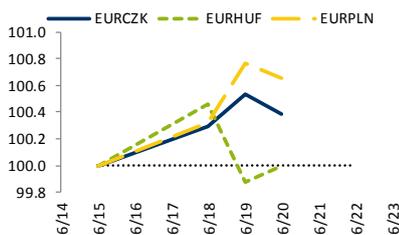




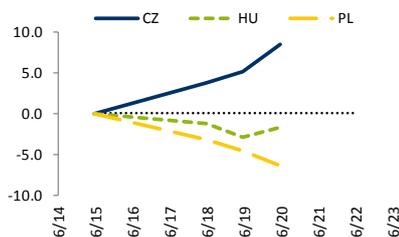
Wednesday, 20 June 2018

Forex markets (index)



	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.80	25.84	-0.15
EURHUF	322.5	322.1	0.11
EURPLN	4.311	4.316	-0.11

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.165	2.132	3.3
HUGB 10Y	3.44	3.43	0.3
PLGB 10Y	3.17	3.19	-0.6

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1070.8	1068.2	0.24
BUX	35391	34972	1.20
WIG	56559	55912	1.16

Our regional insights:

The NBH only slightly less dovish

The Hungarian forint and fixed-income market had nervously awaited yesterday's regular meeting of the National Bank of Hungary (NBH). The Hungarian central bank left the reference rates unchanged (ON rate at -15bp, 3m depo rate at 0.9%, ON lending rate at 0.9%) in line with the expectations. The cap of the 3 month deposit was left also unchanged at HUF75bn. Both the mortgage bond purchasing program and the MIRS program will be continued, the limit of the latter's was increased from HUF600bn to HUF900bn till end-3Q18. The focus was on the inflation report and on the statement of the Council. The NBH increased its forecast on both 2018 and 2019, the former was revised up from 2.5% Y/Y to 2.8% Y/Y, while the latter from 2.9% Y/Y to 3.1% Y/Y. Although NBH highlighted that main oil price changed up the outlook it is an important change that the 2019 forecast is now above the inflation target.

The biggest change of the statement that it become slightly less dovish as in the last sentence – “The Council will ensure the maintenance of loose monetary conditions, necessary to achieve the inflation target in a sustainable manner, by using the current set of monetary policy instruments” – the “prolonged period” was left out, which suggest that the NBH may change its monetary policy to a more tight one within the next 12 month. It is confirmed also with the inflation forecast as it is above the inflation target and the Council highlighted that they are focusing on 5 to 8 quarters ahead as this is the relevant time horizon for monetary policy decisions.

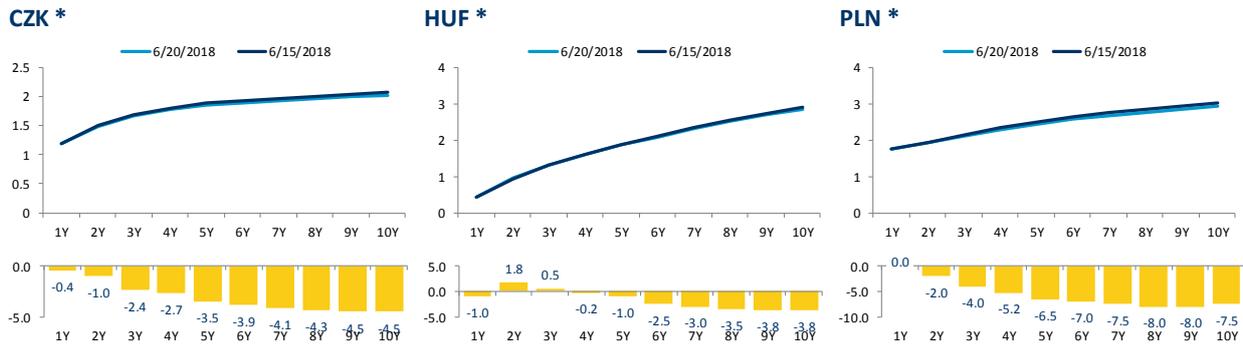
It is also important that the statement highlighted that “The ECB's decision may have a significant influence on the (NBH's) monetary policy”. All this changes of the statement means that the NBH opened the door for monetary tightening, but it didn't referred any concrete steps like ECB have done last week. So it is still unclear when the NBH may start the tightening cycle, all we know is that most likely before end of 1H19, as the NBH expects that the consumer price index may achieve the inflation target on a sustainable manner around that time.

What we can read out from the statement that the NBH is focusing still more on the low interest environment rather than on the exchange rate although the movement of the EUR/HUF was quite strange after the yesterday's comment, which suggest that NBH doesn't want to see substantially weaker HUF. It is also important that in case EURHUF stick around 320 levels, it may push up the inflation about 0.3%pt in one year time horizon, so in that case the Hungarian CPI might be closer to 3.5% Y/Y in 2019.

We expect that the NBH may start to moderate gradually the stock of the FX swaps (currently stays at HUF1989bn) from July and may start to let the move the short end of the curve upward during the autumn. **But it is still a question that is the market satisfied with this kind of monetary statement (which is more a verbal intervention than a real forward guidance of monetary policy change). We think that it might be enough to stop the recent underperformance of the regional markets. Still, the forint may be driven mainly by global sentiment and the fresh NBH statement may be not enough to push back the EUR/HUF trade to around 315 in the current uncertain market environment.** It also means that the steepened of the Hungarian curve may remain as the NBH still tries to keep the short end of the curve close to zero in the next weeks, although some modest correction on the long and may happen as the Debt Management Agency's (AKK's) issuance will moderate already from this week.

David Németh, K&H

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	12:00	CZ bond auction 2018-2021, 0.75%	CZK B 06/01/2018					5			
CZ	12:00	CZ bond auction 2013-2028, 2.50%	CZK B 06/01/2018					7			
CZ	12:00	CZ bond auction 2018-2029, 2.75%	CZK B 06/01/2018					7			
HU	8:30	Current account	HUF B 1Q/2018							197	
HU	9:00	Wages	% , ytd. 04/01/2018								11.3
PL	10:00	Retail sales	% 05/01/2018							-5.3	4.6
PL	14:00	Money supply M3	% 05/01/2018							0.2	5.7

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