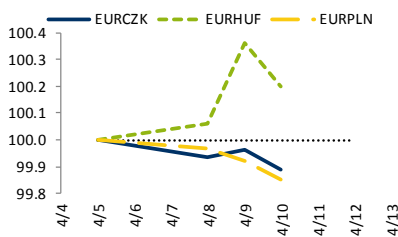




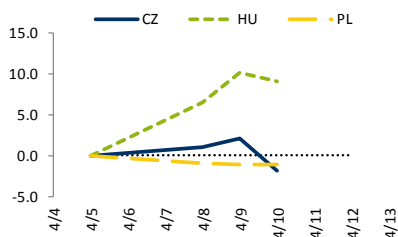
Wednesday, 10 April 2019

Forex markets (index)



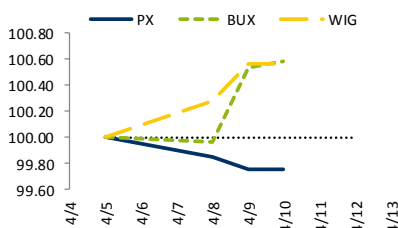
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.61	25.63	-0.07
EURHUF	321.9	322.4	-0.16
EURPLN	4.283	4.287	-0.07

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.901	1.940	-3.9
HUGB 10Y	3.11	3.12	-0.4
PLGB 10Y	2.91	2.91	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1083.4	1083.4	0.00
BUX	42085	42064	0.05
WIG	61097	61097	0.00

Our regional insights:

The Hungarian core inflation accelerates further

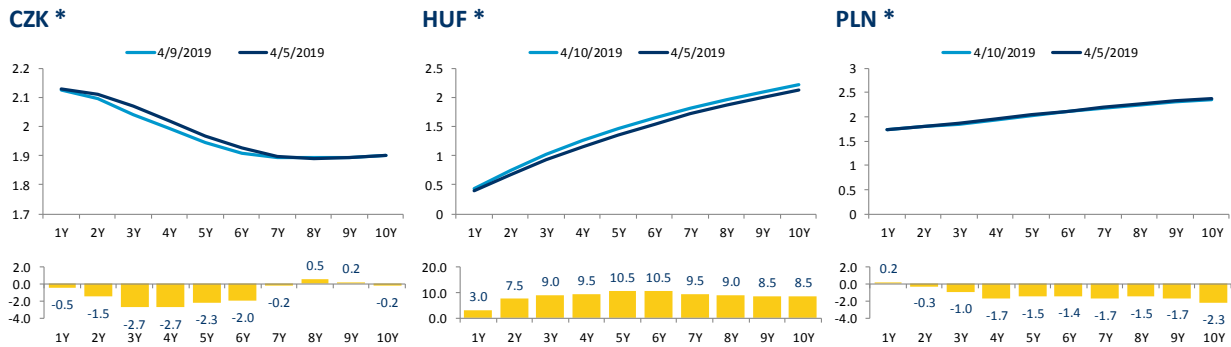
Yesterday, the Hungarian statistical office released the March inflation readings, which showed that the consumer price index surprisingly jumped in March to 3.7% YoY from 3.1% YoY in February. The main driver of the accelerating inflation were food, tobacco and fuel price increase, but also traveling (which price went up by 9.3% MoM), so we can identify wide spread of goods and services price increase. The inflation of industrial products and market services (both filtered from tax changes) were staying at the highest level since 2009 in March. **The core inflation and all the CPI figures, which are monitored by the NBH (like core inflation filtered from indirect tax changes or demand sensitive inflation) has been accelerated since last August from around 2.3% YoY to around or even above 3.5% YoY till March.**

The latest figures confirms our view that the strong domestic consumption and the fast wage increase put inflationary pressure on the economy. Although looking ahead the headline inflation may start to moderate slightly in the coming months – even close to around 3% YoY till July, which is mainly driven by base effect as the fuel price started to boom in that period a year before – the core inflation may even accelerate further and might go above 4% YoY temporary. Additionally we see headline inflation to reach again the 3.7% YoY level in December, so the drop of the inflation may be only temporary in the middle of the year.

The situation increases the risk that the NBH was not aggressive enough to stop the upward trend of inflation pressure. If we look on inflation expectation, it is moving up since 2016 and now part of the households already see inflation to move above 4% YoY. Despite of the high inflation we don't expect any substantial change of monetary policy for the coming two months as the NBH may want to see how big the European slowdown will be, and how long the ECB and other central banks may keep their loose monetary conditions. **We expect that the stock of foreign currency swap may moderated further in the coming weeks, as the NBH would like to see the 3-month Bubor around 25bp vs. the current level of 16bp, as they expected that the monetary policy changed delivered in March may push up the short end of the curve by 10bp, which hasn't happened so far.** We also expect that the NBH may increase the O/N deposit rate by 10bp in June again, and the 3-month Bubor might be around 40-50bp at the end of the year.

It is also important to mention, that although the NBH is not tightening substantially, the Debt Management Agency (AKK) is introducing new retail (bond) papers with high interest rates from July, through which on one hand they try to channel savings into the financing of public debt and on other hand they may try to moderate the domestic consumption and cool the economy. Hence, the Hungarian interest rate policy is very complex: there are different interest rates for the households and corporates both on deposit and loan side and the government together with the central bank try to artificially fine-tuning all the market. So, Hungary could already face some monetary tightening in the retail business although it is not delivered by the NBH.

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	04/10	9:00	CPI	% 03/01/2019	0.3	3	0.2	3	0.1	2.9	0.2	2.7
CZ	04/10	12:00	CZ eurobond auction 2019-2021, 0.00%	EUR mil 04/01/2019							100	
CZ	04/10	12:00	CZ bond auction 2015-2030, 0.95%	CZK B 04/01/2019							5	
CZ	04/10	12:00	CZ bond auction 2007-2057, 4.85%	CZK B 04/01/2019							0.5	
CZ	04/12	10:00	Current account	CZK B 02/01/2019	18						27	25.02
PL	04/12	14:00	Current account	EUR M 02/01/2019							-290	2316
PL	04/12	14:00	Trade balance	EUR M 02/01/2019							-224	279

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	
Mathias Janssens	+32 2 417 51 95	Institutional Desk	
Dieter Lapeire	+32 2 417 25 47	France	
Dublin Research		London	
Austin Hughes	+353 1 664 6889	Singapore	
Shawn Britton	+353 1 664 6892		
Prague Research (CSOB)		Prague	
Jan Čermák	+420 2 6135 3578	Prague (Equities)	
Petr Dufek	+420 2 6135 3560		
Bratislava Research (CSOB)		Bratislava	
Marek Gabris	+421 2 5966 8809		
Budapest Research		Budapest	
David Nemeth	+36 1 328 9989		

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