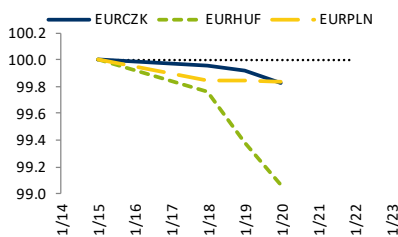




Central
Europe
Wednesday

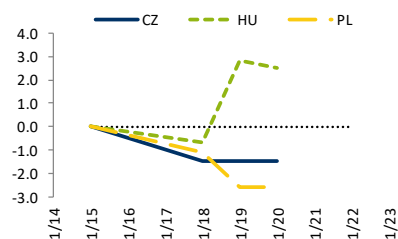
Wednesday, 20 January 2021

Forex markets (index)



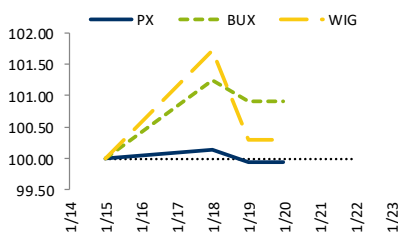
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.12	26.15	-0.08
EURHUF	357.0	358.1	-0.31
EURPLN	4.532	4.532	-0.01

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.271	1.271	0.0
HUGB 10Y	2.34	2.35	-0.1
PLGB 10Y	1.16	1.16	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1073.0	1073.0	0.00
BUX	44610	44610	0.00
WIG	58043	58043	0.00

Our regional insights:

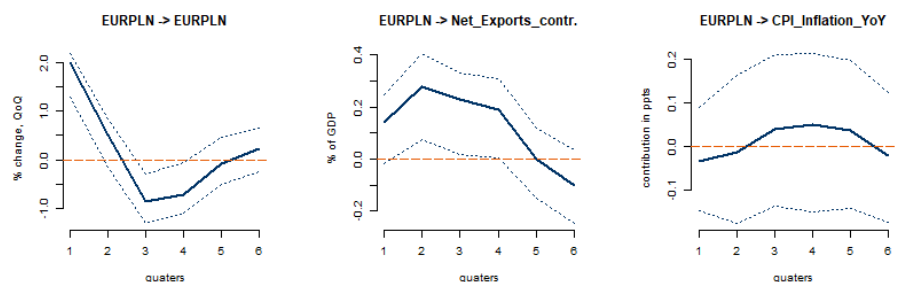
NBP's rhetoric keeps EUR/PLN above 4.50

The EUR/PLN pair remains visibly above 4.50, which means that the strongly dovish statements made by the NBP Governor Glapinski on Friday evening have had the desired effect and, for now, the zloty does not have a tendency to strengthen. It should be noted that Glapinski warned that the NBP was both prepared for even greater forex interventions against the zloty and admitted the introduction of negative interest rates if economic conditions deteriorated drastically. This situation could occur if Poland were hit by a third pandemic wave. This negative scenario still cannot be ruled out. While Poland is one of the more successful countries with regard to the pace of vaccination (almost a half of million of doses has been distributed), on the other hand, the number of those infected with Covid-19 and, in particular, the death rates as a result of the pandemic remain dangerously high. That is why, in our opinion, there is still a chance that the NBP may cut the key interest rate to negative at the March MPC meeting.

On the other hand, unless a third pandemic wave hits Poland, it will be very difficult for the NBP to defend the current "weak zloty" policy. Although the weak Polish currency clearly supports the economy by improving the trade balance, Poland does not need it in view of the record current account surplus. At the same time, the pass-through of the weak zloty into higher inflation has been very modest in recent history (see the chart below). In fact, it's a question whether the 2% depreciation of the Polish currency will be observable in consumer price inflation at all.

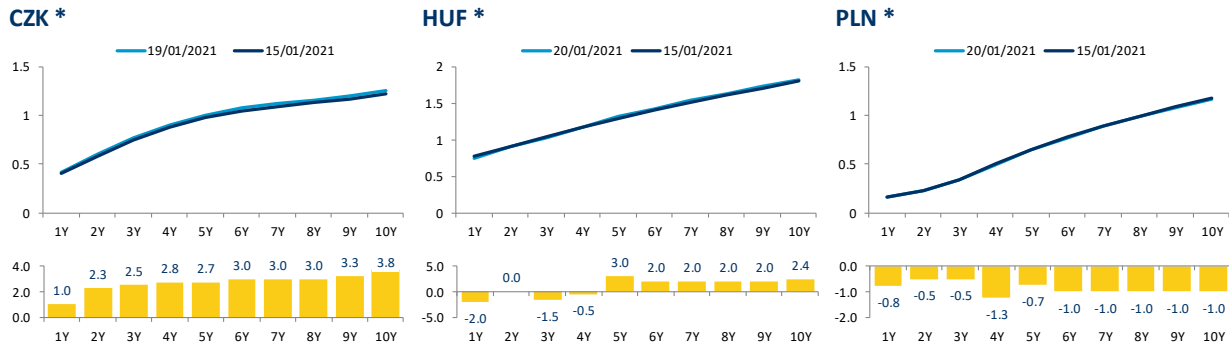
Hence, from the macroeconomic point of view the biggest beneficiary of the current NBP policy will be the Polish government as central bank's asset purchases (either in the form of domestic bonds or in the form euros / forex interventions) are increasing PLN liquidity in the Polish financial system and are driving financing costs lower.

A reaction of the Polish economy to 2% PLN depreciation (a simple VAR model):



Ne_exports_contr = contribution of net exports to GDP growth
CPI_Inflation_YoyY = a change in year-on-year headline inflation

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	01/21	10:00	Wages	%					7.3	5.0	0.5	4.9
PL	01/22	10:00	PPI	%					0.2	-0.1	0	-0.2
PL	01/22	10:00	Retail sales	%					22.4	1.2	-5.4	-5.3
PL	01/25	10:00	Industrial output	%							-1.6	5.4
PL	01/26	14:00	Money supply M3	%							0.5	16.1
HU	01/26	14:00	NBH meeting	%							0.60	
HU	01/26	14:00	Overnight deposit rate	%							-0.05	
PL	01/27	10:00	Unemployment rate	%							6.1	
CZ	01/27	12:00	CZ bond auction 2014-2027, floating rate	CZK B	01/01/2027					5		

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		+32 2 417 32 65
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		+420 2 6135 3535
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Petr Dufek	+420 2 6135 3560				
Bratislava Research (CSOB)			Bratislava		+421 2 5966 8820
Marek Gabris	+421 2 5966 8809				
Budapest Research			Budapest		+36 1 328 99 85
David Nemeth	+36 1 328 9989				

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

