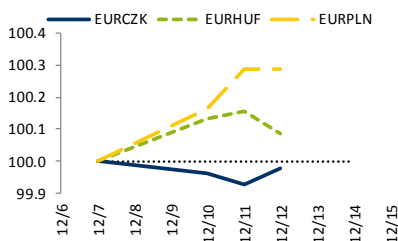
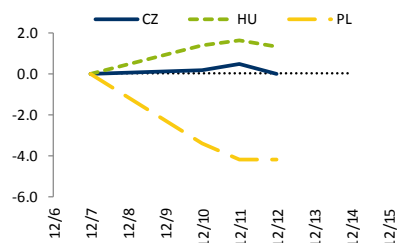




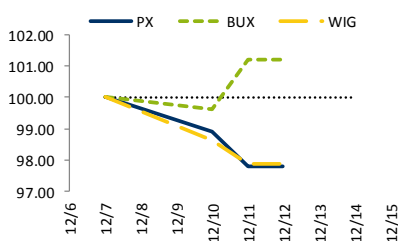
Wednesday, 12 December 2018

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.86	25.85	0.05
EURHUF	323.6	323.8	-0.07
EURPLN	4.301	4.301	0.00

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.968	1.965	0.3
HUGB 10Y	3.15	3.16	-0.1
PLGB 10Y	3.00	3.00	0.0

Equity indices (index)

	LAST	PREVIOUS	CHANGE (%)
PX	1017.4	1017.4	0.00
BUX	39860	39860	0.00
WIG	56962	56962	0.00

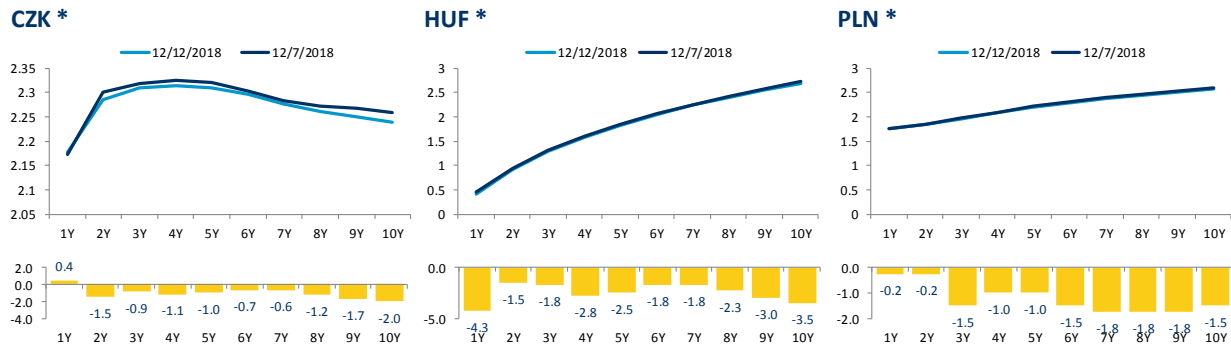
Our regional insights:**Hungary's inflation surprises on the downside – what does it mean for the December NBH meeting?**

As yesterday's data showed the Hungarian headline inflation surprisingly moderated from 3.8% YoY in October to 3.1% YoY in November. Although the fall of inflation was expected, but its size was a surprise. The main reason behind the drop was the fuel price decrease of 4.6% MoM and the base effect (there was a substantial increase of fuel price last year) and so the fuel price increase moderated from 16.2% YoY in October to 7.2% YoY in November. The food price rose by 0.3% MoM, while the clothes price were up by 1.1% MoM which confirmed our view that the weaker HUF gradually spills over into the consumer prices.

The core inflation remained at 2.6% YoY in November and the other inflation figures which are calculated by the NBH in order to measure the underlying inflation pressure (like tax filtered core inflation, demand sensitive inflation etc.) were still increasing in November. So it means that although the headline inflation dropped, we still see rather gradually rising inflation pressure and it's getting clearer that the NBH may have to change it ultra-loose monetary policy as the inflation target of 3% YoY is already met.

It will be quite interesting how the Monetary Council will react on the latest figures. On one hand the dropping headline inflation figure gives some room for wait and see policy for NBH as the inflation moved away from the top-edge of the inflation tolerance range (it is at 4% YoY), but on the other hand the underlying inflation gets close to the inflation target. We expect some smooth change of the phrase of the statement, opening more the door towards monetary tightening. The base rate, the O/N lending and deposit rate may be left unchanged, the 3-month deposit and MIRS program will be abolished at the end of the year as promised, the new funding for lending program for SMEs will be started. The new element might be that the Council may emphasize that the stock of the foreign currency swap might be started to moderate gradually. This is supported by the fact that in previous months Hungary started to receive the EU funds money and if it will continue there is less need of NBH's monetary support. It is also important that this is the last time when NBH reference rate belongs to 3-month deposit and the required reserves will be the new reference element from January. We don't expect that increase of O/N deposit rate of -15bp in 1Q19, and the first official rate hike may come only in 4Q19 as NBH may try to maintain the current low interest environment as long as possible.

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	12/14	10:00	CPI	% 11/2018 *F							0	1.2
CZ	12/14	10:00	Current account	CZK B 10/01/2018	3				11		-2.99	
PL	12/14	14:00	Current account	EUR M 10/01/2018							-472	-547
PL	12/14	14:00	Trade balance	EUR M 10/01/2018							-414	-449
CZ	12/14	17:00	Review rating - Fitch	3rd revision								

Contacts

Brussels Research (KBC)			Global Sales Force		
Mathias van der Jeugt	+32 2 417 51 94		Brussels		
Peter Wuyts	+32 2 417 32 35		Corporate Desk		+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95		Institutional Desk		+32 2 417 46 25
Dublin Research			France		+32 2 417 32 65
Austin Hughes	+353 1 664 6889		London		+44 207 256 4848
Shawn Britton	+353 1 664 6892		Singapore		+65 533 34 10
Prague Research (CSOB)					
Jan Cermak	+420 2 6135 3578		Prague		+420 2 6135 3535
Petr Dufek	+420 2 6135 3560		Prague (Equities)		+420 2 2142 4216
Bratislava Research (CSOB)					
Marek Gabris	+421 2 5966 8809		Bratislava		+421 2 5966 8820
Budapest Research					
David Nemeth	+36 1 328 9989		Budapest		+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

