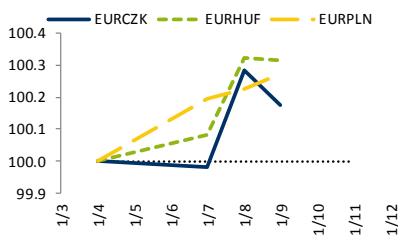




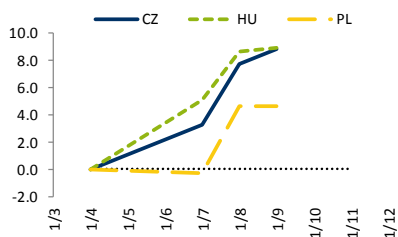
Wednesday, 09 January 2019

Forex markets (index)



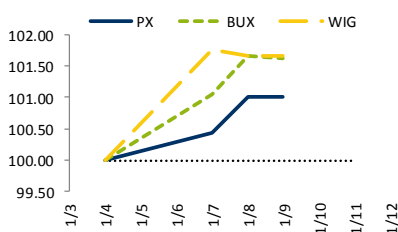
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.62	25.65	-0.11
EURHUF	321.9	321.9	-0.01
EURPLN	4.299	4.297	0.05

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.805	1.794	1.1
HUGB 10Y	2.93	2.93	0.1
PLGB 10Y	2.85	2.85	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1014.4	1014.4	0.00
BUX	40794	40810	-0.04
WIG	58907	58907	0.00

Our regional insights:

Even the Hungarian industry slows now

The two fresh macro figures suggest that the Hungarian economy might slow down in fourth quarter of 2018.

First, the industrial production increased by 4% YoY and decreased by 1.1% MoM in November. It means that **in the first eleven months the Hungarian industry increased only by 3.5% YoY in 2018 vs. 5% YoY in the same period in 2017**. Based on the previous months figure the car production pulls back the performance of the industry, while production of electronic, optical devices are boosting it. It looks like that the situation might be the same in the last month as well in 2018. Looking ahead there are ongoing investments in the sector which will be finished in 2019, so the new capacities might boost the sector in this year, but on the other hand the global environment looks to be less supportive compared to 2018, so all in all we don't expect substantial acceleration for 2019.

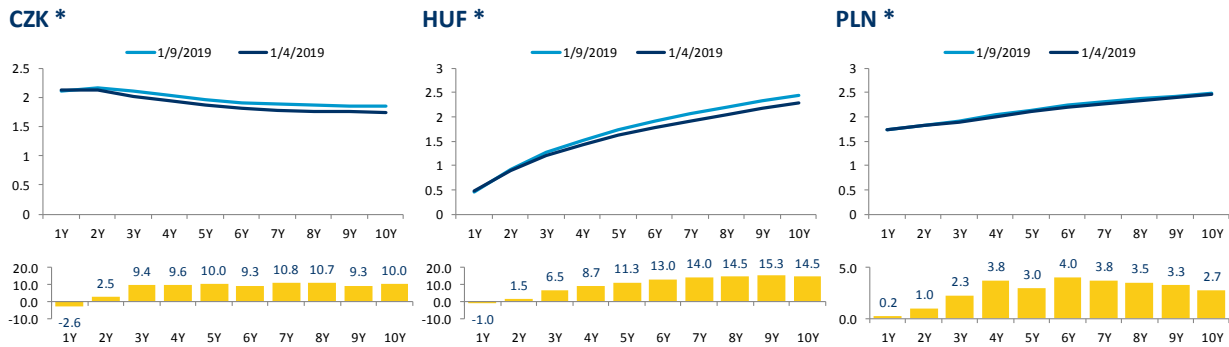
Secondly, the trade balance figure confirms our view that the main driver of the growth was again the domestic consumption and investment in 4Q18. Although there is still a surplus of foreign trade, the balance deteriorated further (EUR5.7bn), and compared to its peak (EUR9.2bn in 2016) it lost more than one third. Although the balance of the services are improving, it is not enough to counterbalance the deterioration of trade balance and so the current account surplus is also narrowing.

These trends suggests that the Hungarian economic policy (both the fiscal and monetary) are too loose and starts to overheat the economy so **we maintain our view that the fast GDP growth, what we saw in 2018 is unsustainable and we might see a slowdown close to 4% YoY already in 4Q18**. Although the debt level of the households are still low in international comparison, which can still support the domestic consumption, the increase of the new loans is getting close to the pre-crisis level. We expect that the domestic driven growth will dominate 2019 as well, although the level of the economy's expansion may moderate to around 3.5% YoY. This structure of the growth suggests that the trade and current account balance may moderate further, but even the latter may remain in positive territory (around 1% of GDP). As the EU funds money will play an important role both in economic growth and capital inflow, we expect that the financing capability of Hungary may remain still relatively strong in 2019 (around 3.5-4% of GDP), although it is far from its peak levels which was around 8% of GDP in 2016.

The NBP on hold, but be ready for dovish talk

The Polish central holds its MPC meeting today. While the NBP will definitely stay on hold, one must be ready for even more aggressive dovish rhetoric. Recall that the recent (December) macro figures have been weak – the Polish PMI slipped to 47.6 points and the headline inflation dropped to 1.1% YoY.

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	01/09	9:00	Trade balance (national)	CZK B 11/01/2018	6.5		20.2		4.9		5.7	
CZ	01/09	9:00	Unemployment rate 15-64	% 12/01/2018	3.1		3.1		3.1		2.8	
HU	01/09	9:00	Trade balance	EUR M 11/2018 *P			496				304	
CZ	01/09	12:00	CZ bond auction 2017-2027, 0.25%	CZK B 01/01/2019					8			
CZ	01/09	12:00	CZ Bond auction 2006-2036, 4.20%	CZK B 01/01/2019					3			
PL	01/09	14:00	NBP meeting	% 01/01/2019	1.5				1.5		1.5	
CZ	01/10	9:00	CPI	% 12/01/2018	0.1	2.0			0.1	2.1	-0.1	2
CZ	01/11	9:00	Retail sales	% 11/01/2018		3.9			1.8		3.1	
CZ	01/11	9:00	GDP	% 3Q/2018 *F					0.6	2.4	0.6	2.4

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.

