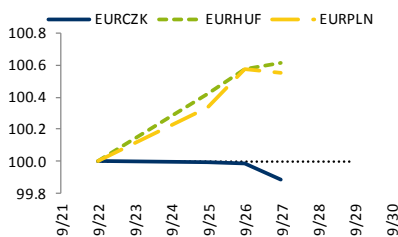




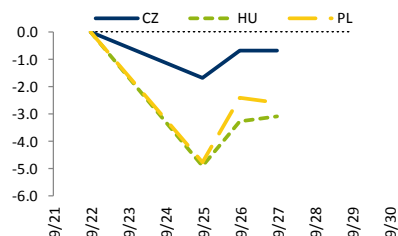
Wednesday, 27 September 2017

Forex markets (index)



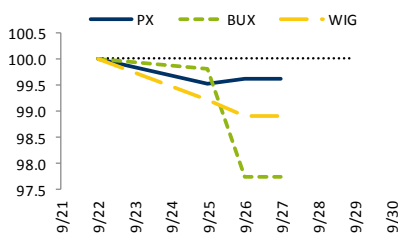
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.02	26.05	-0.10
EURHUF	311.6	311.4	0.04
EURPLN	4.290	4.291	-0.02

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.170	1.170	0.0
HUGB 10Y	2.48	2.48	0.1
PLGB 10Y	3.30	3.30	-0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1042.5	1042.5	0.00
BUX	37319	37319	0.00
WIG	63701	63701	0.00

Our regional insights:

Zloty again under pressure of domestic politics

The Polish zloty has again appeared under pressure of domestic politics as President Duda unveiled its proposal for the government justice reform, which had been heavily criticized by the EU. Recall that the reform, which brought people to Polish streets several weeks ago. It also triggered the stand-off between the Polish conservative government and the European Commission and it has become a potential threat for the zloty.

Note that In the worst case scenario for the zloty, the EC could (partly) cut its transfers from EU funds, because it could argue that the reform violates Union's legislative (since it compromises independence of Polish courts). In this respect, it is important to note that EU's Council will meet on Monday and the Polish justice reform should be on agenda again. **Definitely, the zloty will closely watch EU's reaction to Duda's new proposal in coming days (especially whether it addresses its original critique), while the Polish currency could be more nervous, if big crowds of people demonstrate against the law (President's proposal).**

Hawkish CNB will call for November's hike

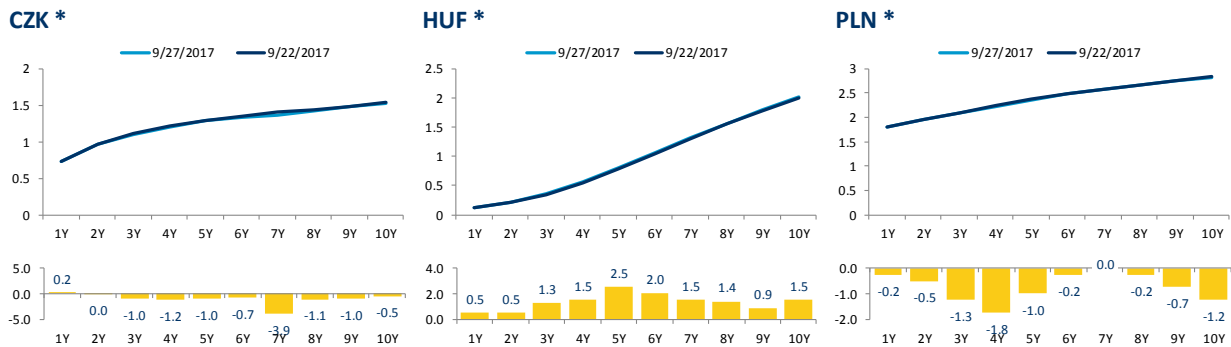
We expect the CNB to keep rates on hold tomorrow, but expect them remain [clearly] hawkish. Most of **the Bank Board members want to hike rates further, but they prefer to proceed on a smooth path. As a result, they might prefer to wait until the November meeting to have new forecasts at their disposal.**

Nevertheless, currently there is enough evidence showing that inflationary pressures are building up. The economy is growing much faster than expected (4.7% y/y versus 3.5% assumed by the CNB), mainly thanks to the faster growth of wages (7.3% y/y versus 5,9% assumed by the CNB). Core inflation is at 10 years highs (2.6% y/y) and the koruna still a bit weaker than assumed by CNB. Therefore, we cannot completely ignore that the CNB will to raise rates now rather than wait until the next meeting in November. This scenario (a rate rise tomorrow) is not priced in by market and could send short yields higher and have a short term positive effect on the koruna.

But we doubt the koruna has enough power to break through 26.00 EUR/CZK permanently for now. It remains seriously overbought - cumulative inflow of portfolio and other investments continue to be above 60 billion euros (current account surplus only 2-3billion euros).

Hence, our base scenario assumes an interest rate hike in November, which is nearly priced in the market. Hence the reaction of the markets should be mild. Rates on hold and subsequent hawkish comments should not come out as a surprise.

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	Unit	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	9:00	Unemployment rate	%	08/01/2017			4.2		4.1		4.2	
CZ	12:00	CZ bond auction 2017-20, 0.00%		CZK B 09/01/2017					4			
CZ	12:00	CZ bond auction 2015-2026, 1.00%		CZK B 09/2017					4			
CZ	12:00	CZ bond auction 2015-2030, 0.95%		CZK B 09/01/2017					4			
CZ	13:00	CNB meeting	%	09/01/2017	0.25				0.25		0.25	
HU	9:00	PPI	%	08/01/2017							-0.6	1.2
CZ	10:00	Money supply M2	%	08/01/2017								10.4
PL	14:00	CPI	%	09/2017 *P		2					-0.1	1.8
PL	15:00	Budget balance		PLN M 08/01/2017							2351	

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