



Central European Daily

Wednesday, 27 August 2014

Headlines

The NBH confirms its happiness with the current set-up

The National Bank of Hungary left base rate unchanged at 2.1% in line with market expectations. EURHUF didn't react on the decision. The Monetary Council emphasized in the statement that they don't see inflationary pressure in the economy and CPI may achieve the 3% inflation target at the end of the forecasted horizon. The low CPI is because of the unused capacity utilization, the low wage dynamic and the public utility cost reduction. Also the low imported inflation and the decreasing inflationary expectations of the households keep CPI at a low level.

According to the Council, the Hungarian economy stepped on the way of growth in 2013 and the conjuncture will be more equalized in the future thanks to the funding for lending program, the use of EU funds money, the loosening lending conditions and the increasing domestic demand. Also the labour market is improving, the employment is slowly increasing. The savings ratio may remain above its pre-crisis level.

The Monetary Council highlighted the international sentiment slightly deteriorated last month because of the geopolitical risks and the change of expectations regarding FED's monetary policy. The international market environment requires cautious monetary policy.

The statement concludes with the following sentences: "The Council judges that, based on available information the current level of the central bank base rate is consistent with the medium-term achievement of price stability and a corresponding degree of support for the economy. If the assumptions underlying the Bank's projection hold, achieving the medium-term inflation target points in the direction of maintaining current loose monetary conditions for an extended period." It confirms that the NBH is happy with the recent market development and has a comfortable manoeuvring room, so no rate change is expected in the near future. Definitely the main short-term risk is international sentiment. Nevertheless, we have seen quite strong buying interest recently which has also been supported by rising government bonds yields. The official rates may thus remain stable provided that the sentiment does not deteriorate markedly.

Currencies		% chng
EUR/CZK	27.73	-0.3
EUR/HUF	312.9	-0.1
EUR/PLN	4.19	0.2
EUR/USD	1.32	-0.2
EUR/CHF	1.21	0.0

FX Correlation Matrix				
	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	-0.05	0.04	-0.13	-0.14
EUR/PLN		0.33	-0.08	0.05
EUR/HUF			-0.22	0.00
EUR/USD				-0.10

correlations of 10 min changes over past 5 sessions

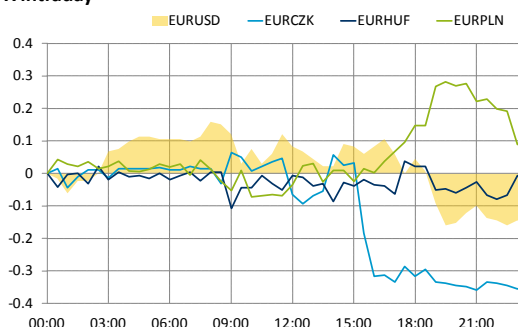
FRA 3x6	%	bps chng
CZK	0.35	0
HUF	2.23	-1
PLN	2.21	0
EUR	0.15	0

GB	%	bps chng
Czech Rep. 10Y	1.26	-3
Hungary 10Y	4.51	-4
Poland 10Y	3.09	-1
Slovakia 10Y	1.82	-1

CDS 5Y	%	bps chng
Czech Rep.	48	0
Hungary	172	0
Poland	64	0
Slovakia	47	0

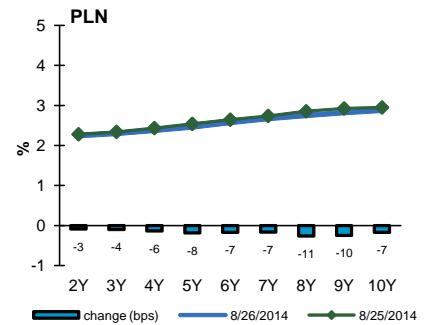
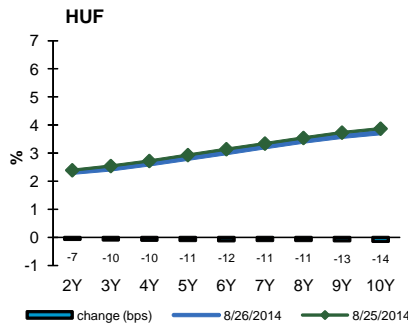
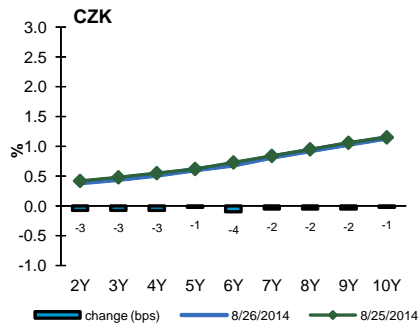
Source: Reuters

FX intraday



The forint barely moved after the NBH meeting yesterday... (Source: Bloomberg, CSOB)

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	Unemployment rate	%	07/01/2014		7.9		8		8	

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