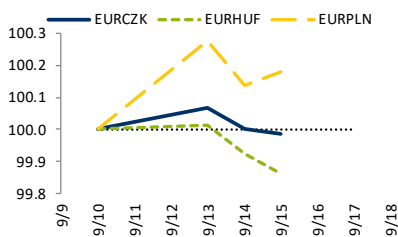




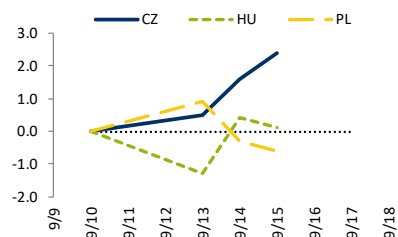
Wednesday, 15 September 2021

Forex markets (index)



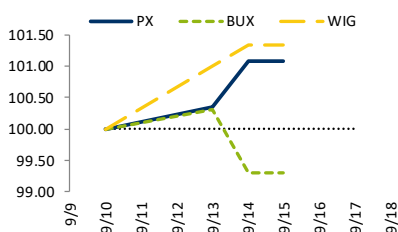
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.35	25.35	-0.02
EURHUF	349.6	349.9	-0.06
EURPLN	4,549	4,548	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.908	1.900	0.8
HUGB 10Y	3.06	3.06	-0.1
PLGB 10Y	1.98	1.98	-0.2

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1298.3	1298.3	0.00
BUX	52392	52392	0.00
WIG	72041	72041	0.00

Our regional insights:

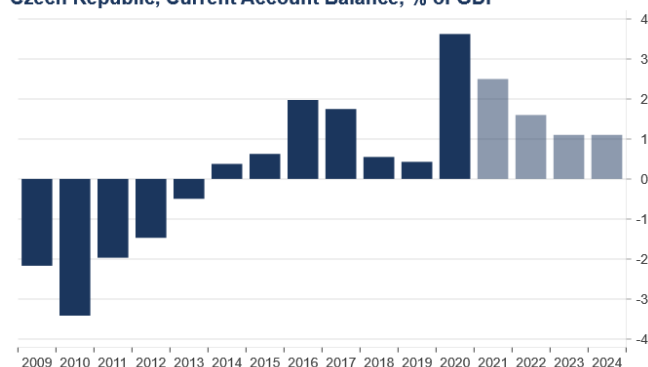
The Czech C/A surplus is not sustainable

While the main focus of the Czech financial markets has been on recent inflation figures and the associated central bank response, there are other interesting trends in the economy that are captured - and sometimes hidden - in statistical reports that are largely ignored in better times. One of these is the current account balance of payments, reflecting the external (im)balance of an economy. Under normal circumstances, it shows how much foreign currency a country is able to generate from current transactions and investment income.

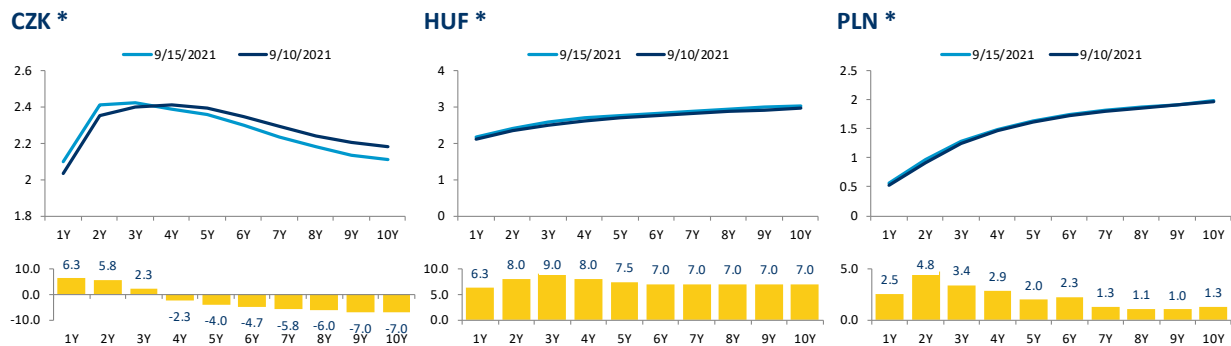
Last year, when the Czech current account ended with the highest surplus since 2004, equivalent to 3.6% of GDP, it was a positive signal for markets and rating agencies. Looking closer, however, it was clear that this was not due to an improvement in the Czech Republic's competitive position in foreign trade in goods and services, but mainly due to a decline in the profitability of domestic firms under foreign control. So, the huge C/A surplus was result of a roughly 40 per cent fall in dividends leaving the country (in normal times). At a time of COVID uncertainty, firms focused on solving operational problems, liquidity and profitability went by the wayside for a while.

In recent months, it has become increasingly apparent that the record current account surplus on the balance of payments - and thus, to some extent, the inflow of new foreign currency into the country - is unsustainable. Not only is the recovery in foreign trade stalling due to missing components for export-important items, but firms are starting to pay dividends again in larger numbers. Thus, the annual accumulated current account surplus has already gradually declined by CZK 65 billion from April's 226 billion. This is a logical "new normal" coming with the economic recovery. If there is something really interesting about it, it is the degree to which the Czech Republic's overall external balance is (negatively) affected by the further development of exports, of which car production is the main item. Carmakers operating in the Czech Republic have just communicated further reduction of their production (because of missing chips and other items), which may accelerate a negative trend in the Czech exports further.

Czech Republic, Current Account Balance, % of GDP



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	09/15	10:00	CPI	% 08/2021 *F			0.3	5.5			0.2	5.4
PL	09/16	14:00	Core CPI	% 08/01/2021					0.2	3.9	0.4	3.7
PL	09/17	10:00	Wages	% 08/01/2021					-0.6	8.8	0.9	8.7
HU	09/20	8:30	Current account	HUF B 2Q/2021							541	
PL	09/20	10:00	PPI	% 08/01/2021							1.2	8.2
PL	09/20	10:00	Industrial output	% 08/01/2021							-3.9	9.8
PL	09/21	10:00	Retail sales	% 08/01/2021							2.1	3.9
HU	09/21	14:00	NBH meeting	% 09/01/2021							1.5	
HU	09/21	14:00	Overnight deposit rate	% 09/01/2021							0.6	

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

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