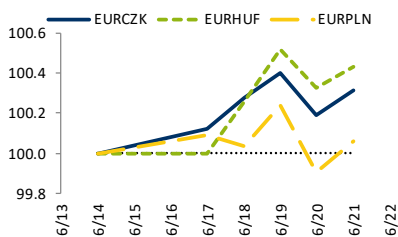




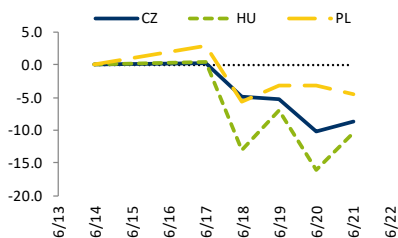
Friday, 21 June 2019

Forex markets (index)



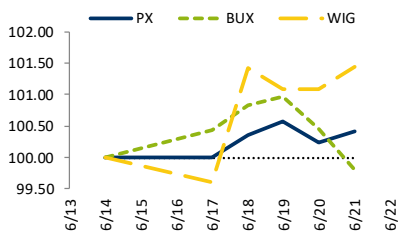
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.62	25.59	0.12
EURHUF	323.7	323.4	0.11
EURPLN	4.260	4.254	0.16

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.493	1.478	1.5
HUGB 10Y	2.65	2.59	2.2
PLGB 10Y	2.34	2.36	-0.6

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1055.8	1054.0	0.17
BUX	40510	40775	-0.65
WIG	59950	59739	0.35

Regional insights

The Hungarian C/A balance continues to deteriorate

The Hungarian current account balance deteriorated further compared to the same period of last year in 1Q19. The surplus was EUR329m in this year vs. EUR665m in 2018. Additionally figures of last year was revised on the downside, so the surplus was only EUR488m or 0.4% of GDP. **The deterioration was very fast in the last three years as the C/A surplus peaked in 2016 with a level of EUR7bn (6.2% of GDP), followed by EUR3.5bn (2.8% of GDP in 2017). The 4 quarters rolling surplus was only EUR152m in the Q1 of 2019, so we might see a negative figure already in this quarter, which happened last time in the third quarter of 2010.**

Both the trade and income balance were weaker than a year before, the former represented EUR1764m surplus, while the latter 1435m deficit in 1Q19. Within the trade, balance of goods had EUR153m, while the services EUR1612m surplus.

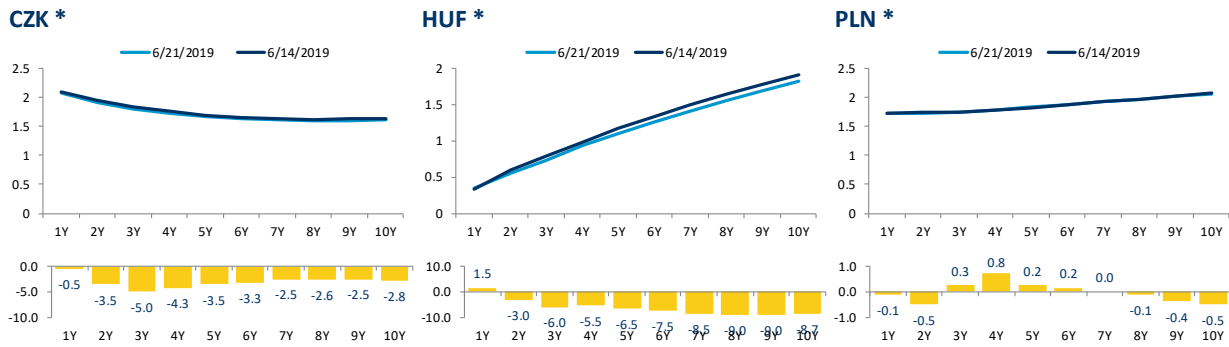
As the households consumption may remain strong in the coming quarters, while the European conjuncture looks to be weak now, **it suggests that the balance of goods may deteriorate further in the coming quarters, which may push the current account balance into deficit (we expect -0.2% of GDP balance) this year and we see around 1% of GDP deficit for 2020.**

Despite of the deteriorating current account, we expect positive financial capability (around 2.5% of GDP) for this year thanks to the EU funds inflow in the capital account just like how we have seen it in the 1Q19. The next year is less positive from that perspective, as less EU funds money may come to Hungary and the C/A balance may deteriorate as further, so the financial capability of the country may be close to 0% of GDP and additionally it may turn into negative territory in 2021. It means that the fast improvement of net external debt may stop in next year (we have already seen a slowdown in the last 3 quarters and it recently stays around 8% of GDP excluding the FDI debt instruments) or even it may reverse in 2021.

All the above mentioned figures confirms our view that the outstanding Hungarian economic growth is fuelled by domestic consumption and the use of EU funds money and the recent speed is well above the potential growth level. It means that the NBH may have to continue the monetary tightening to cool down slightly the Hungarian economy. The inflation figures (headline at 3.9% YoY and the core one at 4% YoY in May) also calls for monetary tightening. **Despite of the strong domestic arguments, the hike of the overnight deposit rate by 10bp from -5bp it is not the base case scenario, because the change of the tones of ECB and FED. The NBH always highlights that they expect that the international environment may cool down the Hungarian economy and so they don't have to tighten the monetary policy.** Additionally the EURHUF is traded also below 325, the yield curve flattened (the long end came down) so it looks like that the market doesn't want to force out monetary tightening either.

David Nemeth (K&H)

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	06/21	9:00	Current account	EUR M	1Q/2019		329					-426	
PL	06/21	10:00	Industrial output	%	05/01/2019		0	7.7				-3.6	9.2
PL	06/21	10:00	PPI	%	05/01/2019		0.2	1.4				0.4	2.6
PL	06/21	14:00	NBP Minutes										

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