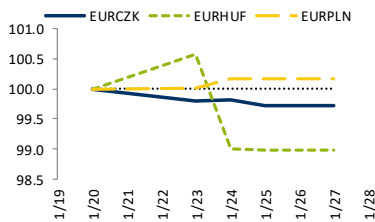




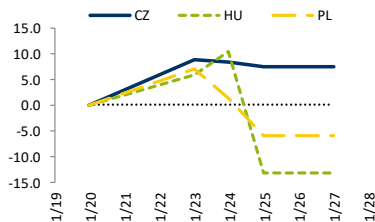
Friday, 27 January 2023

Forex markets (index)



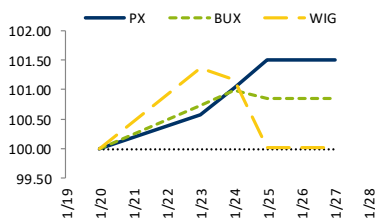
	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.84	23.84	0.00
EURHUF	389.3	389.3	0.00
EURPLN	4.714	4.714	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.351	4.351	0.0
HUGB 10Y	7.32	7.32	0.0
PLGB 10Y	5.90	5.90	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1299.7	1299.7	0.00
BUX	46832	46832	0.00
WIG	60803	60803	0.00

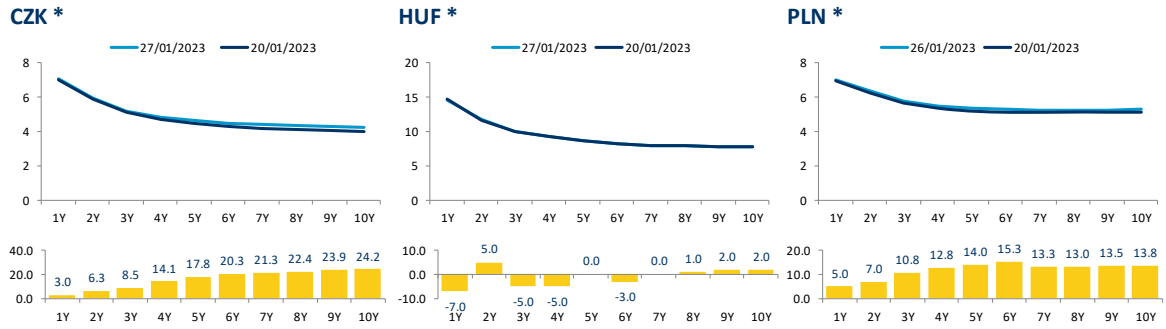
Regional insights

The strong koruna will shrug-off presidential elections

The Czech koruna has continued to extend its gains this week with EUR/CZK already hovering around 23.80. The strength of the Czech currency is still primarily due to the ongoing combination of favourable weather and falling spot and forward gas prices. These are mainly influencing the Czech currency through better global sentiment - more stable yields and a weaker US dollar. In addition, with the decline in gas prices seeming a little more sustained with each passing week, many investors and traders are revising down their full-year outlooks for gas and electricity. Still, if current lower gas prices (currently slightly above EUR 60/MWh for November 2023) do persist in commodity markets, they will remain well above the pre-COVID averages (EUR 15-20 per MWh). On the other hand, it will represent a significant improvement of the terms-of-trade for the Czech economy this year. And that would be fundamentally good news for the koruna. If sustained, the recent improvement in the terms-of-trade (gas, electricity and oil prices may account for up to 10% of import prices in 2023) should translate into a better performance of the trade balance and the current account of the balance of payments. Recall that the current account is likely to end 2022 with a deficit of around 5% of GDP, mainly due to more expensive energy imports. In contrast, if imports in 2022 grew by almost 20% y-o-y due to higher energy and fuel prices, the current level of gas prices implies a downward revision of more than 5 percentage points from the annual pace of imports in 2023. **Even so, the current account of the balance of payments would probably end up in a deficit this year, but the imbalance could shrink to 2% of GDP.** Hence betting on a significant improvement in the current account compared to 2023 at this point may be a welcome argument for markets to be bullish on the Czech koruna even at these levels. Moreover, the CNB's high foreign exchange reserves and the central bank's willingness to use them in a case of significant losses of the Czech currency makes bullish bets on the koruna even safer. However, it is worth noting that the belief in better weather and permanently lower gas prices may yet prove to be very tricky and any change in these expectations could have a negative effect on the koruna.

Meanwhile, the Czechs go to the second round of the presidential election as **a new head of the Czech Republic should be known on Saturday evening. However, presidential elections are traditionally not crucial for the CZK forex market, given the limited (policymaking) powers of the head of state.** Moreover, the new Czech president will appoint only one member of the CNB Bank Board during his (5-year) term in his office. The favourite presidential candidate – general Petr Pavel – has already announced that, if elected, he would re-appoint (the only hawk) Tomáš Holub as a member of the CNB Bank Board in 2024.

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
HU	01/27	8:30	Unemployment rate	%				3.9		3.9		
HU	01/31	8:30	PPI	%							-0.8	37.0
CZ	01/31	9:00	GDP	%							-0.2	1.5
CZ	01/31	10:00	Money supply M2	%								5.9
PL	01/31	10:00	GDP	%								5.7
PL	01/31	15:00	Budget balance	PLN M								18276

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					
Austin Hughes	+353 1 664 6889				
Shawn Britton	+353 1 664 6892				
Prague Research (CSOB)			Prague		+420 2 6135 3535
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Jan Bureš	+420 2 6135 3574				
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

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