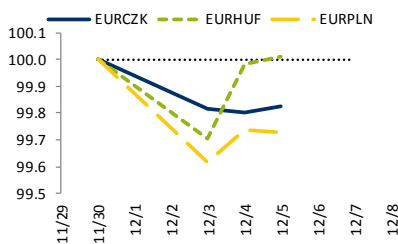




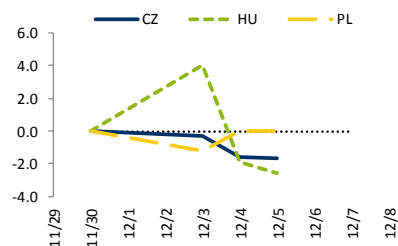
Wednesday, 05 December 2018

Forex markets (index)



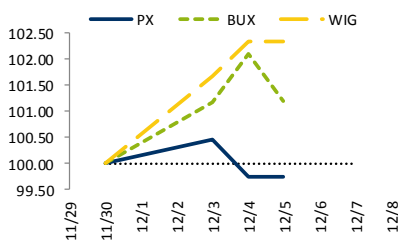
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.94	25.93	0.02
EURHUF	323.7	323.6	0.03
EURPLN	4.282	4.282	-0.01

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.000	2.001	-0.1
HUGB 10Y	3.11	3.11	-0.2
PLGB 10Y	3.03	3.04	-0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1066.0	1066.0	0.00
BUX	40583	40945	-0.88
WIG	59558	59558	0.00

Our regional insights:

Consumption continues to drive Hungary's growth

The Hungarian Statistical Office has released the final estimate of GDP for the third quarter, which showed that the unadjusted GDP grew by 4.9% YoY in 3Q18 while the seasonally and working day adjusted one was up by 5.2% YoY. The detail figures confirmed our expectation that the domestic components are driving the growth. The biggest contribution to the growth came from capital formation (4%pt), but the households consumption boosted the economy also substantially (2.7%pt). The net export pulled back the economy by 1.7%pt. On the supply side the service sector was the strongest engine of the economy adding 2.2%pt to the growth followed by the construction (1.1%pt) and industry (0.6%pt).

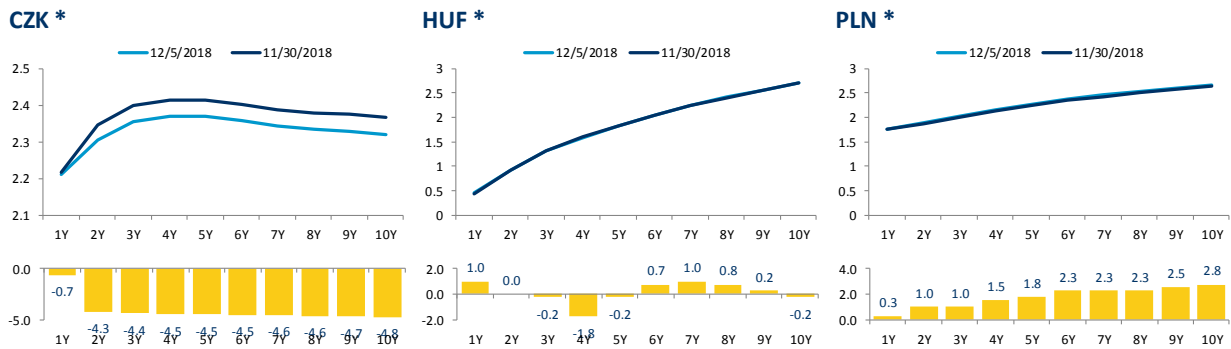
The main question is that how long the domestic demand can counterbalance the deteriorating international environment and how long the will the NBH and the government will maintain the supportive economic policy. In this respect the retail sales for October suggest that that the households maintain their robust consumption in 4Q18 as well, so the strong domestic demand may maintain above 4% YoY growth in 4Q18 as well and so the GDP may grow around 4.5% YoY in 2018. Recall that the retail sales were up by 6.6% YoY in October, within the non-food sales were up by 8.3% YoY.

Generally, we see already increase of borrowing activity in both the household and corporate sector, the wages are increasing by double digit, the property prices are also increasing more than 10% YoY and the inflation is above the inflation target although the core inflation is still just below 3% YoY. We expect that the economy may slow down in 2019, because of the domestic components might be slightly weaker than this year, the EU funds money use might be roughly the same as this year and the international environment might be also less supportive, so we forecast 3.5% YoY growth for 2019.

How dovish will the NBP be today?

The drastic fall in headline inflation can trigger even more aggressive dovish comments from governor Glapinsky and other MPC members present at his press conference. Given the very low November inflation figure (1.2% yoy) we expect that the MPC can easily ignore an expected energy price hike at the beginning of next year. On the other hand we still think a rate cut scenario is not on the table and we will be surprised, if NBH Governor Glapinsky mentions this possibility this afternoon.

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	12/05	9:00	Retail sales	% 10/01/2018				5.7	5.8		5.4	
HU	12/05	9:00	GDP	% 3Q/2018 *F			1.3	4.9	1.2	4.8	1.2	4.8
PL	12/05	14:00	NBP meeting	% 12/01/2018	1.5				1.5		1.5	
CZ	12/06	9:00	Retail sales	% 10/01/2018		2.0				2.1		-2.2
HU	12/06	9:00	Industrial output	% 10/01/2018						2.7		-2.1 2.2
CZ	12/07	9:00	Trade balance (national)	CZK B 10/01/2018	4.5				8.5		13.7	
CZ	12/07	9:00	Construction output	% 10/01/2018		10.0						12.4
CZ	12/07	9:00	Industrial output	% 10/01/2018		3.0				4.8		-0.9
HU	12/07	9:00	Trade balance	EUR M 10/2018 *P								248

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