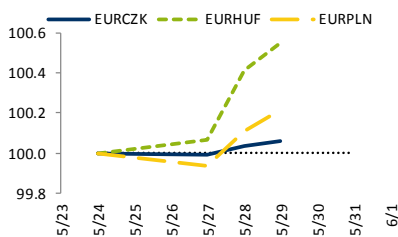




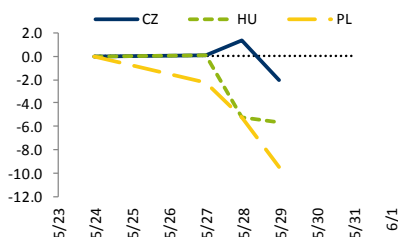
Wednesday, 29 May 2019

Forex markets (index)



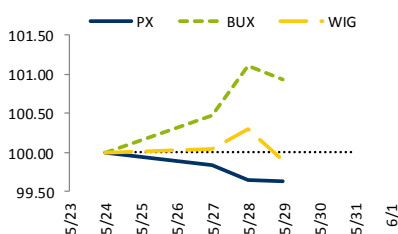
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.86	25.85	0.02
EURHUF	327.5	327.0	0.14
EURPLN	4.301	4.297	0.11

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.754	1.787	-3.3
HUGB 10Y	3.08	3.08	-0.2
PLGB 10Y	2.73	2.77	-1.6

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1038.0	1038.2	-0.01
BUX	40396	40467	-0.17
WIG	56701	56920	-0.38

Our regional insights:

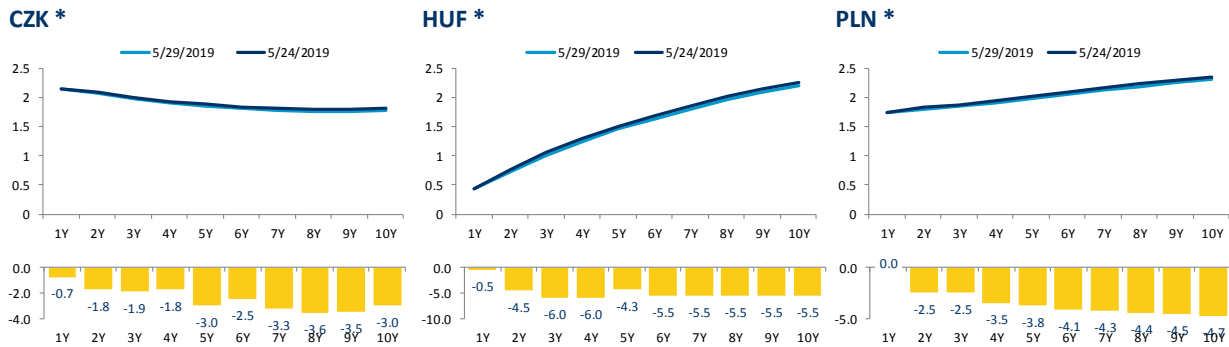
The NBH keeps its dovish line and threatens the forint

The National Bank of Hungary left its monetary policy unchanged in line with the expectations. So, the benchmark rate remained 0.9%, the overnight deposit rate -5bp, while the overnight lending rate 90bp. The Council's statement stance was as dovish as in April, highlighting that the internal and external factors working against each other. It means that although the Hungarian economy had a robust growth in 1Q19 and the consumer price index also accelerated to 3.9% mainly driven by the strong domestic components like consumption and investments, the external environment may cool down the Hungarian economy during the year. The NBH expects that the core inflation filtered from indirect tax changes may increase during the autumn, but it may reverse at the end of year. They also highlighted that the oil price was the main driver of CPI rise in the last months. The Council emphasized that the world's leading central banks have cautious monetary policy and the ECB may maintain loose monetary condition longer than it was expected before. The statement didn't reflect on the substantial HUF weakening, but it highlighted that the sentiment on the global markets was volatile, influenced by trade policy risks and macroeconomic data. All in all, the statement was finished with the same cautious macroeconomic thoughts as last month.

The Council mentioned again that the new corporate bond purchasing program will be started from 1st of July, with a starting amount of HUF300bn and the NBH will neutralise excess liquidity coming from the program by the preferential deposit.

It is quite clear that the NBH doesn't plan any fast and substantial monetary policy adjustment and their moves are still depending on ECB's decision, although both the economic growth and the inflation development would call for some monetary tightening. Especially that the government plans to introduce new economic policy stimulus in order to maintain Hungary's GDP growth above 4% YoY level. All these suggests that the risk of overheating the economy is increasing, which is reflected partly also in the fast deterioration of current account balance (which might turn into negative territory this year). Taking in account the cautiousness of NBH, ***we maintain our view that the Council may take the same actions in June as in March: increasing the overnight deposit rate by 10bp to 5bp, and decreasing the average crowded-out liquidity by HUF100bn to HUF200-400bn for the third quarter.*** It is also important to mention that the government starts to issue the new retail bonds for households from June, which provides better conditions for saving than the earlier issued retail bonds, which might restructure the savings portfolios and may dry out some liquidity from the market as well. It may cause some volatility on the bond and IRS market, potentially pushing the whole yield curve slightly upward. The NBH highlighted that if it is necessary, they will increase the available HUF liquidity on the market, so they don't want to see a substantial rise of interest rate. In case of the EUR/HUF, ***this approach of the NBH may put some further depreciation pressure on the HUF till next MPC decision especially in case we won't see any cooling effect coming from the global environment. We see important resistance levels around 327.5 and 329, before its historic peak which was at 330.75.***

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	05/29	9:00	Unemployment rate	% 04/01/2019					3.6		3.6	
CZ	05/29	12:00	CZ bond auction 2015-2026, 1.00%	CZK B 05/01/2019					3			
CZ	05/29	12:00	CZ bond auction 2018-2029, 2,75%	CZK B 05/01/2019					3			
HU	05/30	9:00	Wages	%, ytd. 03/01/2019						11.6		12.1
CZ	05/31	9:00	GDP	% 1Q/2019 *P					0.5	2.5	0.5	2.5
HU	05/31	9:00	Trade balance	EUR M 03/2019 *F								677
HU	05/31	9:00	GDP	% 1Q/2019 *F					1.5	5.3	1.5	5.3
PL	05/31	10:00	GDP	% 1Q/2019 *F							1.4	4.6
CZ	05/31	10:00	Money supply M2	% 04/01/2019								5.7

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				

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.

