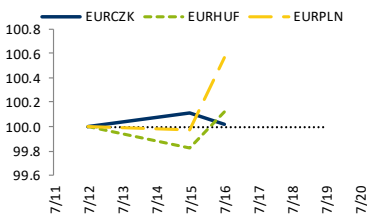


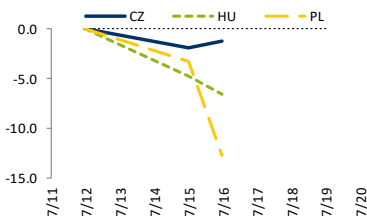
Wednesday, 17 July 2024

**Forex markets (index)**



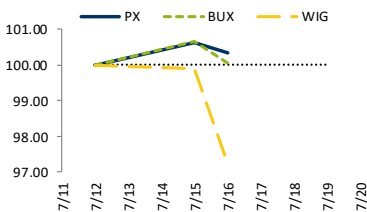
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.34	25.36	-0.09
EURHUF	392.54	391.3	0.30
EURPLN	4.279	4.254	0.59

**Gov. bonds 10 Y (bps change)**



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.859	3.853	0.6
HUGB 10Y	6.43	6.45	-0.3
PLGB 10Y	5.53	5.62	-1.7

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1595.5	1600.2	-0.29
BUX	72299	72730	-0.59
WIG	86237	88603	-2.67

**Our regional insights:**

**CZK vulnerable as interest rate differential fades**

The Czech koruna has not been in good shape at the beginning of the summer - in the last month alone it has depreciated by almost 3% against the euro. Selling pressures have intensified significantly in response to a series of dovish factors: 1) an aggressive (unexpected) 50bps rate cut by the CNB, 2) weak May industrial numbers, and 3) a surprisingly sharp drop in inflation in June.

All this led to a repricing of Czech money market rates to lower levels and a renewed narrowing of the interest rate differential. Recall that the spread between CZK 1Y IRS and EUR 1Y IRS has tightened by 30 basis points since the end of June.

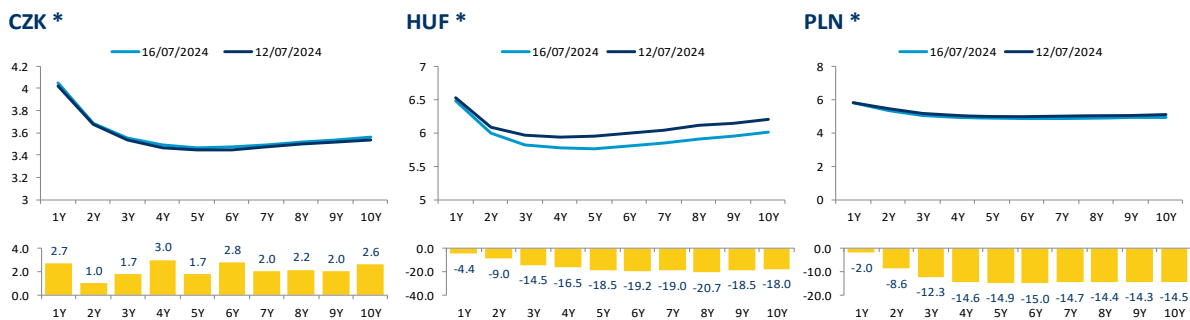
In the short term, we estimate that the koruna will remain in a bearish mode with strong technical resistance at the EUR/CZK 25.50 level. We believe that more significant losses would require additional momentum. This will be difficult as the Czech yield curve already discounts another 50bps rate cut in August. If this scenario does not materialise (our assumption is just 25bps), then the koruna may erase recent losses.

The Czech currency will also follow developments in core markets. Weaker US macro data and more favourable inflation figures may bring a reduction in US official rates, which would be favourable for the koruna. In this respect it is worth noting that we expect the first rate cut from the Fed at the September meeting, while the ECB should continue its monetary easing cycle with another 25bps rate cut too. Nevertheless, any major surprise towards looser monetary policy would be a welcome boost for risk assets, including the koruna.

All in all, we expect the exchange rate to be around the EUR/CZK 25 level. While short-term selling pressures should gradually recede into the background, we do not expect any miracles from the koruna anymore this year. Moreover, risks are skewed towards a weaker Czech currency, e.g. due to the uncertainty related to the outcome of the US presidential election.

Still, compared to the current levels, we see room for more solid gains next year. Further improving domestic macro fundamentals - faster economic growth, a recovery in industry and/or a surplus current account - will play in favour of the koruna.

## 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). Source for all market data: Bloomberg

## Calendar

Country	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	07.17	9:00	PPI	%	06/2024		-0,3	-1,0	-0,2	1,1	-1,2	1,0
CZ	07.17	12:00	CZ bond auction 2023-2043, floating rate	CZK B	07/2024				1			
PL	07.18	10:00	Wages	%	06/2024				2,2	11,5	-3,3	11,4
PL	07.18	10:00	Industrial output	%	06/2024				1,8	-1,5	-4,6	-1,7
PL	07.18	10:00	PPI	%	06/2024				-0,1	-6,3	-0,3	-7,0

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