



# Central European Daily

Friday, 05 February 2016

## Headlines

### The CNB extends its FX rate commitment until 2017

The Czech central bank's interest rates remain unchanged but its exchange rate commitment to defend the EUR/CZK floor remains in place. However, **the exit from the quasi-fixed FX policy has been postponed until the first half of 2017. We consider February 2017 as the earliest possible date of the exit.** It is however worth mentioning that the exit will most likely be approved by different board members. As much as two new board members are to be named in July 2016 (including CNB's governor Singer), another two in February 2017.

The latest forecast available to the CNB Board at its February meeting envisages exchange rate stability at current levels and the use of the exchange rate as a monetary policy instrument until the end of 2016. Nevertheless, the CNB Board's statement clearly indicates an extension of its exchange rate commitment until the first half of 2017, i.e., it will certainly not end before 2017, as specified in the statement. This is a clear conclusion, consistent with favourable inflation developments, the eased monetary policy of the ECB and, after all, also with our forecasts. In addition, with this explicit extension of its exchange rate commitment, the CNB Board has provided itself with enough latitude so it will not have to change or update this commitment anymore at least during this half of the year. The latest forecast does not envisage the return of inflation to the target before early 2017, with inflation not significantly diverging from it afterwards either. After all, even 'core inflation' (adjusted inflation excluding fuels), to which the CNB has started to pay increasing attention, may approach the target next year according to the CNB.

Apart from the latest forecast and its exchange rate commitment **the Bank Board also discussed the possibility of introducing negative interest rates. The debate was triggered by widening of the interest rate differential vis-à-vis the euro area** and developments in domestic financial markets. We don't expect negative CNB's rates based on two main preconditions: 1) no significant ECB's rate cut (only -10/15bps), 2) monthly FX interventions of the CNB at 'only' current levels, not significantly larger.

Currencies		% chng
EUR/CZK	27.02	0.0
EUR/HUF	310.3	-0.2
EUR/PLN	4.42	0.0
EUR/USD	1.12	0.9
EUR/CHF	1.11	-0.2

#### FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.19	-0.10	-0.09	0.11
EUR/PLN		0.40	0.38	0.08
EUR/HUF			0.31	0.11
EUR/USD				0.36

correlations of 30 min changes over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.24	-1
HUF	1.33	4
PLN	1.54	1
EUR	-0.28	-1

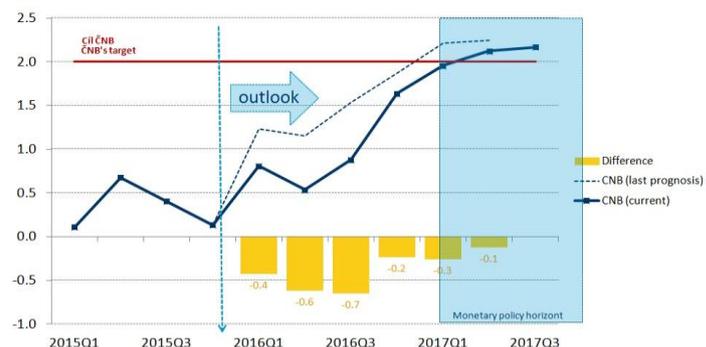
GB	%	bps chng
Czech Rep. 10Y	0.59	-2
Hungary 10Y	3.44	1
Poland 10Y	3.17	1
Slovakia 10Y	0.63	1

CDS 5Y	%	bps chng
Czech Rep.	46	0
Hungary	160	0
Poland	90	0
Slovakia	46	0

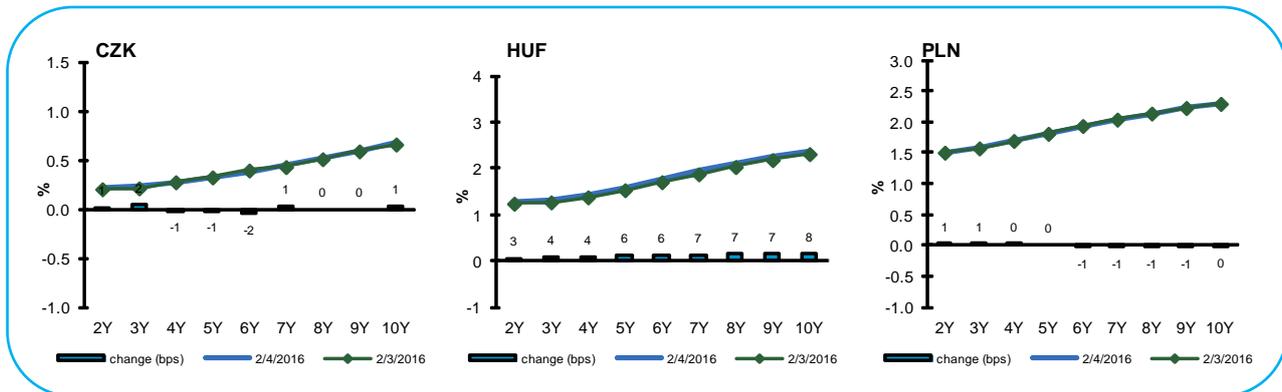
Source: Reuters

### Inflation outlook

(y/y, %; Source: ČNB)



# Interest-rate Swap Curves



# 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	Industrial output	%	12/01/2015	-0.7	6.9	7.2	-1.4	7		

# Contacts

Brussels Research (KBC)		Global Sales Force	
Piet Lammens	+32 2 417 59 41	<b>Brussels</b>	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Joke Mertens	+32 2 417 30 59	Institutional Desk	+32 2 417 46 25
Mathias van der Jeugt	+32 2 417 51 94	France	+32 2 417 32 65
<b>Dublin Research</b>		London	+44 207 256 4848
Austin Hughes	+353 1 664 6889	Singapore	+65 533 34 10
Shawn Britton	+353 1 664 6892		
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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