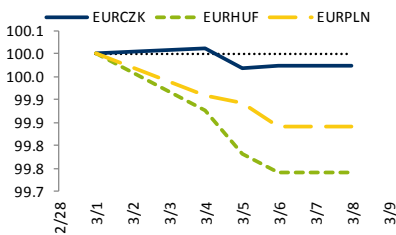




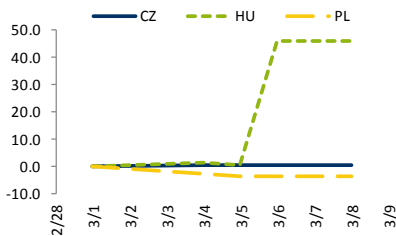
Friday, 08 March 2019

Forex markets (index)



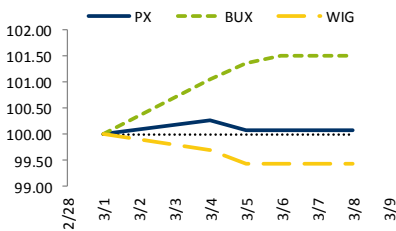
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.63 | 25.63 | 0.00 |
| EURHUF | 315.5 | 315.5 | 0.00 |
| EURPLN | 4.299 | 4.299 | 0.00 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.924 | 1.924 | 0.0 |
| HUGB 10Y | 3.22 | 3.22 | 0.0 |
| PLGB 10Y | 2.92 | 2.92 | 0.0 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1076.6 | 1076.6 | 0.00 |
| BUX | 40770 | 40770 | 0.00 |
| WIG | 59743 | 59743 | 0.00 |

Regional insights

Surprise jump of the Hungarian inflation. Still, it might be not enough to speed up tightening.

The Hungarian consumer price index delivered a surprise, it accelerated from 2.7% YoY in January to 3.1% YoY in February vs market expectation of 2.9% YoY. **The core inflation also jumped substantially, from 3.2% YoY in January to 3.5% YoY in February, which is the highest read since end-2013.**

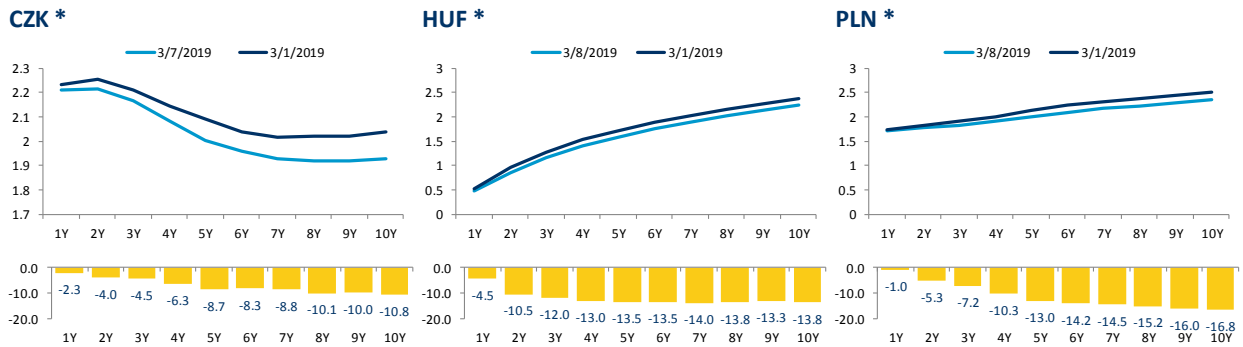
Almost all the subgroups showed an acceleration of price rise, but the biggest one happened in among the food products. Unprocessed foods price increased by 2.6% MoM mainly due to the potatoes and other vegetable price jump, but also the processed food price rose by 1.1% MoM. In case of the tradeable goods we saw some price moderation in February (seasonally effect) but it was smaller than in previous years, while the market services prices maintained its increasing trend. These latter two product groups confirmed our view that the strong domestic consumption may push inflation up in this year. Additionally not only the domestic demand causes inflation pressure, but also the fast increase of wages from cost side.

There is a huge difference between the January and February core inflation rise: the former was driven more by the excise duty hike of tobacco, while the latter by pure market reasons. So it will be quite interesting how the NBH judges the current figure. The core inflation excluding indirect tax changes went up from 3% YoY in January to 3.2% YoY in February (new peak since 2008).

The Monetary Council is now in a strange and difficult situation. On one hand the fast Hungarian economic growth and the above target inflation calls for monetary tightening, while on the other hand the deteriorating international environment (slowing European and Chinese growth, lower inflation in EU) calls for loose monetary conditions. Additionally the NBH also wants to boost the lending, which requires low interest rate as well. We still think that the Hungarian economic policy is too loose as both the fiscal and monetary policy supports too much the economic growth, which increases the risk of overheating. But despite of this risk we still don't believe in fast monetary policy adjustment as the headline inflation may peak in March around 3.3% YoY followed by a gradual moderation to 2.5% YoY till mid-summer, then another turn and we might see CPI at 3.5% YoY in December this year.

This inflation orbit suggests that NBH may rather just smoothly adjust its monetary policy till the summer, so we maintain our view that the average amount of liquidity to be crowded-out will maintained around HUF400bn (it doesn't really matter that it is HUF300 or HUF600bn as in both case it still pushes the internal banking rate close to the low and of the interest rate corridor) in 2Q19 and the overnight deposit rate might be increased from -15bp to 0% around the beginning of summer and it might be around 0.4% at the end of the year. The average liquidity to be crowded out might be decreased to zero on in the autumn time, which might push up the very short end of the curve to the current level of overnight deposit rate of 0.9% till the end of the year.

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 | 03/08 | 9:00 | Real wages | % 4Q/2018 | | 5.3 | | 4.7 | | 5.9 | | 6 |
| CZ | 03/08 | 9:00 | Unemployment rate 15-64 | % 02/01/2019 | 3.2 | | 3.2 | | 3.2 | | | 3.3 |
| HU | 03/08 | 9:00 | CPI | % 02/01/2019 | | | 0.6 | 3.1 | 0.4 | 2.9 | 0.3 | 2.7 |
| HU | 03/08 | 11:00 | Budget balance | HUF B 02/01/2019 | | | | | | | | 244.5 |

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 |
| Dieter Lapeire | +32 2 417 25 47 | | France | | +32 2 417 32 65 |
| Dublin Research | | | London | | +44 207 256 4848 |
| Austin Hughes | +353 1 664 6889 | | Singapore | | +65 533 34 10 |
| Shawn Britton | +353 1 664 6892 | | | | |
| Prague Research (CSOB) | | | Prague | | |
| Jan Čermák | +420 2 6135 3578 | | Prague (Equities) | | +420 2 2142 4216 |
| Petr Dufek | +420 2 6135 3560 | | | | |
| Bratislava Research (CSOB) | | | Bratislava | | |
| Marek Gabris | +421 2 5966 8809 | | | | +421 2 5966 8820 |
| Budapest Research | | | Budapest | | |
| David Nemeth | +36 1 328 9989 | | | | +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.

