



Central European Daily

Thursday, 20 October 2016

Headlines

Currencies		% chng
EUR/CZK	27.02	0.1
EUR/HUF	306.6	0.0
EUR/PLN	4.31	-0.1
EUR/USD	1.10	-0.1
EUR/CHF	1.09	-0.1

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.01	0.23	-0.18	-0.05
EUR/PLN		0.25	0.05	-0.02
EUR/HUF			-0.05	0.00
EUR/USD				0.40

correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.28	0
HUF	0.70	-1
PLN	1.73	-1
EUR	-0.30	1

GB	%	bps chng
Czech Rep. 10Y	0.39	0
Hungary 10Y	3.02	-3
Poland 10Y	2.98	-4
Slovakia 10Y	0.49	-1

CDS 5Y	%	bps chng
Czech Rep.	41	0
Hungary	122	0
Poland	76	0
Slovakia	42	0

Source: Reuters

Polish macro data slightly weaker than expected

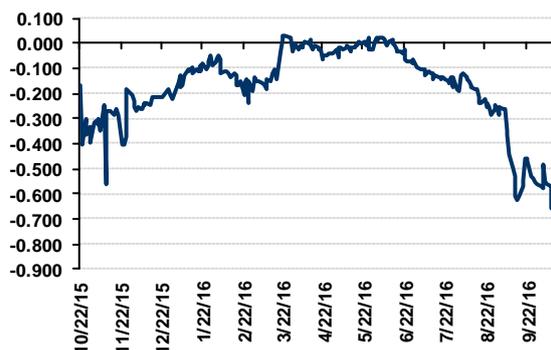
Short-term Czech bond yields touched minus 1%

The Polish statistical office released fresh values of a few key macroeconomic indicators yesterday. Though slightly weaker than expected, the data still look solid. Retail sales, for instance, grew more than 6 per cent year-on-year in real terms in September (and in 2016Q3, too), indicating a strong growth of the Polish domestic demand in the July to September period.

The Czech Ministry of Finance issued short-term government bonds (maturing 2019) with deeply negative rates (-0.56 %). The 2Y bond yield had been already traded below minus 1 % yesterday. The state of affairs is due to huge capital inflows absorbed by CNB interventions and thereby creating new CZK liquidity (that partly goes to the bond market). No wonder then that Czech central bankers try to diffuse speculations over their early exit from the intervention regime (defending the EUR/CZK 27.00 floor). CNB Governor Rusnok, for instance, has recently repeated that the (FX) interventions against the koruna could easily continue until 2018. The timing of the exit would depend on the assessment of fulfilment of the conditions for the exit (i.e. mainly of CPI inflation to be close enough to CNB's inflation target at 2 % Y/Y). Then it would be a sort of open-ended situation, Rusnok said.

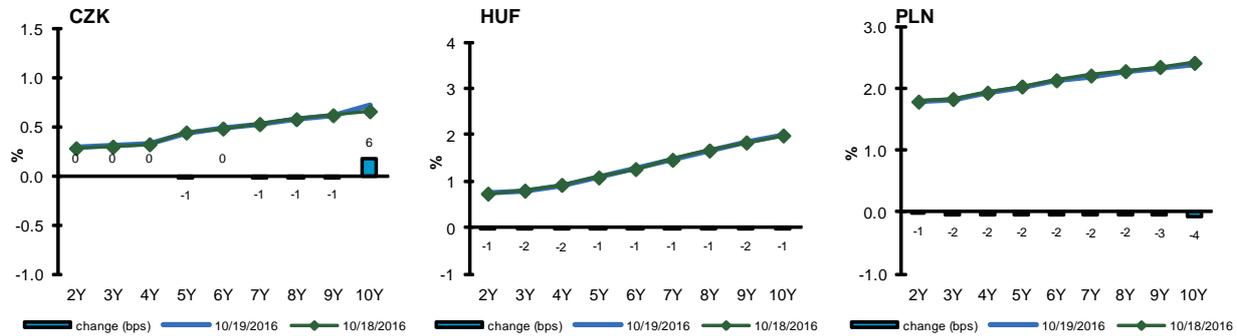
We believe that the CNB will leave its FX intervention regime in the middle of 2017 only on condition that the ECB will have started reducing the amount of its asset purchases earlier next year. For this reason, today's ECB meeting could be interesting for Czech markets. However, we don't expect any concrete signal regarding changes in the QE next year to come from the ECB before December.

CZ GB 2Y



Short-term
Czech
government
bond yields have
already touched
minus 1%.

Interest-rate Swap Curves



Calendar

Country	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y

Contacts

Brussels Research (KBC)			Global Sales Force		
Piet Lammens	+32 2 417 59 41		Brussels		
Peter Wuyts	+32 2 417 32 35		Corporate Desk		+32 2 417 45 82
Joke Mertens	+32 2 417 30 59		Institutional Desk		+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94		France		+32 2 417 32 65
Dublin Research			London		+44 207 256 4848
Austin Hughes	+353 1 664 6889		Singapore		+65 533 34 10
Shawn Britton	+353 1 664 6892				
Prague Research (CSOB)					
Jan Cermak	+420 2 6135 3578		Prague		+420 2 6135 3535
Jan Bures	+420 2 6135 3574				
Petr Baca	+420 2 6135 3570				
Bratislava Research (CSOB)					
Marek Gabris	+421 2 5966 8809		Bratislava		+421 2 5966 8820
Budapest Research					
David Nemeth	+36 1 328 9989		Budapest		+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE ON WWW.KBC.BE/DEALINGROOM

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 date of the report and are subject to change without notice.

