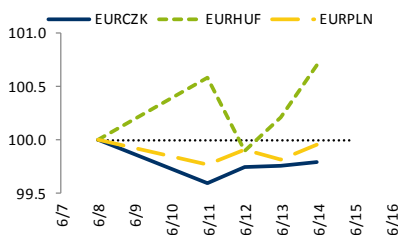




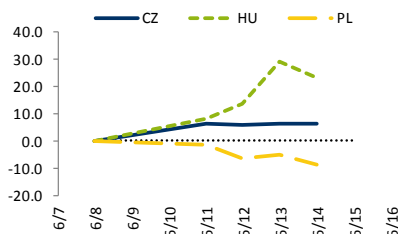
Friday, 15 June 2018

Forex markets (index)



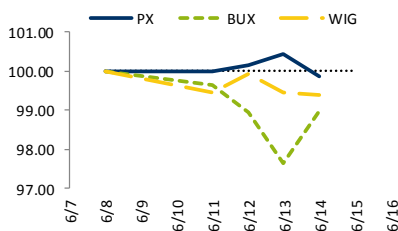
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.70	25.69	0.03
EURHUF	322.0	320.4	0.48
EURPLN	4.278	4.272	0.14

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.091	2.093	-0.2
HUGB 10Y	3.39	3.45	-1.7
PLGB 10Y	3.21	3.24	-1.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1075.9	1082.0	-0.57
BUX	36360	35869	1.37
WIG	58653	58686	-0.06

Regional insights

The forint is afraid of the dovish NBH

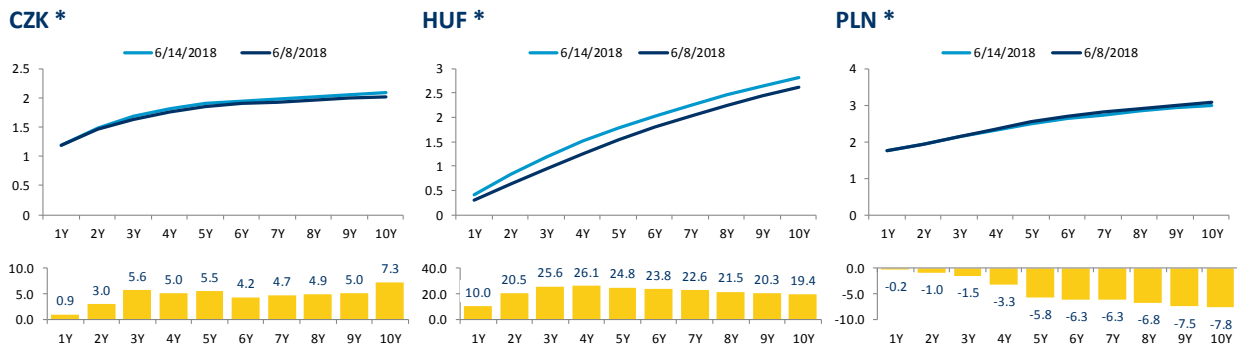
The National Bank of Hungary will keep rate setting meeting on Tuesday, which will be extremely interesting in the light of the last weeks' market developments. Last time, one month ago the Council looked quite relaxed about the deteriorating international market sentiment. At that time the EURHUF was traded around 318 (almost 3% weakening since end-April), while the 10-year bond yield was around 3% (roughly 50bp up in one month time). Since then the Hungarian exchange rate and bonds were still under pressure, and so the EURHUF moved above 323, while 10-year bond yield around 3.4%.

The main question is that may NBH change the bias of its statement on Tuesday or not. We don't expect any change of the key monetary policy instruments. But it is important that the new quarterly inflation report will be published as well and taking in account the acceleration of CPI in the last month the inflation orbit forecast of the NBH may be changed. Previously they always highlighted that the CPI may increase to 3% YoY only in middle of next year, which suggest no monetary policy change in the next 12 month, our forecast said that the CPI may achieve the 3% YoY level already at the end of the year. In case the inflation outlook will be increased it may suggest less loose monetary condition already in this year.

It is also an option for the NBH to increase the cap of the 3-month deposit from HUF75bn, which would push up the internal bank rates in the short tenors (within one year), but it is less likely as they would like to see the Bubor levels still close to zero and it makes no sense as they were still bumping extra HUF liquidity into the market via FX swaps (the stock went up from HUF1600bn to HUF2000bn). Rather an option for them to highlight that they start to gradually withdraw this extra HUF liquidity from the market. Regarding the MIRS program (NBH's monetary IRS program) we expect that it will be continued and the amount will be increased from HUF600bn to HUF900bn till the end of 3Q18, as the NBH would like the channel the new lending from variable interest rate to fixed one, but the focus may move from the 10-year tenor to 5-year and probably a shorter one might be introduced as well.

We don't expect 180 degree turn from the NBH especially that the ECB may have a gradual monetary policy change as well based on the yesterday's decision, but we expect some slight change of the stance of the statement to a less dovish one, highlighting that NBH's sees the risks and may follow the changes of the global monetary policies. The question is that will it be enough for the market or not as Hungary has one of the loosest monetary policy. The Hungarian may face with volatile days, but NBH may calm down the market. It is also important to mention that the market circumstance may change substantially in autumn in case Hungary starts to receive the EU Funds money (approx. EUR3bn), because then the Debt Management Agency (AKK) won't need any financing and they can start buy back auctions as well. Additionally this money might be fully or partly converted on the market, which may strengthen the HUF. In short run it is hard to appoint strong resistance level, but we can identify the upper edge of a weakening trend around 324.5.

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
PL	14:00	Core CPI	% 05/01/2018					0	0.6	0.5	0.6

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