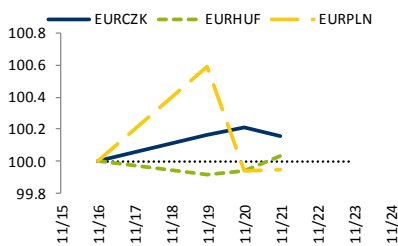




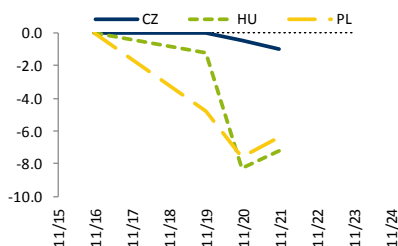
Wednesday, 21 November 2018

Forex markets (index)



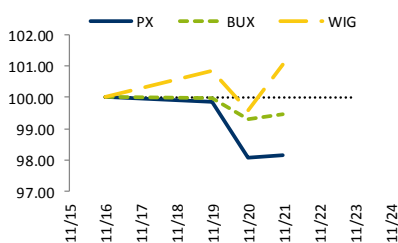
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.02	26.03	-0.05
EURHUF	321.7	321.3	0.10
EURPLN	4.306	4.306	0.01

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.035	2.040	-0.5
HUGB 10Y	3.47	3.46	0.3
PLGB 10Y	3.21	3.20	0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1060.9	1060.0	0.08
BUX	39123	39058	0.16
WIG	56024	55206	1.48

Our regional insights:

The NBH will wait with policy normalization for more hawkish ECB or for a weaker forint

Yesterday, The National Bank of Hungary (NBH) left all benchmark rates unchanged in line with the expectation. The Monetary Council confirmed that the 3-month deposit facility will be abolished and the MIRS will be stopped at the end of this year, and a new funding for lending program for SMEs will be started from January. The money that the NBH will pump into the market via that program will be sterilized by preferential deposit, which pays the base interest rate. The most interesting part of the statement was, how NBH reacts and comments on the faster inflation increase than their prediction was in September.

They emphasized that the inflation rise was driven by fuel price, unprocessed food and faster spill over effect of excise duty hike of tobacco. They said that the core inflation rise - which states stays at 2.6% YoY - was due to traceable goods, but they highlighted again that they don't see inflation pressure coming from the fast increase of wages. So they confirmed basically they view that the inflation may achieve their target of 3% YoY on a sustainable manner in the middle of next year.

As we expected they also emphasized that the oil price started to fall in last weeks so the headline inflation will moderate in coming months, which means that the pressure on the NBH to start a monetary policy tightening might be smaller as well. The Council highlighted again that they look on all external shocks - like vulnerable markets, currency moves, external inflation etc. - from the glass how it effect the Hungarian consumer price index.

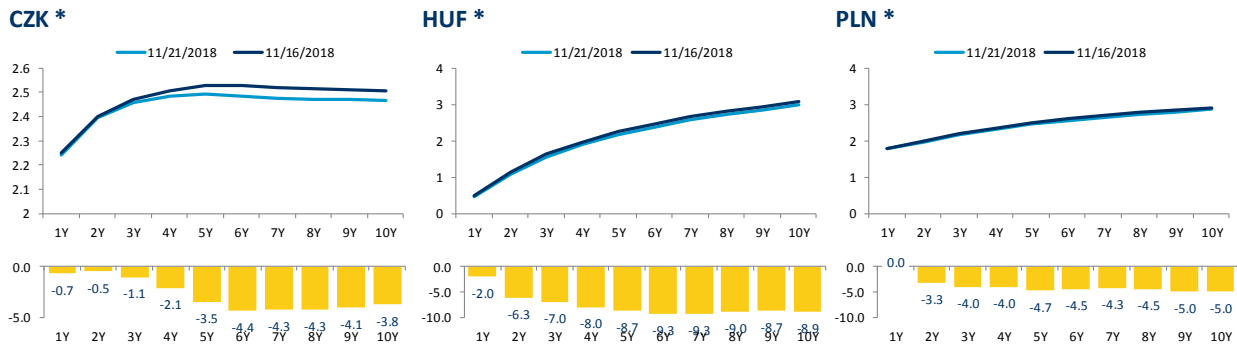
We should add that the NBH referred again on the view of ECB and that ECB's decisions have key role on the Hungarian monetary policy as well too.

We share the view of the NBH that the core inflation may accelerate further in the coming months and so the difference between the headline inflation and the core one will narrow, but we think that the domestic driven price pressure - wage dynamic, strong consumption - is higher and so the consumer price index has already reached the target on a sustainable manner, so the monetary normalization should have been already started.

On the contrary the Council says that the current loose monetary conditions has to be maintained in order to achieve the target, so we expect that **the NBH won't start the normalization in 1H19 except the ECB switches its tone to a more hawkish one or the HUF start to depreciate substantially.** It is also important that the NBH is not too happy with the fact that the corporates chose the variable loans instead of the longer fixed ones, which means that the corporate may remain quite sensitive on NBH's monetary policy decisions and it increases the risk that the NBH may tighten its monetary policy slower than it would be optimal.

The Monetary Council's meeting in next month will be very important as the new inflationary report will be published and so it could be the perfect timing to switch to a more hawkish stance if they want. We think that it is not too likely in the light of the moderating inflation, so rather NBH may emphasize that they are ready for monetary policy normalization in case the inflation meets their target. We still expect the start of the tightening around the summer.

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
CZ	11/21	12:00	CZ bond auction 2018-2029, 2,75%	CZK B 11/01/2018					3			
CZ	11/21	12:00	CZ bond auction 2017-2033, 2,00%	CZK B 11/01/2018					2			
HU	11/22	9:00	Wages	% , ytd. 09/01/2018						10.0		10.1
PL	11/22	10:00	Retail sales	% 10/01/2018					5.3	7.5	-3.4	5.6
PL	11/23	14:00	Money supply M3	% 10/01/2018					1	7.8	0.8	7.9
CZ	11/23	17:00	Review rating - Moody's	2. rev ize								

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