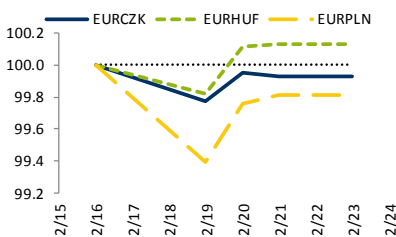




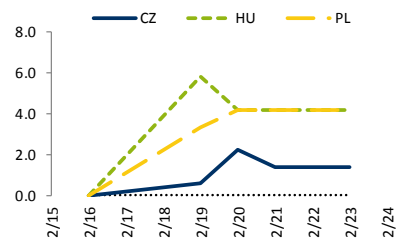
Friday, 23 February 2018

**Forex markets (index)**



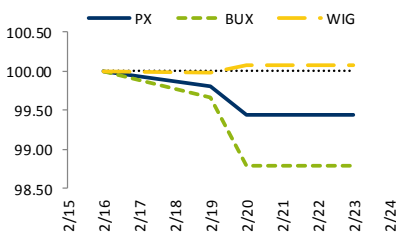
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.34	25.34	0.00
EURHUF	312.0	312.0	0.00
EURPLN	4.153	4.153	0.00

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.882	1.882	0.0
HUGB 10Y	2.57	2.57	0.0
PLGB 10Y	3.50	3.50	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1106.1	1106.1	0.00
BUX	38667	38667	0.00
WIG	62859	62859	0.00

**Regional insights**

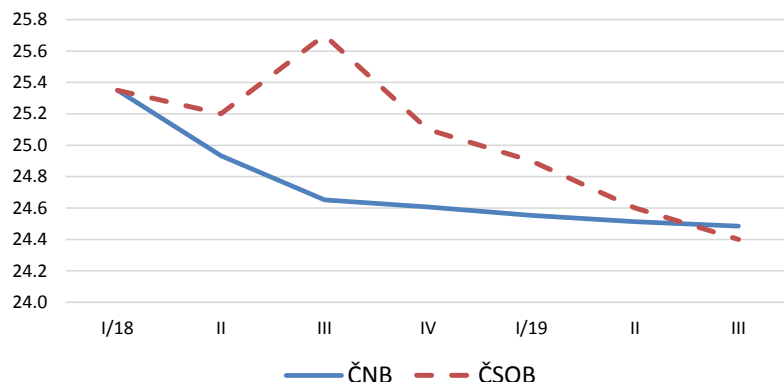
**The koruna remains strong and awaits the ECB**

Despite some recent losses of regional PEERs - the forint and the zloty - the Czech koruna continues trade sideways at relatively strong levels. The Czech currency even ignored a slightly neutral-to-dovish comment from CNB's governor Rusnok that current economic situation doesn't appear to warrant another Czech interest-rate increase at next monetary policy meeting.

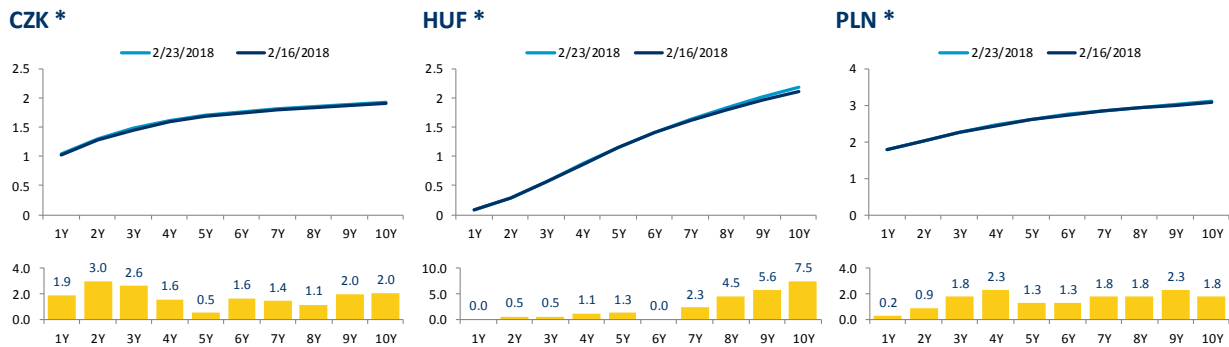
Fundamentally, however, it seems that the Czech currency remains to be overbought as there are tens of billions of euros of speculative funds in the Czech financial system, which represent multiples of the annual current account surplus. Persistently large long CZK positions, which have been accumulated during CNB's interventions against the currency, illustrates attractiveness of the interest rate differential between Czech and euro rates. Recall that the CNB has already increased its official interest rates three times, while the ECB has continued to apply very expensive monetary policy with negative rates and quantitative easing. In this set-up foreign players have very small incentives to leave long CZK positions, especially if Czech macro fundamentals are very strong (recall 5% GDP growth).

On the other, significant hot money inflows in the past makes the koruna vulnerable to future external shocks - especially a change in the monetary policy in the euro area (in the second half of this year). However, we believe any losses from an outflow of speculative capital will be probably only temporary. The Czech central bank would probably not allow a longer weakening of the exchange rate, which would represent further easing of monetary conditions. The CNB (according its staff projection - see the chart below) is counting on a further strengthening of the koruna, and if it does not happen, it will probably be ready to raise official interest rates faster.

**EURCZK outlook**



## 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
PL	10:00	Unemployment rate	%					6.9		6.6	

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