

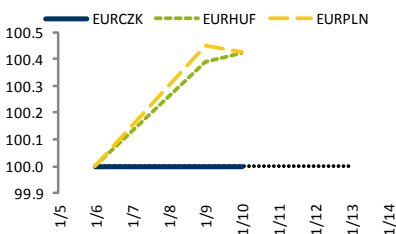


Central European Daily

Tuesday, 10 January 2017

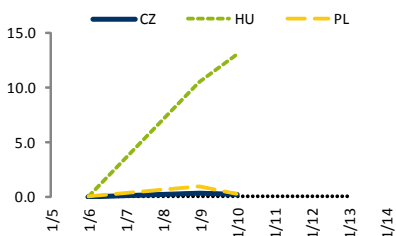
Regional Overview

Forex markets (index)



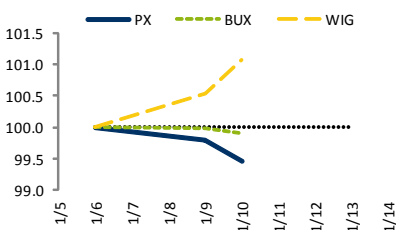
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 27.02 | 27.02 | 0.00 |
| EURHUF | 308.6 | 308.5 | 0.03 |
| EURPLN | 4.376 | 4.377 | -0.02 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 0.466 | 0.467 | -0.1 |
| HUGB 10Y | 3.49 | 3.47 | 0.7 |
| PLGB 10Y | 3.66 | 3.67 | -0.2 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|-------|----------|------------|
| PX | 932.5 | 935.7 | -0.34 |
| BUX | 32825 | 32854 | -0.09 |
| WIG | 53287 | 53007 | 0.53 |

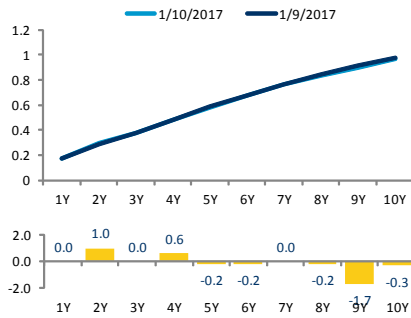
Macro, FX & Rates: Czech inflation hits 2% target

(CZ macro) Inflation for December came out a touch above market consensus and reached **2% Y/Y**. Inflation rate thus **hit central bank's target about six months earlier than had been anticipated** by the latest (November 2016) projection of the **Czech National Bank**. The main drivers of (surprisingly fast) price growth were food & fuel prices. / We expect ***inflation will stay close to the target in the remainder of 2017***. Apart from stable commodities prices, price growth should also be supported by ***improving labour market conditions***. As regards ***exit from the intervention regime***, we think that achievement of the inflation target should be sustainable which means that the exit ***should only be a matter of proper timing after the end of the first quarter of 2017***.

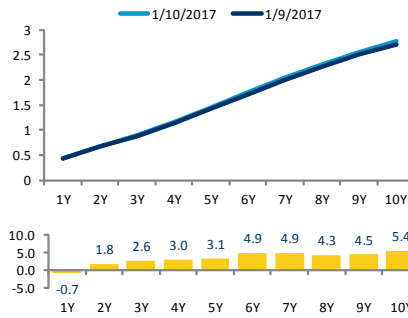
(CZ FX & rates) Rising inflation and approaching exit from the intervention regime have a **clear impact on both EURCZK forwards and short-end of government bonds yield curve**. **EURCZK forwards with medium-term maturity (e.g. 6M, 12M) have dived deeper below EURCZK spot rate** and rising speculations on koruna's post-exit appreciation have also pushed **yields of short-term government bonds well below zero** (for example, 1 year zero coupon bond yield is below negative one percent). Although the ministry has planned auctions of quite a considerable amount of short-term debt already for this Wednesday (EUR 0.3 bn. of bonds maturing in 2018), we do not expect a significant impact on (short-term implied koruna's) interest rates as **daily data on liquidity operations of the CNB indicate that volume of interventions may have (approx.) reached as much as EUR 1 bn. in the first days of 2017**.

Interest-rate Swap Curves

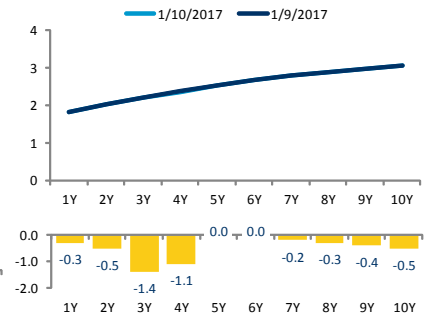
CZK *



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 | |
| CZ | 9:00 | CPI | % | 12/01/2017 | 0.3 | 1.9 | 0.3 | 2 | 0.3 | 1.9 | 0.3 | 1.5 |

Contacts

| Brussels Research (KBC) | | | Global Sales Force | | |
|-----------------------------------|------------------|--|--------------------|--|------------------|
| Piet Lammens | +32 2 417 59 41 | | Brussels | | |
| Peter Wuyts | +32 2 417 32 35 | | Corporate Desk | | +32 2 417 45 82 |
| Mathias van der Jeugt | +32 2 417 51 94 | | Institutional Desk | | +32 2 417 46 25 |
| Dublin Research | | | France | | +32 2 417 32 65 |
| Austin Hughes | +353 1 664 6889 | | London | | +44 207 256 4848 |
| Shawn Britton | +353 1 664 6892 | | Singapore | | +65 533 34 10 |
| Prague Research (CSOB) | | | Prague | | |
| Jan Cermak | +420 2 6135 3578 | | | | +420 2 6135 3535 |
| Jan Bures | +420 2 6135 3574 | | | | |
| Petr Baca | +420 2 6135 3570 | | | | |
| Bratislava Research (CSOB) | | | Bratislava | | |
| Marek Gabris | +421 2 5966 8809 | | | | +421 2 5966 8820 |
| Budapest Research | | | Budapest | | |
| David Nemeth | +36 1 328 9989 | | | | +36 1 328 99 85 |

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