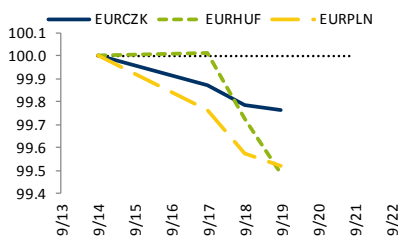




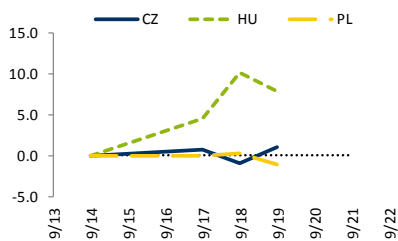
Wednesday, 19 September 2018

Forex markets (index)



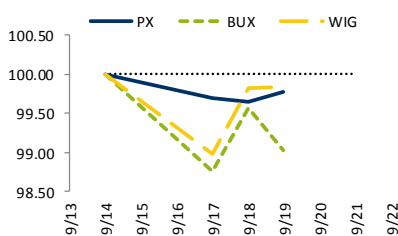
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.42	25.43	-0.02
EURHUF	323.3	324.1	-0.24
EURPLN	4.290	4.292	-0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.137	2.117	2.0
HUGB 10Y	3.67	3.70	-0.6
PLGB 10Y	3.21	3.22	-0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1093.0	1091.6	0.13
BUX	35914	36111	-0.55
WIG	57541	57528	0.02

Our regional insights:

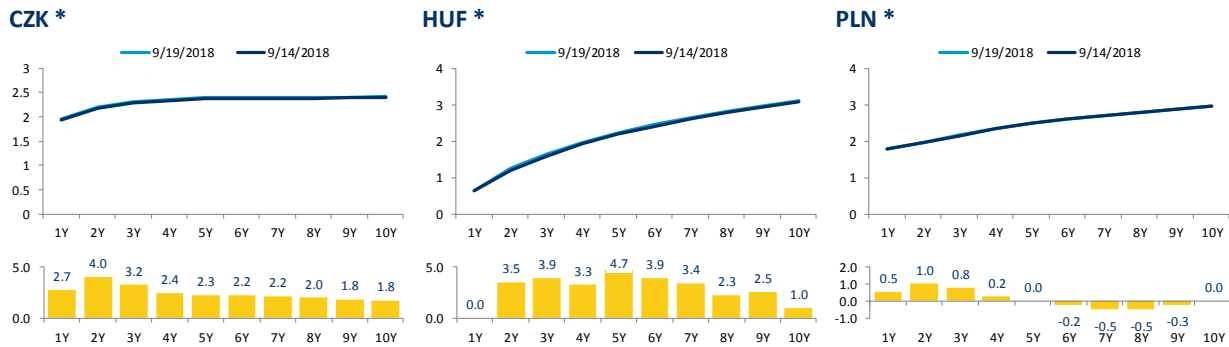
The NBH firmly on hold, while it signals to end its 3-month deposit facility by the end of this year

As expected the NBH Monetary Council left its base rate (0.9%), O/N deposit (-0.15%) and lending (0.9%) rate unchanged in line with the market expectation and it maintained its loose monetary policy (using the unconventional tools) despite of the substantial weakening of the HUF. Hence, *the Hungarian central bank expects inflation to be stabilized around the inflation target on a sustainable manner only from the summer of next year, so it does not plan to increase official rates too soon, but it has started to talk about 'the gradual and cautious' normalization of the monetary policy.*

The NBH has signalled, however, the monetary policy instruments will be changed in the coming months slightly. 1) The 3-month deposit will be abolished from the beginning of the next year (this is currently the key instrument, but only HUF75bn allowed to be placed into it), but it will have no real effect on the market. 2) The FX swap tenders will be continued and remains a key policy tool for NBH. 3) The new benchmark instrument will be the required reserves. 4) The MIRS and mortgage-bond purchase program will be finished at the end of the year (the MIRS program size for 4Q18 will be only HUF200bn vs HUF300bn in previous quarters this year), but a new one will be introduced: 5) cheap-credit program for SMEs. It is quite similar to the three previous ones the NBH used in the last years. It will provide 0% refinancing rate for the banks for minimum 3 and maximum 10 years, with a cap of HUF1000bn, and the banks can give this loan for SMEs (only for new investment loans) with a maximum interest rate of 2.5%. The new element of this policy is that the banks can place the fresh money coming from NBH into preferential deposit (which interest rate is the base rate).

All in all there was no real change of monetary policy compared to previous months and the NBH doesn't plan to tighten substantially in the near future either at least they started to talk about it. As we highlighted many times the main policy tools will be the FX swap tenders and the possible change of interest rate channel (shifting the -15bp deposit rate to the positive territory). Also the NBH will focus strongly on the ECB's policy, so it suggests that it may follow the ECB's decisions. So we expect only some 20bp increase on the short end of the curve till the end of that year, followed by additional 80-100bp increase next year.

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	09/19	10:00	Industrial output	% 08/01/2018			0.8	5	1	5.2	-5.4	10.3
PL	09/19	10:00	PPI	% 08/01/2018			0	3	0	3.1	0.1	3.4
CZ	09/19	12:00	CZ bond auction 2018-2021, 0.75%	CZK B 09/01/2018					3			
CZ	09/19	12:00	CZ bond auction 2014-2025, 2.40%	CZK B 09/01/2018					5			
US	09/19	14:30	Current account	USD B 2Q/2018					-103.3		-124.1	
HU	09/20	8:30	Current account	HUF B 2Q/2018							1027	
HU	09/20	9:00	Wages	%, ytd. 07/01/2018								11.2
PL	09/21	10:00	Retail sales	% 08/01/2018					0.9	9.0	-0.3	9.3

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