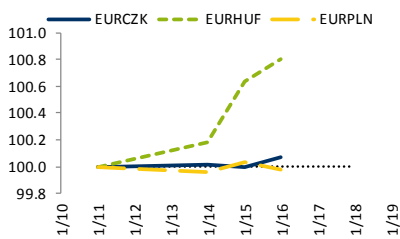




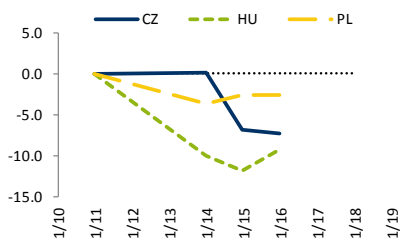
Wednesday, 16 January 2019

Forex markets (index)



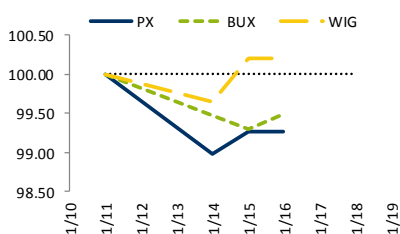
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.57	25.55	0.07
EURHUF	323.7	323.2	0.17
EURPLN	4.292	4.294	-0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.739	1.743	-0.4
HUGB 10Y	2.75	2.72	1.0
PLGB 10Y	2.73	2.73	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1004.0	1004.0	0.00
BUX	40675	40600	0.18
WIG	59440	59440	0.00

Our regional insights:

Hungary's core inflation at the NBH target

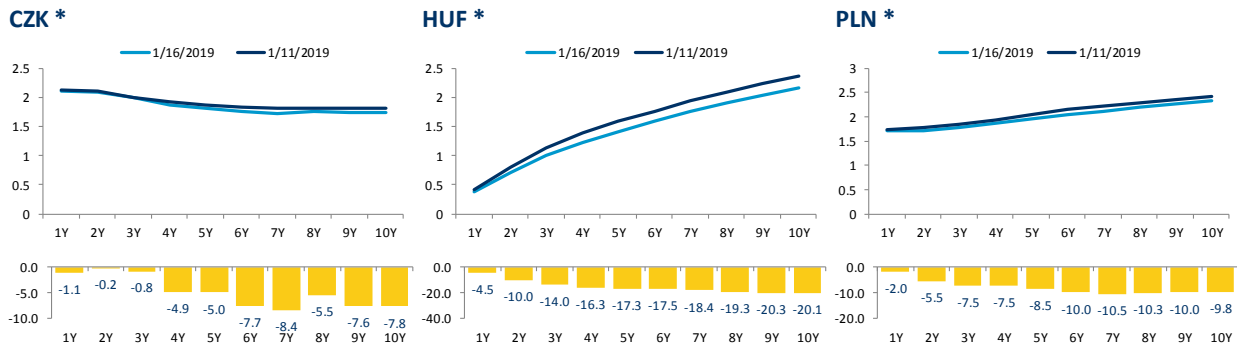
Yesterday, the Hungarian Statistical Office released final inflation figures for the year 2018. It showed that the consumer price index moderated from 3.1% YoY in November to 2.7% YoY in December in line with the market expectations, while it was 3.8% YoY in October. Although the fast drop of the CPI could suggest that the inflation pressure totally disappeared from Hungary and so the NBH can maintain its extreme loose monetary policy. **The details reflects different tendencies as it is highlighted by the core inflation development as well as it increased from 2.6% YoY in November to 2.8% YoY in December.**

The sudden fuel price drop was the main driver behind the fall of inflation, but looking on the development of oil price in last weeks, this moderation may bounce back partly in January. The tradable goods prices caused some surprise in December, as the gradual price increase of these products stopped in December. The question is that it is only temporary, or the imported inflation remains at low level in the coming months. The prices of services increased further which confirms our view that the higher wages and the quite strong domestic consumption increased the pressure on inflation.

The NBH published its own inflation figures, which tries to grab the underlying price developments and plays important role in monetary policy decisions. Although the NBH said that there was no substantial change in these figures, there is a gradual increasing tendency. **The core inflation filtered from indirect taxes went up from 2.7% YoY in November to 2.9% YoY in December, which is the highest read since March 2012. The demand sensitive inflation increased from 2.7% YoY in November to 2.8% YoY December, while the sticky price inflation remained at 3.1% YoY in December. The latter two show the highest level since beginning of 2010. All three figures are now practically achieved the NBH's inflation target (3.0% YoY), which suggest that the room to maintain the current loose monetary policy is disappearing.**

In the coming months the headline inflation may start to increase again and may move above 3% YoY already in January. As the minimum wage has been risen by 8% YoY in this year, and the domestic consumption may remain strong, we expect that the core inflation may move also above 3% YoY in the coming months. It means that the NBH should move its tone to a more hawkish one and its monetary policy should be moved back to a neutral one. **As a first tightening step the NBH can moderate the stock of foreign currency swap and then it can hike the O/N deposit rate from -15bp to 0%. We believe it might happen by the end of 2Q19.**

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	01/16	9:00	PPI	%			-1.1	2.4	-0.3	3.2	-0.1	3.9
PL	01/16	14:00	Core CPI	%					0	0.7	-0.1	0.7
PL	01/18	10:00	Wages	%					7.4	7.3	0.9	7.7
PL	01/18	10:00	Industrial output	%					-9.6	5.0	-3.6	4.7
PL	01/18	10:00	PPI	%					-0.4	2.6	-0.5	2.7

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