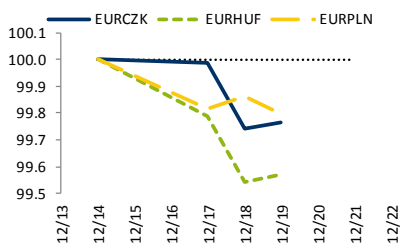




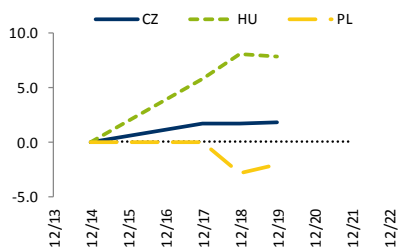
Wednesday, 19 December 2018

Forex markets (index)



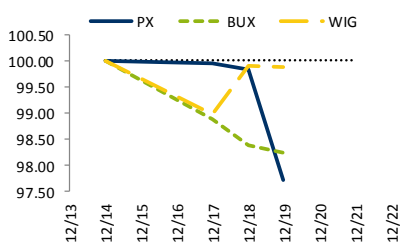
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.73	25.73	0.02
EURHUF	322.4	322.3	0.03
EURPLN	4.282	4.285	-0.07

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.965	1.964	0.1
HUGB 10Y	3.29	3.30	-0.1
PLGB 10Y	2.90	2.90	0.3

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1004.9	1026.6	-2.12
BUX	39420	39476	-0.14
WIG	58705	58719	-0.02

Our regional insights:

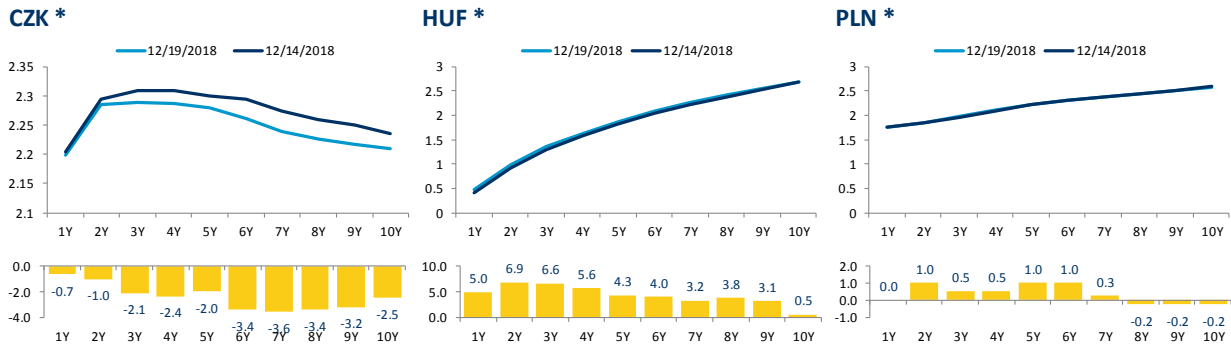
NBH keeps rates unchanged

The National Bank of Hungary left the reference rates (O/N depo -0.15%, 3m depo 0.9%) unchanged in line with the expectations. The NBH confirmed that the mortgage bond purchase and the MIRS program will be stopped at the end of the year, while the new funding for lending program will be started for SMEs (3 to 10 years HUF loans with fixed, maximum 2.5% interest rate) in January.

The new elements of the statement are how the Council relents on ECB's policy and on the development of underlying inflation. Despite of the dropping headline CPI (from 3.8% yoy in October to 3.1% yoy in November) the NBH also emphasized that the core elements of inflation are still increasing which has to be monitored closely in the following months. While in previous months the NBH highlighted that ECB's loose monetary policy holds back Hungarian tightening, now the statement puts more emphasis on the Hungarian inflationary development. The comment was ended also differently than previous month as the sentence of "To ensure this, in the Council's assessment, maintaining the current level of the base rate and the loose monetary conditions is necessary" was replaced by "Core inflation excluding indirect tax effects is likely to continue to rise in the coming quarters, which the Council will assess in terms of the sustainable achievement of the inflation target. In the period ahead, therefore, incoming data will be of key relevance. The Monetary Council closely monitors incoming macroeconomic data and will decide to adjust monetary conditions depending on their outcome."

It means in our read that the stance of the statement become slightly more hawkish and it fits into our previous expectation that the NBH may start a gradual tightening in 2019. First, as the central bank also highlighted, the unconventional tools will be changed, i.e. the foreign currency swaps and the interest rate corridor. That would mean that the roughly HUF2000bn stock of FC swap may gradually moderate, while the O/N depo and lending rate might be increased. We don't expect any substantial move in 1Q19, but we maintain our view that the tightening might be started in 2Q with decreasing the FC swaps and so the internal bank rate (BUBOR) may start to increase gradually. We expect roughly 100bp interest rate increase in short tenors till end of 2019.

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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	12/19	10:00	Industrial output	%	11/01/2018			-3.6	4.7	-4	4.2	9.9	7.4
PL	12/19	10:00	PPI	%	11/01/2018			-0.5	2.7	-0.1	3.1	0.5	3.2
HU	12/20	8:30	Current account	HUF B	3Q/2018							772	
HU	12/20	9:00	Wages	%, ytd.	10/01/2018								10.4
CZ	12/20	13:00	CNB meeting	%	12/01/2018	1.75				1.75		1.75	
HU	12/21	9:00	Trade balance	EUR M	10/2018 *F							293	
PL	12/21	10:00	Unemployment rate	%	11/01/2018					5.8		5.7	
PL	12/21	10:00	Retail sales	%	11/01/2018					-2.6	7.9	7.4	9.7

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)			Prague		+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Petr Dufek	+420 2 6135 3560				
Bratislava Research (CSOB)			Bratislava		+421 2 5966 8820
Marek Gabris	+421 2 5966 8809				
Budapest Research			Budapest		+36 1 328 99 85
David Nemeth	+36 1 328 9989				

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