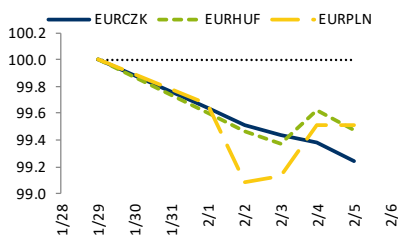




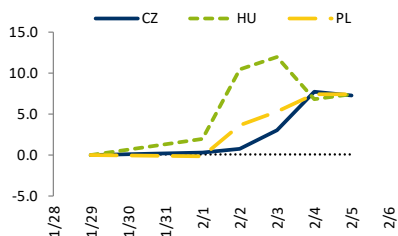
Friday, 05 February 2021

Forex markets (index)



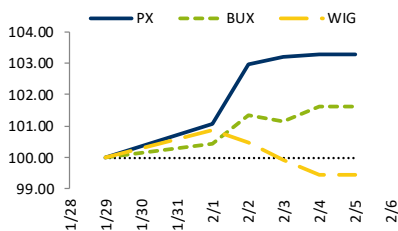
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.84	25.87	-0.14
EURHUF	355.5	356.0	-0.14
EURPLN	4.502	4.502	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.408	1.413	-0.5
HUGB 10Y	2.40	2.39	0.3
PLGB 10Y	1.22	1.22	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1050.9	1050.9	0.00
BUX	44226	44226	0.00
WIG	56670	56670	0.00

Regional insights

The CNB sticks to its hawkish script (suggesting hikes)

At its first meeting this year, the CNB Bank Board unanimously kept interest rates unchanged. **Importantly, however, the new CNB staff forecast suggests that the stability of interest rates and their relatively rapid rise starting from the middle of the year is still relevant.** Therefore, compared to the November forecast, not much has changed in the staff interest-rate outlook, so **the average PRIBOR 3M should reach 1.16% in the last quarter (implying two hikes in 2021).**

At the same time, however, the Bank Board assessed the risks of the forecast “as significant and deflected towards the pandemic subsiding more slowly than the forecast expects”. Therefore, it is evident that the CNB will not rush to tighten the monetary policy yet. The CNB expects the economic growth not to be resumed till the spring, when the restrictions limiting ordinary business should end. The prolonging of the pandemic would, in fact, postpone the announced (hiking) intentions of the CNB, according to central bank’s Governor Rusnok.

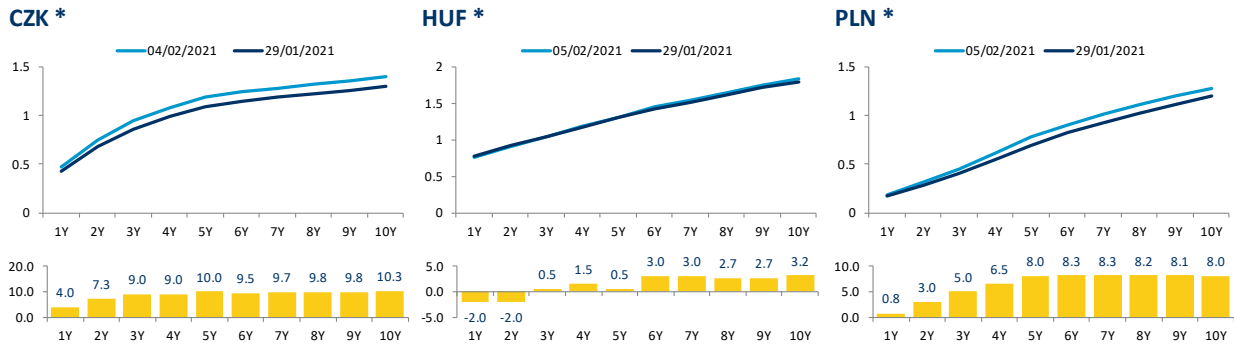
Strangely enough - while the hawkish outlook for official rates has not changed significantly, the outlook inflation has been revised down significantly. After all, the previous inflation rather overestimated the inflationary pressures, so a downward correction is quite logical. The CNB now expects that inflation – whether the headline inflation or monetary-policy inflation – will fall below the 2% target this year and should not rise again until the end of the year. Of course, even in this case, of a very strong economic recovery the associated potential inflationary pressures will play a role.

At the same time, the CNB staff projection now expects a further – almost linear – appreciation of the koruna (against the euro). Therefore, it sees the EUR/CZK pair at around 25.40 at the end of the year. And this is probably the biggest change that the new forecast is bringing, because according to the previous one, the exchange rate should have reached the level of 26.30 in the last quarter of this year.

So how should the result of yesterday’s CNB Bank Board meeting be interpreted? **It seems that everything will continue to depend on the development of the pandemic, or its effects on the Czech economy. Nevertheless, the CNB Bank Board makes it clear that it wants to raise (normalise) interest rates and will do so as soon as conditions allow it. With its significantly changed projection of the exchange rate, it is also creating space for itself in this (hawkish) direction to be able to do so, perhaps sometime at the turn of the year.** That is, later than the staff forecast suggests, but earlier than it seemed to be some time ago.

Petr Dufek (ČSOB)

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	02/05	9:00	Retail sales ex autos	% 12/01/2020		-1.3		3.7		-1.6		-7.0	
HU	02/05	9:00	Industrial output	% 12/01/2020				-2.4	1.1	4.7	-1.2	1.6	
CZ	02/08	9:00	Construction output	% 12/01/2020								-8.4	
CZ	02/08	9:00	Trade balance (national)	CZK B 12/01/2020		-2.0						32.2	
CZ	02/08	9:00	Industrial output	% 12/01/2021			4.5					-2.2	
CZ	02/08	9:00	Unemployment rate 15-64	% 01/01/2021		4.3						4.0	
HU	02/08	9:00	Trade balance	EUR M 12/2020 *P								-5.5	
HU	02/08	11:00	Budget balance	HUF B 01/01/2020								-5.5	
CZ	02/09	10:00	FX reserves of the CNB	EUR B 01/01/2021								135.1	
CZ	02/10	12:00	CZ bond auction 2021-2024, 0.00%	CZK B 02/01/2021						6			
CZ	02/10	12:00	CZ bond auction 2020-2031, 1.20%	CZK B 02/01/2021						5			
HU	02/11	11:50	One week deposit rate	% 02/01/2021									
CZ	02/12	9:00	CPI	% 01/01/2021	0.8	1.6						-0.2	2.3
HU	02/12	9:00	CPI	% 01/01/2021								0.3	2.7
PL	02/12	10:00	GDP	% 4Q/2020 *P								7.9	-1.5

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
			France		+32 2 417 32 65
			London		+44 207 256 4848
			Singapore		+65 533 34 10
Dublin Research			Prague		
Austin Hughes	+353 1 664 6889		Prague (Equities)		+420 2 6135 3535
Shawn Britton	+353 1 664 6892				+420 2 2142 4216
Prague Research (CSOB)			Bratislava		
Jan Čermák	+420 2 6135 3578				+421 2 5966 8820
Petr Dufek	+420 2 6135 3560				
Bratislava Research (CSOB)			Budapest		
Marek Gabris	+421 2 5966 8809				+36 1 328 99 85
Budapest Research					
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 data of the report and are subject to change without notice.

