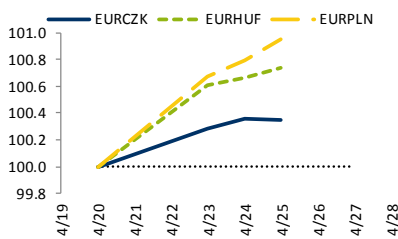




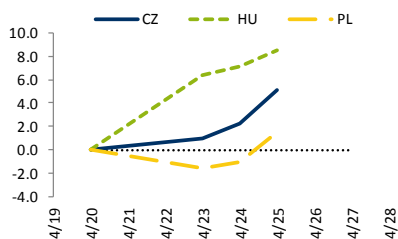
Wednesday, 25 April 2018

Forex markets (index)



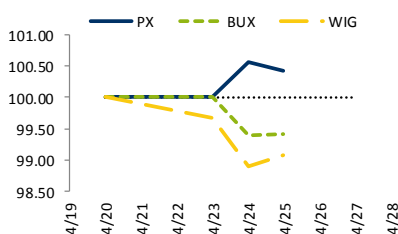
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.45	25.46	-0.01
EURHUF	312.9	312.7	0.07
EURPLN	4.216	4.209	0.15

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.756	1.727	2.9
HUGB 10Y	2.54	2.53	0.6
PLGB 10Y	3.12	3.09	0.8

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1126.1	1127.5	-0.13
BUX	37903	37893	0.03
WIG	59592	59485	0.18

Our regional insights:

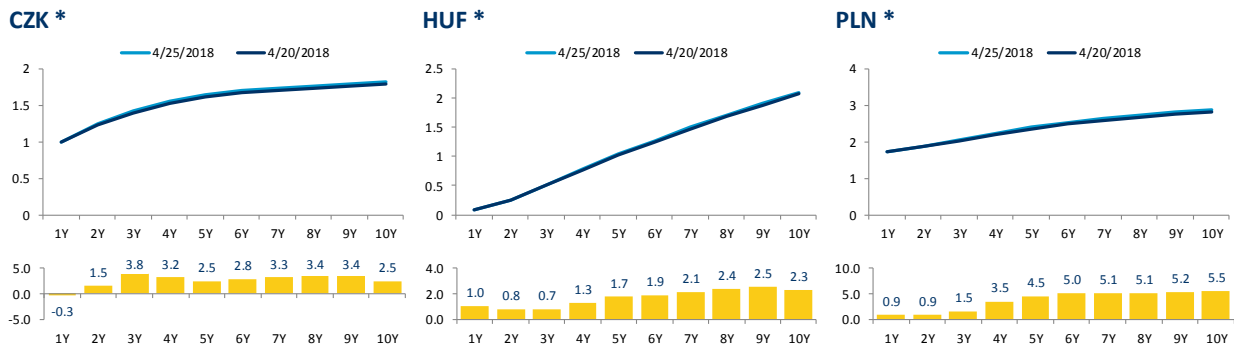
The NBH remains dovish and still waits for the ECB

Yesterday, the National Bank of Hungary (NBH) left the base rate unchanged at 0.9% in line with the expectations. There was no big change in the statement either. The Council thinks that the Hungarian economy is growing recently around its potential level, while consumer price index may reach the inflation target of 3% YoY only in the middle of next year. The council also maintained the monetary policy interest rate swap program (MIRS) with a cap of HUF600bn till end of 2Q18, and the new maximum stock amount will be announced in June for 3Q18 (most likely HUF900bn). The mortgage bond purchasing program will be also continued as the NBH is focusing on the acceleration of lending at fixed interest rate. The NBH bought already HUF150bn mortgage bonds which is one-third of the total primary market purchases. The statement was finished with the following sentence: "The Council will closely monitor developments in monetary conditions and will ensure the persistence of loose monetary conditions over a prolonged period by using the extended set of monetary policy instruments".

We expect that the NBH won't change its monetary policy before the ECB starts to tighten. So it means that the current around 0% interest environment on the short end of the curve may remain with us at least till October. The stock of foreign currency swaps (via the NBH injects extra HUF liquidity into the market) was kept around HUF1500-1600bn in last months, which might be moderated gradually in the following months. It should push up slightly the very short end of the curve, but as the Debt Management Agency would like to squeeze out the banks from the retail T-bill market (half and one year T-bills), the first round of the moderation of the stock of the FC swaps won't push up the interest rate. The reason is that the banks would let both the T-bill and the FC swap (which was used to finance the investment into to retail T-bill) to expire, so it counterbalance each other. As a final conclusion the NBH was as dovish as in previous months, still wants to maintain the current low interest environment for an extended period, but the increasing inflation in the following months may steepen the curve gradually.

As concerns the forint reaction – the EUR/HUF pair fluctuated in ranges near 312.20-312.80 in Tuesday's trading, while in today's morning hours the pair has hovered near the 313 level. Hence, the forint did not react significantly to NBH's decision. We believe, however, fundamentally there is substantially less pressure on the strong side compared to previous years, while rather some depreciation pressure may come in the next years. In the short-term, the 308 to 315 trading range should remain in place, while there is a resistance level at the EUR/HUF 313 and a support at the 310 level as well.

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
CZ	0:00	Earnings CETV	CZK 1Q/2018								
PL	0:00	Earnings Orange Polska	PLN 1Q/2018								
PL	10:00	Unemployment rate	% 03/01/2018			6.6		6.5		6.8	
CZ	12:00	CZ bond auction 2018-21, 0.75%	CZK B 04/01/2018					6			
CZ	12:00	CZ bond auction 2018-29, 2.75%	CZK B 04/01/2018					6			
CZ	12:00	CZ bond auction 2017-33, 2.00%	CZK B 04/01/2018					5			
PL	0:00	Earnings PKN Orlen	PLN 1Q/2018								
CZ	0:00	Earnings Unipetrol	CZK 1Q/2018								
HU	0:00	Earnings KONZUM Nyrt	HUF 1Q/2018								

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