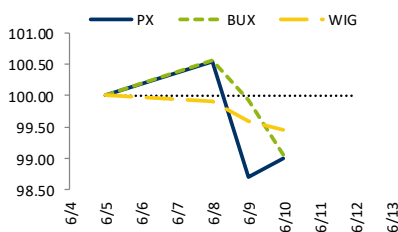
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.60	26.56	0.16
EURHUF	343.9	344.3	-0.09
EURPLN	4.459	4.445	0.30

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.902	0.903	-0.1
HUGB 10Y	2.29	2.27	1.1
PLGB 10Y	1.40	1.40	0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	948.0	945.1	0.31
BUX	37630	37962	-0.88
WIG	51212	51289	-0.15

Our regional insights:

The Czech koruna shrugs off mixed macro figures

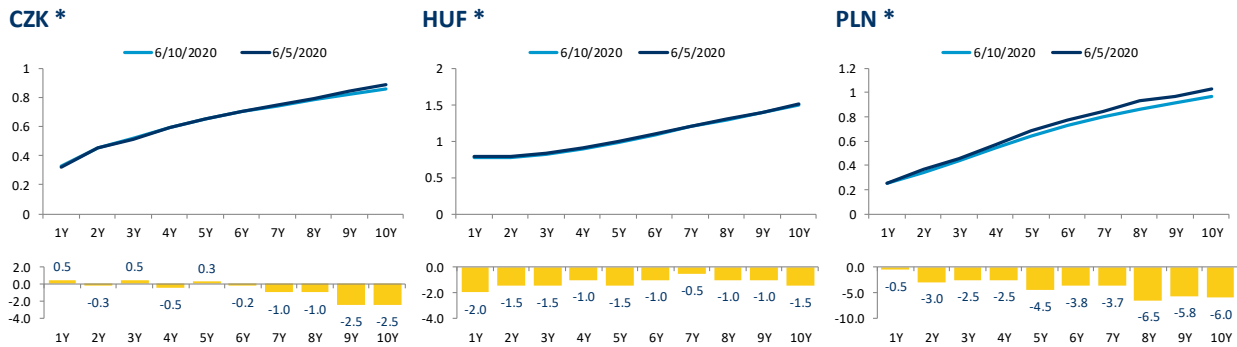
Czech assets, led by the Czech koruna, have continued to extend their profits over the last fortnight, primarily due to the optimism in global markets. A positive factor was not only the easing of quarantine measures in the Czech Republic or more precisely in Europe but also the proposal of the European Commission for a giant emergency aid package. For example the Czech currency completely ignored the historical low level of industrial production and foreign trade.

It should be noted that the total industrial production in the Czech Republic fell by almost a third in April, while the production of the automotive sector collapsed by 80%. In addition, as the statistics of new orders indicate, a decline must be expected also in the coming months. The sharp decline in Czech industry went hand in hand with alarmingly poor results of Czech foreign trade that recorded a historically high deficit on a monthly basis. The deficit of almost 27 billion Czech korunas was clearly due to the decline in exports of passenger cars, which fell by 70 billion Czech korunas this month.

It should be added that the monetary policy of the CNB, which cut the interest rates to 0.25% at its recent meetings, may return to the forefront in the coming weeks. The comments before the June meeting of the CNB's Bank Board could bring higher volatility to the Czech foreign exchange market, although they did not necessarily have to do any harm to the Czech koruna in the end. We anticipate that the Czech central bank will not want to cut the official interest rates to zero in the given situation, while the use of other (unconventional) monetary instruments will remain only a theoretical option. In our view, this would be considered by the CNB's Bank Board only if the scenarios of development of the Czech economy were extremely negative. Moreover, the strong May inflation readings, which have been released this morning (the year-on-year inflation accelerated to 2.9% YoY), also support our CNB's view.

As regards the short-term outlook for the Czech koruna – in our opinion, if we do not see re-acceleration of the epidemic in the coming weeks (linked to the gradual opening of borders in Europe), risky assets, including the Czech koruna and other Central European currencies, may slightly extend their profits even further. On the other hand, the high uncertainty associated with future development scenarios (and implicitly also with the CNB's monetary policy scenarios) may complicate the bullish outlook.

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	06/10	9:00	CPI	% 05/01/2020	0.1	2.6	0.4	2.9	0.1	2.7	-0.2	3.2
CZ	06/10	12:00	CZ bond auction 2017-2027, 0.25%	CZK B 06/01/2020					4			
CZ	06/10	12:00	CZ bond auction 2020-2031, 1.20%	CZK B 06/01/2020					3			
CZ	06/10	12:00	CZ bond auction 2020-2040, 1.50%	CZK B 06/01/2020					2			

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)			Bratislava		
Marek Gabris	+421 2 5966 8809				+421 2 5966 8820
Budapest Research			Budapest		
David Nemeth	+36 1 328 9989				+36 1 328 99 85

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