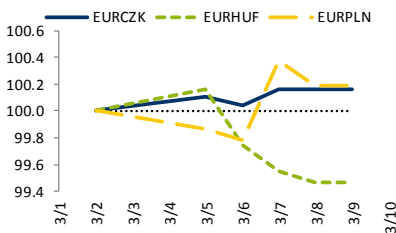




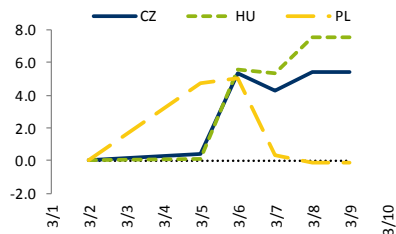
Friday, 09 March 2018

Forex markets (index)



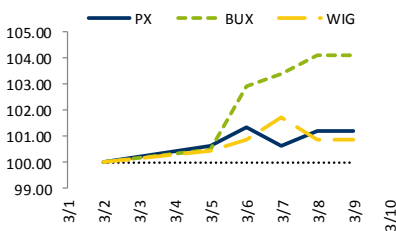
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.42	25.42	0.00
EURHUF	312.1	312.1	0.00
EURPLN	4.203	4.203	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.927	1.927	0.0
HUGB 10Y	2.71	2.71	0.0
PLGB 10Y	3.27	3.27	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1119.2	1119.2	0.00
BUX	38450	38450	0.00
WIG	61097	61097	0.00

Regional insights

February's inflation drops below the target puts a question mark above CNB's tightening

Wage growth in the Czech economy accelerated again at the end of the year. The median wage has increased much faster this time (+8.9%), which means that this time, wages were increased faster for people with lower incomes, reflecting the labour market situation where the greatest demand for workers' professions is strongest. Recall the highest percentage increase in wages at the end of the year was expected to reach public sector employees. However, wage increases have also occurred in almost all sectors of the economy. For the whole year, the average wage in the Czech economy grew by 7.1%, which in real terms meant an increase of 4.4%.

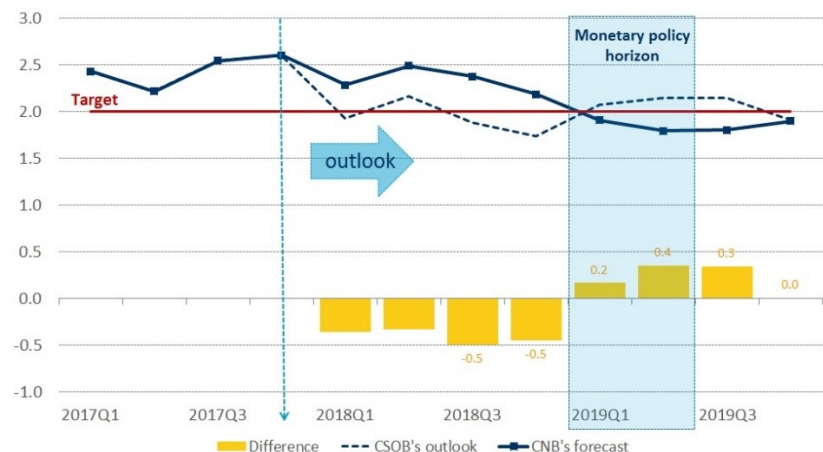
Although the Czech National Bank might be satisfied with the wage as it predicted in its staff projection the acceleration of wage growth, the Bank will be slightly disappointed with the visible fall of headline inflation under the target in February.

The Czech headline inflation fell from 2.2% y/y in January to 1.8% y/y in February. The unexpected drop in inflation was primarily due to the fall in prices of some food and alcohol in February and the sale of seasonal goods.

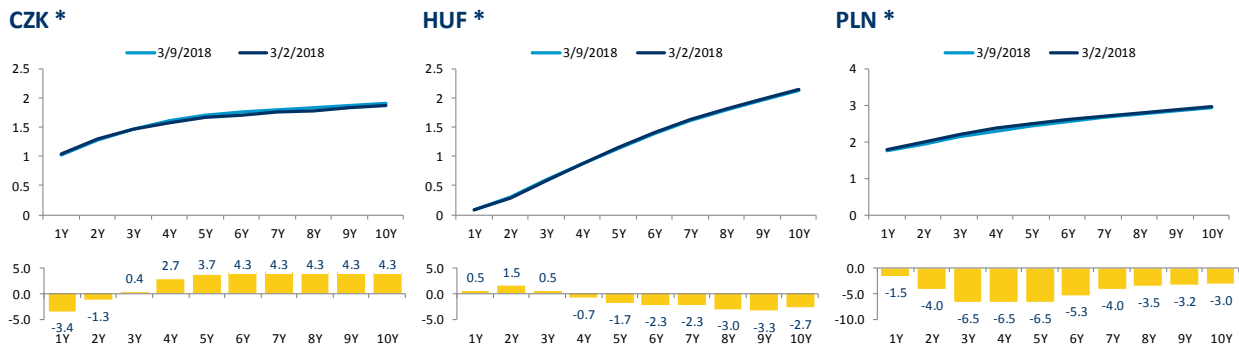
The February inflation ran 0.4 of percentage point lower than the central bank forecasted. In our view the CNB Bank Board cannot ignore such a fact. It can therefore be assumed that the CNB's willingness to raise interest rates this year will probably be lower now. Should the Czech central bank to tighten more aggressively, the koruna exchange rate would need to be significantly lower than in its optimistic projection. While we do not rule out this scenario, we have to admit that room for further tightening in the Czech economy is lower (after February's inflation readings). Therefore, we have downgraded our view on CNB rate hiking cycle this year - now we see only one more 25bps rate hike until the end of this year (compared to two before).

Inflation forecast

(y/y, %; Source: CNB, CSOB)



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
CZ	9:00	Real wages	% 4Q/2017		5.1		5.3		5.2		4.2
CZ	9:00	Trade balance (national)	CZK B 01/01/2018	21		-11.9		20.3		-2.2	
CZ	9:00	CPI	% 02/2018	0.2	2.0	0	1.8	0.2	2.0	0.6	2.2
HU	9:00	Trade balance	EUR M 01/2018 *P			676		501		513	
HU	17:00	Review rating - Fitch	3BB- pos 1st revision								

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
		Institutional Desk	+32 2 417 46 25
		France	+32 2 417 32 65
Dublin Research		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
		Prague Research (CSOB)	
Jan Cermak	+420 2 6135 3578	Prague	+420 2 6135 3535
Petr Dufek	+420 2 6135 3560	Prague (Equities)	+420 2 2142 4216
		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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