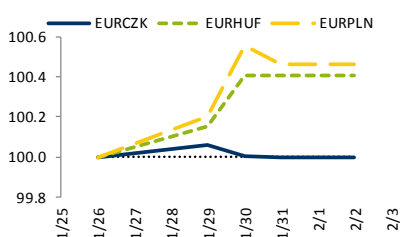




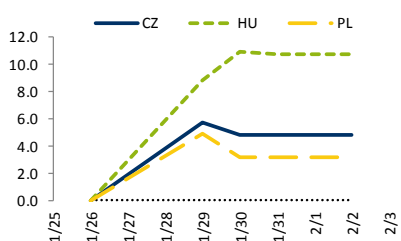
Friday, 02 February 2018

**Forex markets (index)**



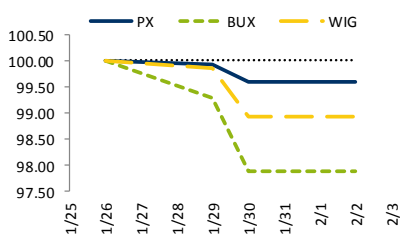
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.31	25.31	0.00
EURHUF	310.8	310.8	0.00
EURPLN	4.152	4.152	0.00

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.963	1.963	0.0
HUGB 10Y	2.29	2.29	0.0
PLGB 10Y	3.54	3.54	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1127.4	1127.4	0.00
BUX	39926	39926	0.00
WIG	66153	66153	0.00

**Regional insights**

**As expected, the CNB unanimously increases the repo-rate to 0.75%**

At the same time, the central bank continues widening the gap between its rates. The discount rate remains at the current 0.05% and the CNB's Lombard rate has been increased by half a percentage point to 1.50%.

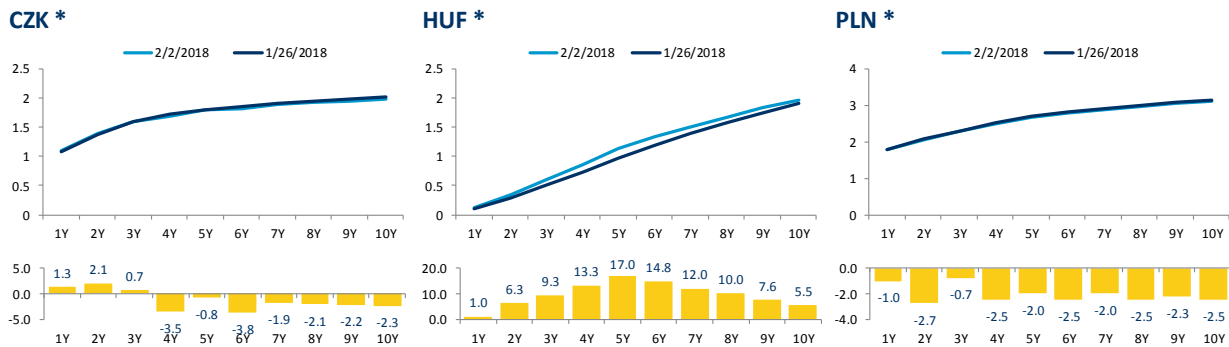
The CNB's latest forecast is not significantly different from November one regarding the inflation forecast and also GDP and interest rates. The main difference from the previous forecasts is that the CNB has finally re-launched (after more than 4 years) the forecast trajectory of the crown's exchange rate against the euro. And precisely because the exchange rate plays a very important role in setting the monetary conditions in the Czech Republic, it is possible to simply estimate the next steps of the central bank from its development - or the deviation of the market exchange rate from the forecast.

According to the CNB's forecast, the crown should still be able to raise additional, not insignificant gains, this year. Already in the second quarter, the forecasted value should be below 25 CZK / EUR and at the end of the year the exchange rate should be on average at CZK 24.60 / EUR. Compared to the present, it is less than three percent appreciation of the crown.

The new forecast - like the past one - does not expect almost any further rise in interest rates this year. Nevertheless, we consider it probable that the CNB will increase its rates this year. It will probably happen in the second half of the year, even despite today's relatively dovish rhetoric from the Governor. In the end, it was (and not only) he who has talked in the last few weeks about at least double growth in rates this year. For the next year, however, the CNB is much more aggressive, assuming a rate increase so fast that it would have a three-month PRIBOR in the third quarter of 1.9%.

The next steps, of course, depend on meeting the forecast and hence the expected strengthening of the crown. The less the crown strengthens, the freer the CNB may be. Especially when the CNB's assumption that short-term crown speculators would become long-term investors may not be fulfilled at all. Indeed, there is no such thing about developments on the bond market. It will also depend on the ECB, which could probably leave the generous debt-collection program of euro-area member states by the end of the year - euphemistically referred to as quantitative easing.

## 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	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	9:00	Trade balance	EUR M 11/2017 *F			713				718	

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