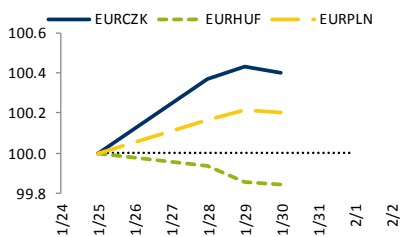




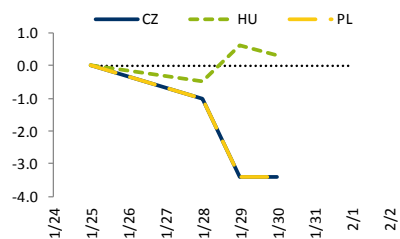
Thursday, 31 January 2019

Forex markets (index)



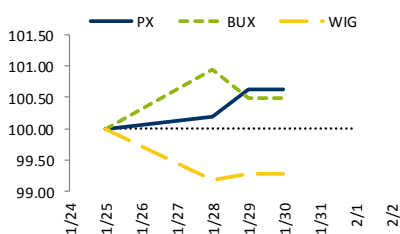
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.77	25.78	-0.03
EURHUF	317.1	317.2	-0.01
EURPLN	4.295	4.296	-0.01

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.764	1.764	0.0
HUGB 10Y	2.84	2.84	-0.1
PLGB 10Y	2.78	2.78	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1029.6	1029.6	0.00
BUX	41146	41146	0.00
WIG	60228	60228	0.00

Our regional insights:

The NBH is dovish as in December, no real commitment to tightening yet

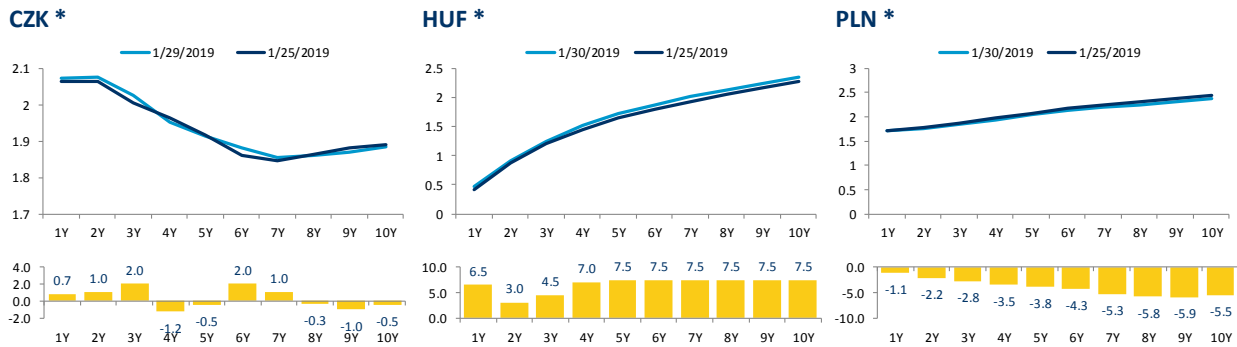
The National Bank of Hungary (NBH) left base rate (0.9%) and interest rate corridor (O/N depo at -15bp and O/N lending at 90 bps) unchanged. In addition the Council left the average amount of liquidity to be crowd-out for the first quarter of 2019 unchanged, at least at HUF400-600bn. This latter might be changed first once the tightening may started, but Council will make a decision about it only in March the earliest.

The statement was more than 90% the same as it was in December. The only substantial change was how the council evaluates the current global market conditions. Compared to December it rather became more dovish. "Due to the weakening outlook for global, and particularly euro area, activity, leading central banks have taken a more cautious approach. Market expectations about the timing of interest rate increases by the world's leading central banks have shifted to an ever later date; therefore, loose monetary conditions may remain for a longer period of time than earlier expected."

Although the market reacted quite aggressively on the statement what vice-governor, Mr. Nagy said on a panel discussion, namely that the NBH focuses on core inflation filtered from indirect tax changes and in case it moves and remains above 3% YoY, it means that the NBH achieved its inflation target. This message was already included in MPC statement in December – without the 3% target – and was kept unchanged this time as well. "The Monetary Council is prepared for the gradual and cautious normalization of monetary policy, which will begin depending on persistent inflationary developments. 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 that there is still no exact forward guidance towards the start of tightening cycle. It suggest that the NBH may wait for several figures and in case it confirms that the inflation pressure is increasing and so the consumer price index will remain around 3% YoY on a sustainable manner some normalization can be started. It still not speaks about the speed of tightening either. So we maintain our view that the NBH won't change anything in the next two months, and probably some minor HUF liquidity moderation can be started in April-May time. We still expect that the O/N depo rate may be started to increase in 2H19, so it means that the very short end of the curve may remain on a subdued level (around 10-20bp) in the coming months, but we maintain our expectation that we may see around 80bp interest rate increase in these short tenors till the end of the year, mainly delivered in 2H19.

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	01/30	9:00	Unemployment rate	%			3.6		3.6			
HU	01/31	9:00	PPI	%							-0.2	5.1
CZ	01/31	10:00	Money supply M2	%								6
PL	01/31	15:00	Budget balance	PLN M								11060
HU	02/01	9:00	PMI manufacturing									54.2
PL	02/01	9:00	PMI manufacturing						47.5			47.6
HU	02/01	9:00	Trade balance	EUR M	11/2018 *F							496
CZ	02/01	9:30	PMI manufacturing									49.7
CZ	02/01	14:00	Budget balance	CZK B	01/01/2019							2.9

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