

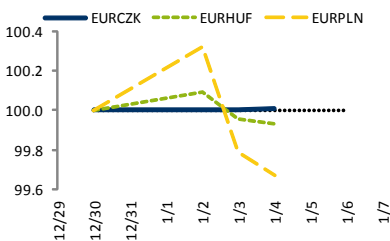


Central European Daily

Wednesday, 04 January 2017

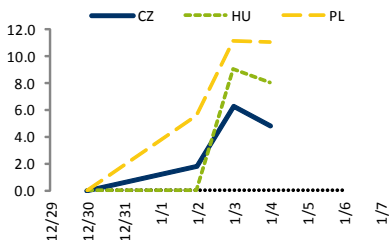
Regional Overview

Forex markets (index)



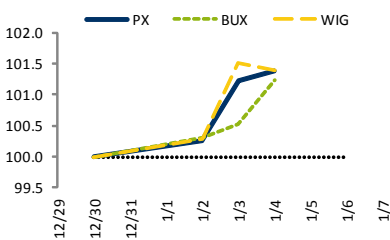
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.02	27.02	0.01
EURHUF	309.1	309.2	-0.03
EURPLN	4.390	4.395	-0.12

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.462	0.477	-1.5
HUGB 10Y	3.24	3.25	-0.3
PLGB 10Y	3.73	3.73	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	934.5	932.9	0.17
BUX	32400	32169	0.72
WIG	52477	52532	-0.11

Macro, FX & Rates: Czech budget in huge surplus in 2016

(CZ, macro) The Czech stat budget posted a record-breaking surplus of **CZK 61.8bn (1.5% of GDP)** in 2016. By and large, we can say that the good budget management figure primarily reflects the good performance of the economy (higher tax revenue) and lower government investment (lower expenditure). A faster increase in tax revenue was primarily driven by corporate income tax (+11.7%) and personal income tax (+9.6%). The value added tax collection was surprisingly less successful, with a significantly lower year-on-year increase (+3.8%). Regarding expenditure, the budget surplus was boosted by the government's low investment activity, which declined compared to the previous year (-51.2%).

The Czech government is also benefiting from the super-low yield environment, which has led to large savings in public debt servicing (by almost 25%). In the end, the state debt is likely to fall slightly less than the state budget surplus. To date, the Ministry of Finance has taken advantage of **negative yields (which are currently available for bonds with maturities within 7 years)** to pre-finance itself at negative interest rates and deposit the funds at positive interest rates in CNB's accounts.

In addition, foreign demand for Czech bonds improved greatly in 2016. More than 30% of Czech bonds are currently held by foreign players (as opposed to slightly above 20% at the end of 2015), with the Czech Republic's good budget management not being the only reason. With the approaching end of the CNB's interventions, it is increasingly difficult to borrow euros on the Czech market to hedge one's exposure to the possible future appreciation of the koruna.

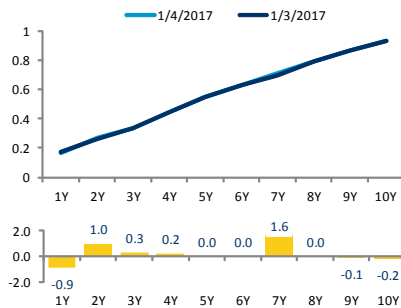
Equities: Refining margins dropped

(PL, PKN) Company released 21% m/m drop in refining margin to USD 4.9/bbl in December, down from USD 6.2/bbl reported in November 2016. Hence refining margin for the 4Q16 came at USD 5.8/bbl, up from USD 4.3/bbl reported in 3Q16 and slightly higher compared to USD 5.5/bbl published in 4Q15. *As we pointed out, downstream margin cycle tend to last seven years and we expect the way down already started in 2015. Weak local currencies were mitigating the decline so far, nevertheless this effect disappears.*

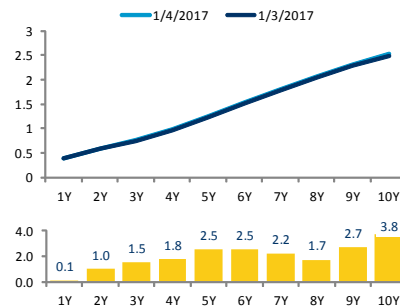
(HU, MOL) Company released 25% m/m drop in refining margin to USD 5.4/bbl in December, down from USD 7.2/bbl reported in November 2016. Hence refining margin for the 4Q16 came at USD 6.6 /bbl, up from USD 4.7/bbl reported in 3Q16 and for the full year of 2016 refining margin declined by 6.5% to USD 5.7/bbl down from USD 6.1/bbl in 2015. /NEGATIVE. *As we pointed out, downstream margin cycle tend to last seven years and we expect the way down already started in 2015. Weak local currencies were mitigating the decline so far, nevertheless this effect disappears.*

Interest-rate Swap Curves

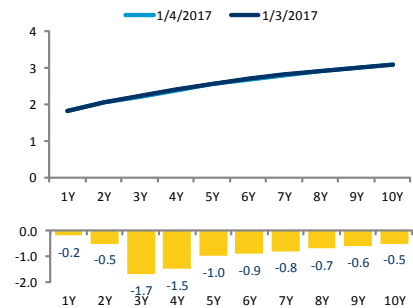
CZK *



HUF *



PLN *



* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points

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	PPI	%							0.6	-1.2

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