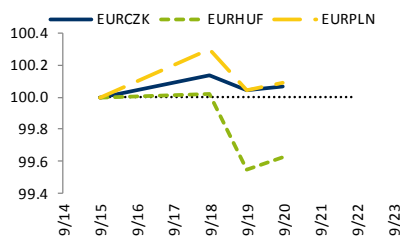




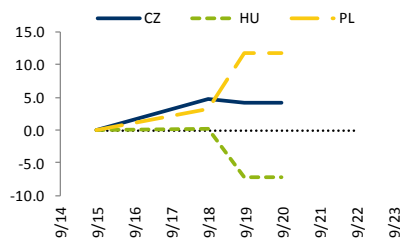
Wednesday, 20 September 2017

## Forex markets (index)



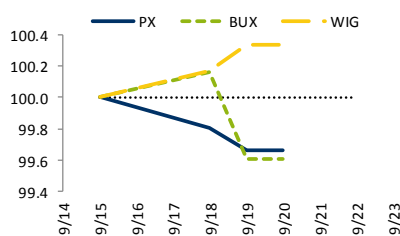
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.11	26.10	0.02
EURHUF	308.3	308.0	0.08
EURPLN	4.281	4.279	0.05

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.144	1.144	0.0
HUGB 10Y	2.75	2.75	0.0
PLGB 10Y	3.34	3.34	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1047.5	1047.5	0.00
BUX	38176	38176	0.00
WIG	64750	64750	0.00

## Our regional insights:

## NBH eases further; leaves forint vulnerable

The National Bank of Hungary left the base rate unchanged at 0.9%, **but it cut the O/N deposit rate by 10bp from -0.05% to -0.15%. Additionally the cap of the 3-month deposit was moderated further from HUF300bn to HUF75bn till the end of the year.**

These steps are more or less in line with our expectation, although the size of cutting the cap of 3-month deposit below HUF100bn was slightly bigger than expected. The more interesting part of the statement is the future change of swap tenders as it suggest that the NBH may focus more on the middle of the curve. First NBH will put more emphasize on the 6 and 12 month swaps and vice-governor Mr. Nagy said that the central bank will use all the monetary tools to ensure that the cut of O/N deposit is transmitted in longer tenors as well as soon as possible. So it can happen that NBH may offer HUF liquidity aggressively in the segment between 1-year and 3-year in the coming months as well which hasn't been on the agenda yet.

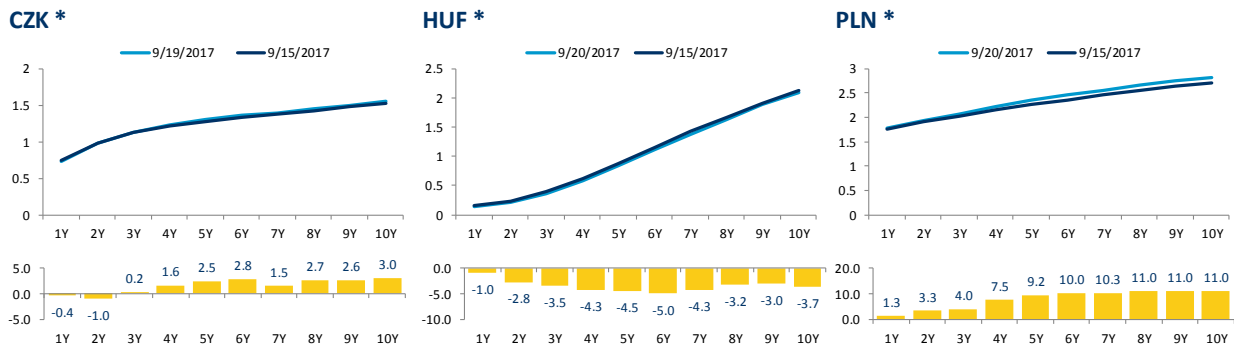
**The NBH statement was actually quite dovish highlighting that the inflation may be lower than expected 3 months ago, so the inflation target may be reached only in mid-2019.** The stance remained at the end that "The Monetary Council will continue to monitor closely the risks to inflation and developments in monetary conditions, and will stand ready to ease them further using additional unconventional, targeted instruments."

**Our interpretation of the current decision is that the Bubor (money markets rates) may moderate to around 0%, just like the 1-year swap market, while we may see a moderation of interest rates and yields mainly in the segment of 3 and 5-year swap and bond market of around 20-30bp in the coming weeks.**

Although the Monetary Council highlighted that there would be no further cut of the cap of the 3-month deposit, it doesn't exclude a future shift of the monetary policy from the passive side to the active side around the end of the year.

The market reaction on the decision was quite interesting as the yields rather moved downward slightly, pricing monetary loosening while the HUF strengthened, which suggest the market expected more from the decision. We think that in case of the EUR/HUF it might be rather a profit realization after the NBH decision, so **we maintain our bearish view on the forint, so we think the EUR/HUF may move upward in the following weeks and may reach levels around 313 in 4Q17.**

## 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	Period	Forecast		Actual		Consensus		Previous	
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	8:30	Current account	HUF B 2Q/2017								1221
HU	9:00	Wages	% , ytd. 07/01/2017						13.9		14.4
PL	10:00	Unemployment rate	% 08/2017					7		7.1	
PL	14:00	Money supply M3	% 08/01/2017					0.3	5.2	0.3	5
CZ	17:00	Review rating - Moody's	A1 3th revision								

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