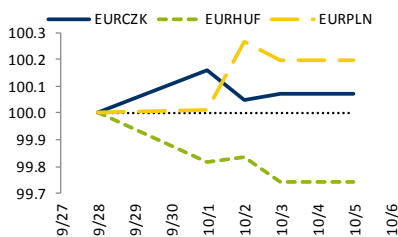




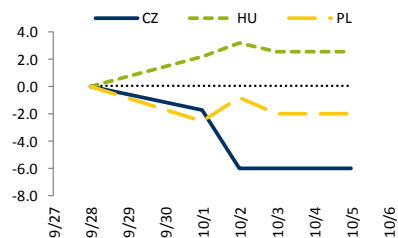
Friday, 05 October 2018

## Forex markets (index)



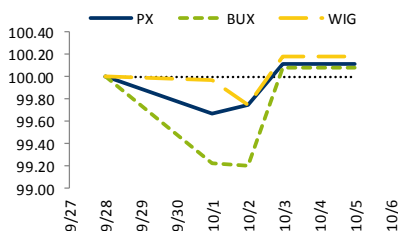
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.80	25.80	0.00
EURHUF	322.8	322.8	0.00
EURPLN	4.291	4.291	0.00

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.087	2.087	0.0
HUGB 10Y	3.57	3.57	0.0
PLGB 10Y	3.21	3.21	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1103.1	1103.1	0.00
BUX	37199	37199	0.00
WIG	59082	59082	0.00

## Regional insights

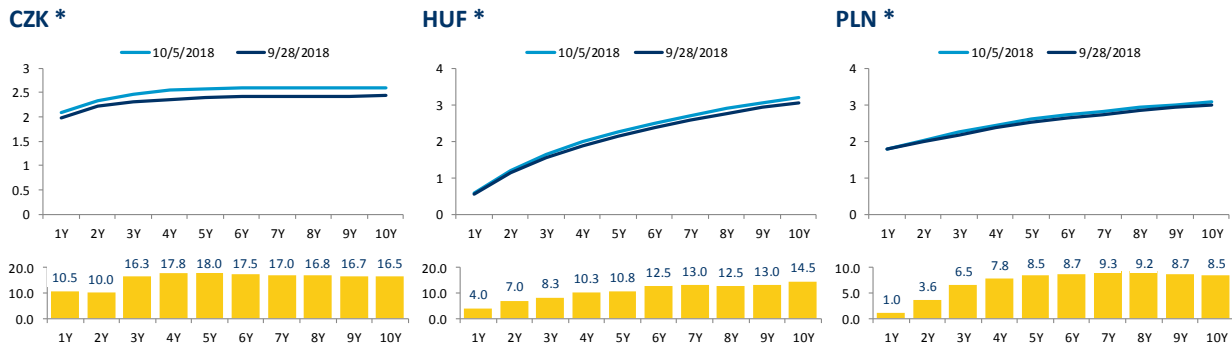
## Hungary's growth still OK; bond sell-off seen as temporary

The Hungarian economy is still doing fine. According to just released figures the industrial production accelerated slightly in August as the working day adjusted figure reflected 4.5% Y/Y growth vs. 3.9% Y/Y level in July. The seasonally and working day adjusted production was up by 3.8% M/M from -1.9% M/M in July. The reason of the high volatility is the holiday season and it was more or less the same as a year ago. Based on the July and August figure it looks like that the industrial production has kept its speed, what we saw in the first half of the year, which means that it might give around 0.7%pt to the 3Q18 GDP growth figure. As the construction is still booming and the households consumption is boosting the service sector, **we expect that third quarter GDP growth may remain slightly above 4% Y/Y.** Looking a little bit longer ahead, new capacities will step in into the industry next year, which may boost the performance of the sector, but on the other hand the international environment may deteriorate somewhat, so we expect rather roughly the same industrial production increase as in this year. It is also an interesting question that will have any effect of the weaker HUF on the international orders and so on the production in the near future or not. So far we haven't seen any positive sign from the statistics.

Regarding the forint, the EUR/HUF stabilized in the range of 322 and 326 in the last month, although it was performing slightly better than other currencies in the region, but it was not able to strengthen substantially in relatively calm and positive market sentiment during the last weeks. As the NBH maintains its loose monetary stance and monetary policy, the risk is still there that in a less positive sentiment the HUF may start to weaken again. On the other hand some appreciation pressure may come from the conversion of euro the government has from bond issuance (the government needs some HUF to finance the spending) and in case EU transfers some money in the next weeks it might be converted also on the market quite fast.

**As concerns the Hungarian bond market it was more affected by the recent self-off and yield curve steepened further.** The short-end of the curve is kept at very low level – the shorter than one year ones even decreased little –, so it looks like that the market still believes in NBH that there won't be any monetary policy adjustment in the next 9-12 months. The long end of the curve was more under sell-off pressure, despite the AKK (Debt Management Agency) had a successful Eurobond issuance last week. **Despite increasing inflation pressures (a release of the September is scheduled for next Tuesday) and global bearish bond environment we don't expect radical sell-off on the domestic bond market.** Hungary should receive the EU funds money (government sent invoices to Brussels in amount of HUF350bn) in the next weeks, so the AKK may cut back issuance, which might push back 10-year bond yield below 3.5%.

## 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	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous		
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y	
HU	10/05	9:00	Industrial output	%					3.8	3.8	3.5	2	3.9
CZ	10/05	9:00	CNB minutes	CNB									

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