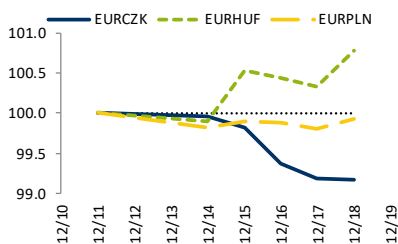




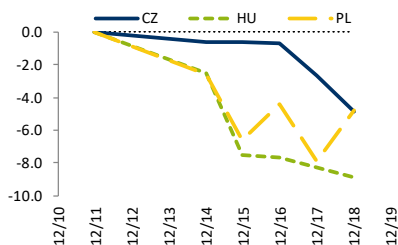
Friday, 18 December 2020

Forex markets (index)



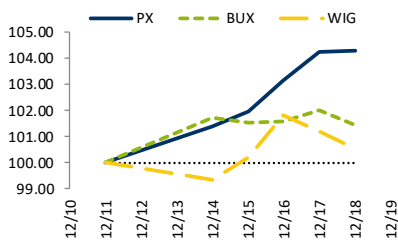
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.15	26.16	-0.02
EURHUF	356.9	355.3	0.45
EURPLN	4.443	4.438	0.13

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.251	1.273	-2.2
HUGB 10Y	2.10	2.10	-0.3
PLGB 10Y	1.28	1.25	2.5

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1010.1	1009.5	0.06
BUX	41864	42088	-0.53
WIG	55799	56176	-0.67

Regional insights

The CNB leaves policy and forecast unchanged

At their last meeting, the CNB Bank Board decided to keep interest rates unchanged. The main interest rate (the two-week repo rate) has thus remained at 0.25%, the discount rate at 0.05% and the Lombard rate at 1% since May. However, the December meeting was expected to modify the attitude of central bankers rather than change rates. When presenting a new forecast of the central bank last time, they put forward a forecast expecting a threefold increase in interest rates as early as in 2021. Although they admitted that rates might rise later than in the second quarter, the CNB's message was clear. Rates would go up soon, and not only symbolically.

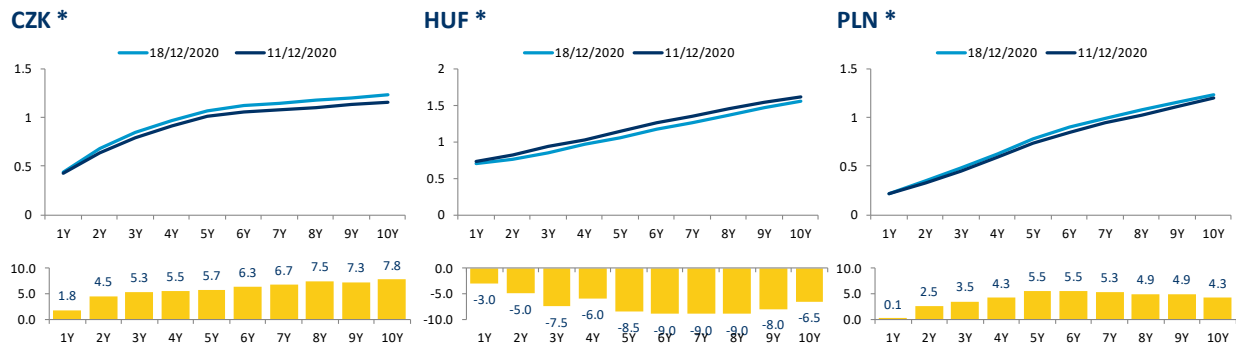
So what finally happened? The decision was unanimous and the Bank Board assessed the risks and uncertainties of the current staff forecast in the context of the ongoing second wave of the pandemic as very significant. The CNB assessed the economic performance in the third quarter positively, however it still remains sceptical in the long term. For instance, the Czech central bank assumes that GDP will not reach the pre-crisis level even by the end of 2022.

The CNB considers in particular the more relaxed fiscal policy (mainly in connection with the tax package), the better figures from the domestic economy for the third quarter and positive signals from the industry to be upside risks to inflation. On the downside, there's the risk that the second wave of the pandemic will get worse both domestically and abroad and a no-deal Brexit. Although the CNB mentions the strong Czech koruna, it no longer seems to consider it a downside risk at this time.

The CNB has not made any explicit statement regarding the term of the future increase of rates, nevertheless its view has reportedly remained unchanged since last month. It was felt from the Governor's words at the press conference that the fiscal impulse in the form of a tax package could speed up the rate normalization. Simply put, the abolition of the super-gross wage can accomplish the fiscal scenario, and lead to a faster hike in interest rates. However, to make matters worse, the looming provisional budget could work the other way around, as could the less favourable development of the pandemic.

So, what next? Taking into account all the macro risks and uncertainties, it is very difficult to predict the future conduct to be adopted by the CNB. In view of the current development of the pandemic and the third partial lockdown in the Czech Republic, the worsening of the situation abroad, etc. we continue to expect that a rate hike will take place later rather than sooner.

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	12/18	10:00	Industrial output	% 11/01/2020	-0.5	-0.1			-3.6	2.9	3.2	1.0
PL	12/18	10:00	PPI	% 11/01/2020					0	-0.2	0.4	-0.4
HU	12/21	8:30	Current account	HUF B 3Q/2020							-847.0	
PL	12/21	10:00	Retail sales	% 11/01/2020							2.3	-2.1
HU	12/23	9:00	Trade balance	EUR M 10/2020 *F							896.0	
PL	12/23	10:00	Unemployment rate	% 11/01/2020							6.10	
PL	12/22	14:00	Money supply M3	% 11/01/2020							1.20	17.0
HU	12/24	11:50	One week deposit rate	% 12/01/2020								

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