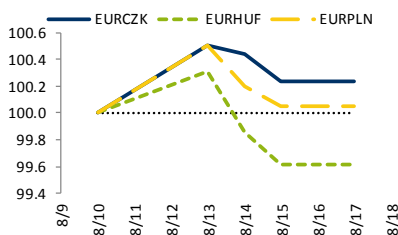




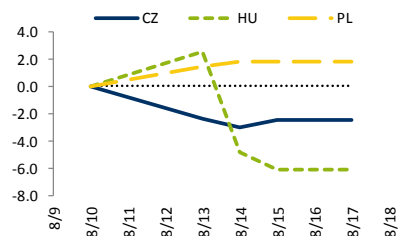
Friday, 17 August 2018

## Forex markets (index)



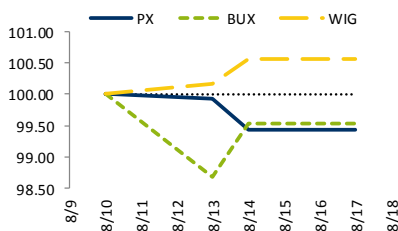
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.68	25.68	0.00
EURHUF	322.3	322.3	0.00
EURPLN	4.299	4.299	0.00

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.142	2.142	0.0
HUGB 10Y	3.44	3.44	0.0
PLGB 10Y	3.15	3.15	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1067.3	1067.3	0.00
BUX	36006	36006	0.00
WIG	59114	59114	0.00

## Regional insights

## The NBH is set to keep the rate unchanged

National Bank of Hungary (NBH) will keep its rate setting meeting on Tuesday (21 August) unchanged. It is also quite unlikely that the stance of the statement will be changed despite the fact that latest figures rather supports slightly more hawkish stance.

The inflation accelerated in July to 3.4% YoY and although it is above the 3% YoY inflation target the NBH may highlight that the acceleration was fully in line with its expectation and the core inflation remained around 2.5% YoY, so it doesn't require monetary tightening.

The economy growth accelerated to 4.6% YoY in 2Q18 from 4.4% YoY in 1Q18, and although the seasonally and working day adjusted figure reflect some modest slowdown of the growth, the economy was able to keep more or less its speed in the last 3 quarters. In our view this is well above Hungary's current potential level, however, the NBH may rather highlight that the output gap has probably been closed in the last quarter, but they may definitely not speak about a positive output gap.

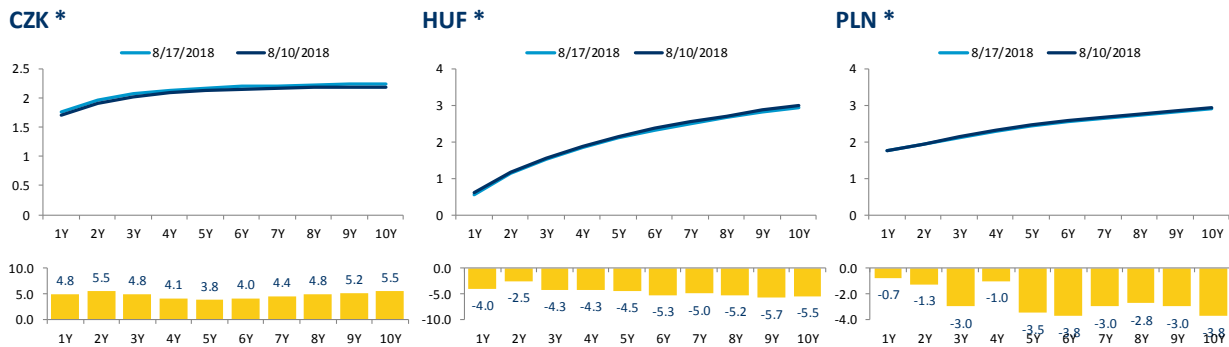
The NBH may also maintain its view about the elevated wage dynamic (running around 11-12% YoY) that it won't have an inflationary effect as the tax cut is counterbalancing it.

Although the emerging markets were quite volatile in the last weeks the EURHUF and the Hungarian bond market was more stable than a month ago. This confirms the view of NBH that there is no need for monetary tightening. Additionally the S&P may today publish a report about Hungary in which they at least confirm the country's rating of BBB- with positive outlook. Moreover, there is also a relatively high chance for an upgrade, as the government's budget plan includes fiscal tightening and decreasing debt for the next year, and the banks' loan portfolios also improved in the last quarters.

All in all, we expect that neither the benchmark rate nor the non-conventional tools may be changed in the upcoming meeting and the statement will repeat that monetary tightening may come in the next 5 to 8 quarters as the NBH may reach its inflation target on a sustainable manner in middle of next year.

Although no monetary tightening may come directly in the coming months, we still expect that the extra HUF liquidity provided via FX swaps by NBH may be eroded gradually in the autumn, so the short end of the curve might increase slightly.

## 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	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	08/17	10:00	Wages	%					-0.1	7.6	3.2	7.5
HU	08/17	17:00	Review rating - S&P	3BB-	pos2nd revision							

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