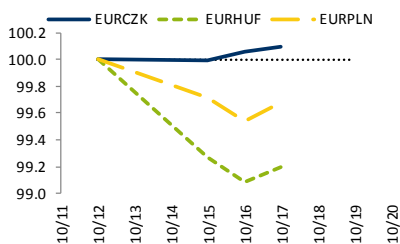




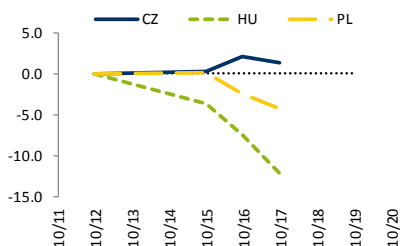
Wednesday, 17 October 2018

Forex markets (index)



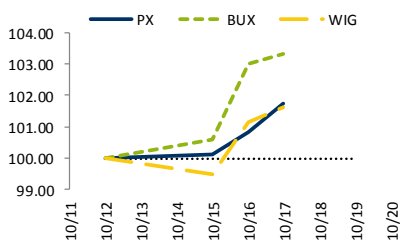
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.84	25.83	0.04
EURHUF	322.2	321.8	0.11
EURPLN	4.291	4.285	0.14

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.131	2.139	-0.8
HUGB 10Y	3.80	3.85	-1.2
PLGB 10Y	3.19	3.20	-0.6

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1098.6	1088.4	0.93
BUX	37557	37446	0.30
WIG	57426	57156	0.47

Our regional insights:

Normalization of NBH's policy might start in December

Yesterday, the National Bank of Hungary (NBH) left all the reference rates and other policy setting unchanged in line with market expectations. There was no substantial change in the stance of the statement either.

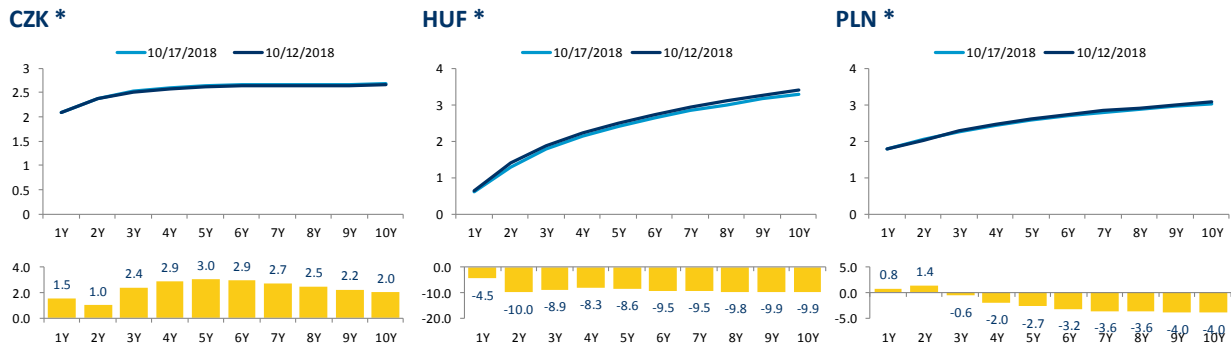
The NBH maintained its view that despite of the faster than expected inflation increase of September, the consumer price index may be reached on a sustainable manner only from mid-2019. The current acceleration of inflation is driven by oil, unprocessed food and excise duty hike of tobacco. They still think the inflation expectations are well anchored and none of the above mentioned price shock will have a second round effect on CPI. Although wage dynamic is still elevated and the labour market is still they still don't expect any inflation coming from wage side. They believe that the domestic demand may only gradually push up the inflation.

The Monetary Council referred on ECB's policies and expectations again, so it looks like that one of the main driver of NBH's policy may depend on ECB, although we think that the Hungarian inflation is accelerating faster and so the NBH has to change it monetary policy sooner than the ECB. We expect that CPI may get close to around 4% YoY in 1Q19, which is the top of the NBH's tolerance range, but it is also true that it looks like recently that inflation may start to moderate after it and may get close to 3% YoY in autumn next year.

The NBH stopped the mortgage bond purchasing on the secondary market, while MIRS program will be stopped and the 3-month deposit will be abolished at the end of the year as was already promised in September. The Council highlighted again that the monetary conditions will be influenced via the channels of interest rate corridor (o/n depo rate is -15bp, o/n lending rate is 90bp recently) and foreign currency swaps (stays at HUF1988bn).

We expect that the next Inflation report (released in December) may be slightly more hawkish one which can support to shift the stance of NBH towards gradually tightening. **Anyway, the NBH has already started to communicate that it would prepare itself for the gradual normalization of the monetary policy in Hungary. It suggests that the very short end of the curve may start to increase slightly at the beginning of next year, but more intensive increase might come rather in in the second half of 2019 only, which means roughly 100-120bp rise of interest rate (below one year segment).**

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	10/17	10:00	Industrial output	%	09/01/2018		3.5	2.8	5.5	4.5	0.8	5
PL	10/17	10:00	PPI	%	09/01/2018		0.4	2.9	0.3	2.8	0	3
HU	10/19	9:00	Wages	%, ytd.	08/01/2018					12.3		12.8
PL	10/19	10:00	Retail sales	%	09/01/2018				-1.1	8.1	0.9	9

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