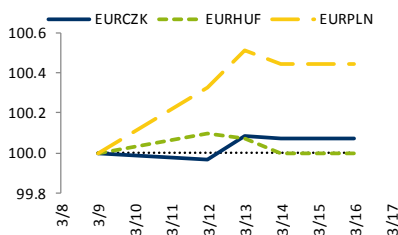




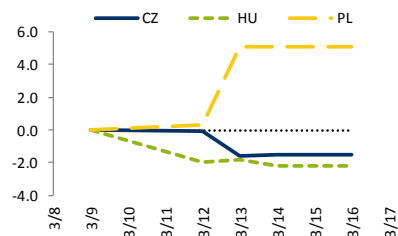
Friday, 16 March 2018

Forex markets (index)



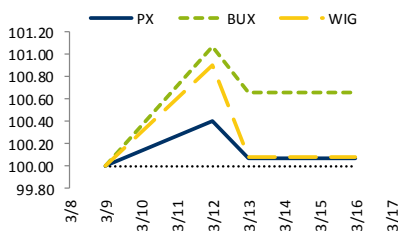
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.49 | 25.49 | 0.00 |
| EURHUF | 311.6 | 311.6 | 0.00 |
| EURPLN | 4.210 | 4.210 | 0.00 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.896 | 1.896 | 0.0 |
| HUGB 10Y | 2.67 | 2.67 | 0.0 |
| PLGB 10Y | 3.34 | 3.34 | 0.0 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1124.4 | 1124.4 | 0.00 |
| BUX | 38664 | 38664 | 0.00 |
| WIG | 61740 | 61740 | 0.00 |

Regional insights

Low Polish inflation points to dovish NBP's rhetoric

The Polish inflation followed the regional trend at the beginning of 2018 and is heading down. Although consumer price index details for February have not yet been released (will be released this afternoon), in our opinion the unexpected 0.2% month-on-month drop in headline inflation in February was helped mainly by reductions in some food prices that climbed upwards in the last quarter of 2017 (mainly butter and eggs). Still, the core inflation was probably lower in February than the market expected (means below 1.0% y/y).

Hence, in a year-on-year comparison, **the April inflation rate dropped to 1.4%, not only leaving the NBP inflation target (2.5%), but also the central inflation projection. It is only a few days old and it forecasted a year-on-year growth of 1.8% for the first quarter of 2018.**

Although headline inflation will be higher in the middle of this year, it will still be below 2.0%. Moreover, **very low inflation in the first quarter of this year indicates that year-on-year consumer price inflation in Poland will not reach its inflation target the whole year.** As a result the NBP's monetary policy will remain unchanged in 2018, and in the coming weeks we could see a number of dovish statements from Polish central bankers with potentially negative effects on the zloty exchange rate.

Czech industry starts 2018 year on strong footing

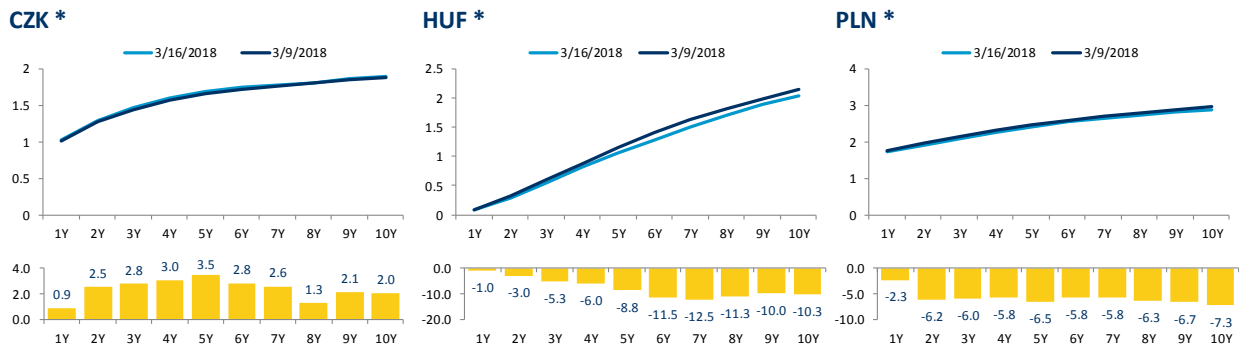
Czech industry has started the 2018 year successfully according the first release of the hard data. This comes as no surprise, as both business confidence surveys and purchasing managers' indices suggested positive result.

For the first month, industry grew by 5.5% y/y, which is an excellent result, given the capacity of the economy. This result is again mainly thanks to the automotive industry, along with other successful disciplines - particularly mechanical engineering and electrical equipment manufacturing. And other positive trends that we have seen in the past year have continued - the number of workers in industrial firms has increased and wage growth has accelerated (annual wage rates even approaching 10% y/y).

What should we expect from Czech industrial production in the coming months? From the point of view of new orders, the situation continues to be favourable. In year-on-year terms, orders grew by 3.4%, this time with mainly metal and metal products improving. On the other hand, a moderate reduction of new orders is reported by automakers.

The results of Czech industry at the beginning of the year can therefore be assessed positively, but the question is whether this sector still has room for further rapid growth. For this year, we are counting on a gradual slowdown in the growth of industrial production, which will ultimately be reflected in a moderation in the growth of Czech GDP. For industrial production, we expect growth of around 3% in 2018.

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 | PPI | % 02/01/2018 | | | -0.4 | -0.3 | 0.1 | 0.2 | 0.5 | 0.5 |
| CZ | 10:00 | Current account | CZK B 01/01/2018 | 30 | | | | 29 | | -2.92 | |
| PL | 10:00 | Wages | % 02/01/2018 | | | | | 0.6 | 7.2 | -7.7 | 7.3 |
| PL | 14:00 | Current account | EUR M 01/01/2018 | | | | | 965 | | -1152 | |
| PL | 14:00 | Trade balance | EUR M 01/01/2018 | | | | | -35 | | -1268 | |
| PL | 14:00 | Core CPI | % 02/01/2018 | | | | | 0.1 | 1 | 0.1 | 0.9 |

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