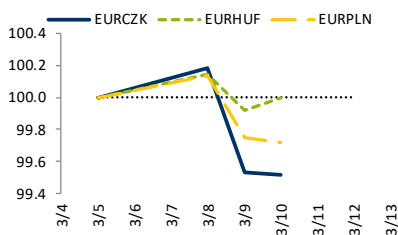




**Central  
Europe**  
Wednesday

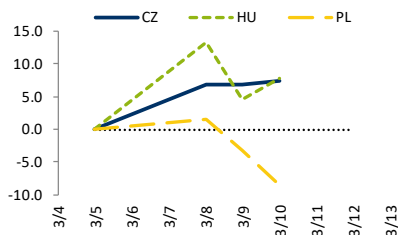
Wednesday, 10 March 2021

### Forex markets (index)



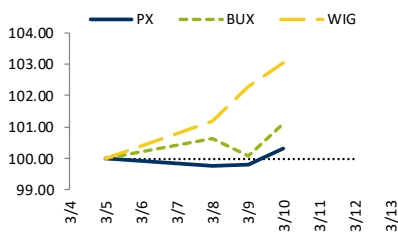
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.22	26.22	-0.01
EURHUF	367.0	366.8	0.07
EURPLN	4.573	4.574	-0.03

### Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.837	1.833	0.4
HUGB 10Y	2.78	2.75	1.2
PLGB 10Y	1.51	1.57	-3.4

### Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1070.8	1065.4	0.51
BUX	43751	43313	1.01
WIG	59411	58971	0.75

## Our regional insights:

### Czech inflation slowed in February

In February, Czech headline inflation slowed slightly to 2.1% YoY, as consumer prices rose by only 0.2% this month compared to January. This minor increase was mainly due to higher prices of fuels, cars and some leisure activities.

It is still true that almost half of February's inflation slowdown was due to a negative base effect triggered by hikes in prices of tobacco products and alcohol last year, which reflected significant increase in excise duties. Housing prices, which have pushed inflation up in previous years, are now rising at a very modest pace. As a result, the growth of rents slows and at the same time electricity plus gas prices continue to fall. Last but not least, food - the second most important part of the consumer basket after housing - rose only 0.6% year-on-year.

In the coming months, inflation will be close to the CNB's target (2.0%) and will probably be below it in the second half of the year. The prices of some services - currently limited by the lockdown - represent great uncertainty however. On the other hand, food prices, at least in view of the current development of agricultural or processing prices, should not increase significantly.

All in all, we do believe that inflation is not and probably will not be a significant problem for the Czech economy. Nevertheless, given that inflation is close to the CNB's target and the core inflation is still above the upper limit of the targeted band (3%), the central bank will continue to talk about the need to normalize official interest rates. However, this will only be possible when the pandemic situation calms down and most of the recent quarantine measures are relaxed. Therefore, we expect the first CNB's rate hike rather at the end of the year, as it has been outlined in the alternative (adverse) scenario of the central bank itself.

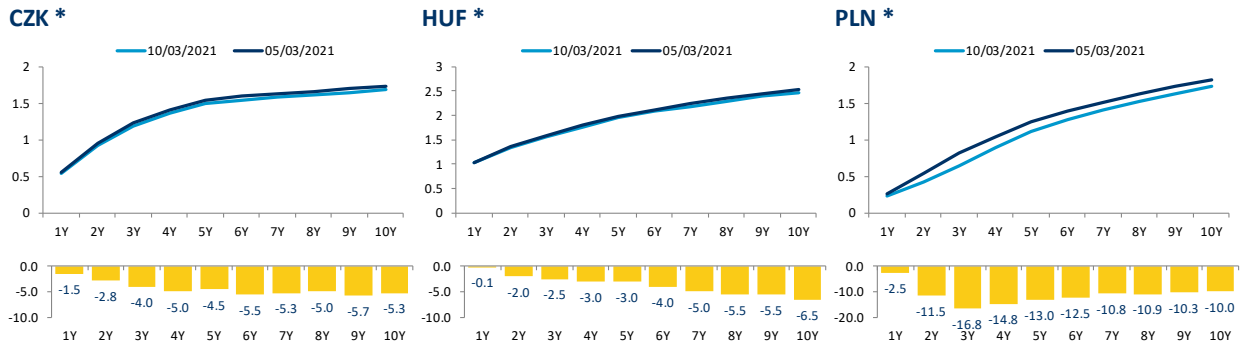
### Petr Dufek (ČSOB)

#### Czech headline inflation (YoY in %)



Source: KBC Economics based on CSO, CNB

## 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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	03/10	9:00	CPI	%	02/01/2021	0.3	2.2	0.1	2.1	0.3	2.2	1.3	2.2
HU	03/11	9:00	Trade balance	EUR M	01/2021 *P							398	
HU	03/11	11:50	One week deposit rate	%	03/01/2021							0.75	
CZ	03/12	9:00	Construction output	%	01/01/2021								-12.4
CZ	03/12	9:00	Industrial output	%	01/01/2021		-3.0			-4.3		1.3	5.8
CZ	03/15	9:00	PPI	%	02/01/2021								0.0
CZ	03/15	9:00	Retail sales ex autos	%	01/01/2021								3.7
PL	03/15	10:00	CPI	%	02/01/2021							1.2	2.7
CZ	03/16	10:00	Current account	CZK B	01/01/2021								-3.9

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