

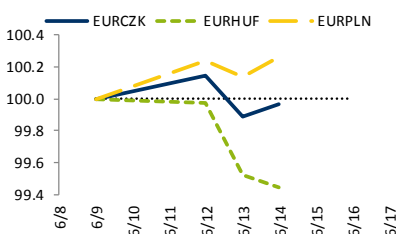


Central European Daily

Wednesday, 14 June 2017

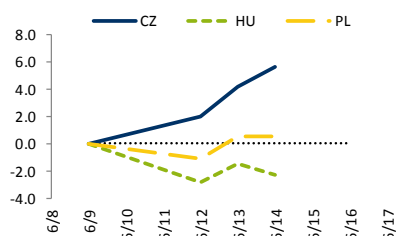
Regional Overview

Forex markets (index)



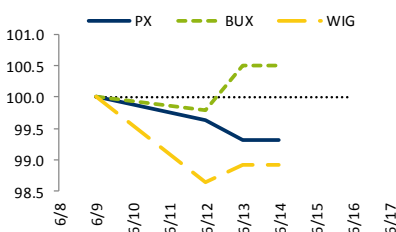
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.17	26.15	0.08
EURHUF	306.0	306.2	-0.08
EURPLN	4.197	4.192	0.12

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.883	0.869	1.4
HUGB 10Y	2.97	2.97	-0.3
PLGB 10Y	3.16	3.16	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1001.3	1001.3	0.00
BUX	35589	35589	0.00
WIG	60518	60518	0.00

Macro, FX & Rates: CNB's unconventional tightening

(CZ) Macro: The CNB announced yesterday that it will increase the countercyclical capital buffer rate from 0.5% to 1% with effect from 1 July 2018. The main reason behind that was mentioned "continued rapid credit growth and a need to create buffers for worse times". Recall that instrument, which is related to Tier I capital of commercial banks, should increase the resilience of the financial system to risks associated with the behaviour of the banking sector over the financial cycle.

In our view the CNB might be concerned by valuation of housing prices, which it considers as moderately overvalued. In normal circumstances the CNB would already hike official interest rates but given the relaxed ECB monetary policy it (CNB's hike) would immediately lead to much stronger koruna. Nevertheless, this the recent CNB's measure should be treated as tightening of credit and indirectly monetary conditions in the Czech economy. So, no wonder that the Czech koruna has been firming further and the EUR/CZK pair has been sliding closer and closer to the 26.0 level. Hence, the exchange rate has been tightening overall monetary conditions further.

Equities: Hike of countercyclical buffer will hurt Czech banks

(CZ) Banks: It seems that the implementation of more strict regulation of housing loans (ie limits on loan-to-income and debt-servicing-to-income) will not pass before October's election, which resulted into CNB's move to a plan B => to hike counter-cyclical buffer rate for commercial banks from 0.5% to 1% (see above).

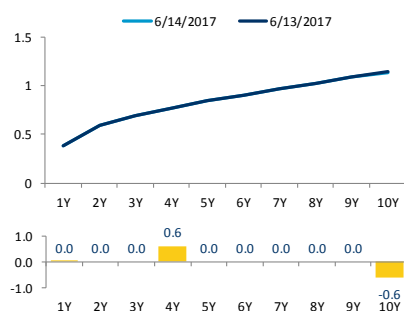
Note that Komerční Tier I ratio is now some 20bps below new regulators threshold valid as of 3Q18 (15.7% in 1Q17 vs. 15.9%), so this would eat up the large part of the dividend capacity from 2017's profit. Thus, Komerční to avoid the next round of PoR target reduction (from current 60% of recurring net profit to some 50% - ie some CZK 35/shr), KB would need to speed up the issuance of additional subordinated Tier I+II instruments. Impact on Moneta will depend whether Moneta decide to lower management buffer from current 100bps to 50bps or not. No impact in case of 50bps management buffer cut or CZK 1/shr lower dividend capacity in case of no adjustments (excess capital would decline from CZK 7/shr to some CZK 6/shr).

(PL) AZOTY: Company is seeing similar demand for fertilizers this year as last year, but since natural gas prices are not falling as significantly as in 2016, the production costs have gone up, according to its CEO.

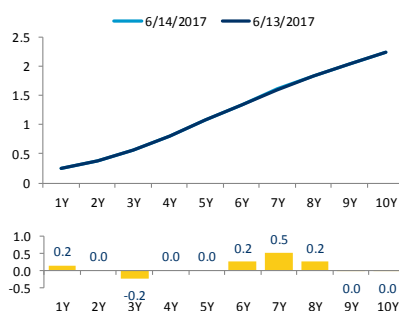
We consider these news as slightly negative as the Company is counting on gas price reduction in the following two quarters, but attractive margins observed a few years ago won't probably return.

Interest-rate Swap Curves

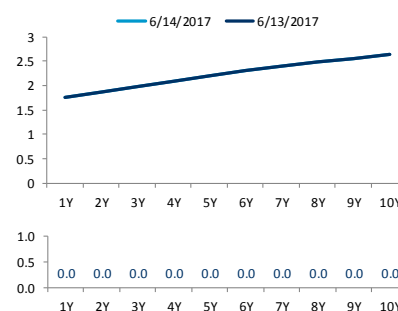
CZK *



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 m/m y/y	Actual m/m y/y	Consensus m/m y/y	Previous m/m y/y
CZ	12:00	CZ bond auction 2017-2022, 0.00%	CZK B 06/01/2017			2	
CZ	12:00	CZ bond auction 2013-2028, 2.50%	CZK B 06/01/2017			3	
CZ	12:00	CZ Bond auction 2006-2036, 4.20%	CZK B 06/01/2017			2	
PL	14:00	Money supply M3	% 05/01/2017			0.8 6.5	0.2 6.6

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