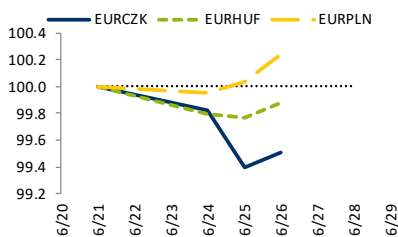




Central  
Europe  
Wednesday

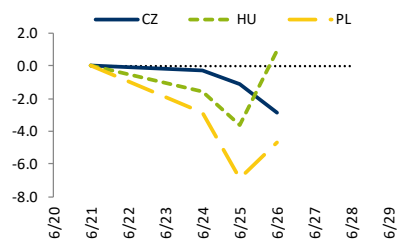
Wednesday, 26 June 2019

#### Forex markets (index)



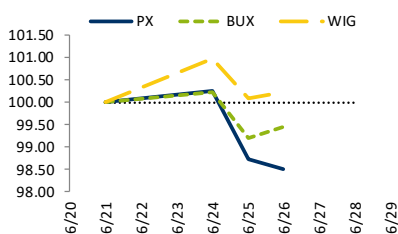
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.49	25.46	0.11
EURHUF	323.7	323.3	0.11
EURPLN	4.265	4.256	0.20

#### Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.470	1.488	-1.8
HUGB 10Y	2.64	2.60	1.7
PLGB 10Y	2.33	2.31	1.0

#### Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1037.8	1040.1	-0.22
BUX	40168	40062	0.26
WIG	59564	59481	0.14

## Our regional insights:

### The dovish NBH is back in a wait-and-see mode

Yesterday, the National Bank of Hungary (NBH) left reference rates unchanged (O/N deposit rate -5bp, O/N lending rate 90bp and key rate also 90bp), while the average amount of liquidity crowded out for the third quarter was reduced by HUF100bn from HUF300-500bn to HUF200-400bn.

The NBH statement was quite dovish again although it highlighted that inflationary risks are symmetric. The domestic components, like high wage growth or strong domestic consumption are pushing up the consumer price index so the core inflation may increase further in the coming months. On the other hand the worsening international environment may cool down the Hungarian economy as well in the second half of the year, which may counterbalance the domestic driven inflation pressure. The NBH believes in that the new retail bond may increase the saving willingness of the households, so it may slow down the domestic consumption and so the domestic driven inflation pressure may moderate as well.

The Council highlighted that the policies of the world's leading central banks became more cautious, and even monetary loosening may happen in the coming months.

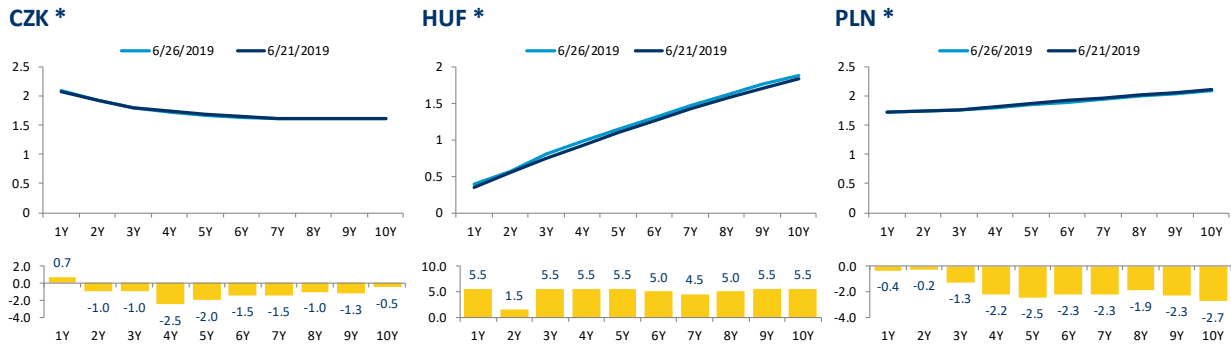
So based on the above-mentioned reasons the NBH remains on the wait and see mode. The NBH statement was finished with the sentences: "In its monetary policy decisions, the Council applies a cautious approach, relying mainly on the comprehensive projections for the macro economy and inflation of the quarterly published Inflation Report. The future developments in the outlook for inflation will be a decisive factor in the necessity of further measures."

The NBH commented its decision as a monetary tightening, although we think that there was no real change as the O/N deposit rate was left unchanged and the slightly lower average amount of liquidity crowded out for the third quarter may have no real effect on the market. The real turning point may arrive when this amount is moderated close to zero.

In case of the NBH's inflation outlook we expect higher year-end inflation (closer to 4% YoY vs. NBH's view of close to 3% YoY) as we think that domestic component may boost consumer prices. It is also interesting that the NBH forecasted 3.4% YoY and 3.3% YoY average inflation for 2020 and 2021 respectively, which is above the inflation target and definitely would call for monetary tightening, but it looks like that the NBH anticipates the higher inflation orbit.

It is quite clear that the NBH's next move will be even more dependent on the ECB's action and they want to keep the low interest environment as long as possible. It also suggests that the EUR/HUF may be quite volatile depending on the fresh figures, but we expect that NBH may move with very small steps even in case we see that the inflation won't decelerate as fast as the NBH forecasted this time. So, we expect further HUF100bn cut of the average amount of liquidity crowded out for the last quarter and possibly 10b hike of O/N deposit rate in September.

## 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
PL	06/26	10:00	Unemployment rate	% 05/01/2019			5.4		5.4		5.6	
CZ	06/26	12:00	CZ bond auction 2017-2033, 2.00%	CZK B 06/01/2019					4			
CZ	06/26	12:00	CZ bond auction 2007-2057, 4.85%	CZK B 06/01/2019					0.5			
CZ	06/26	13:00	CNB meeting	% 06/01/2019	2				2		2	
HU	06/27	9:00	Unemployment rate	% 05/01/2019					3.5		3.5	
CZ	06/28	9:00	GDP	% 1Q/2019 *F					0.6	2.6	0.6	2.6
HU	06/28	9:00	Wages	%, ytd. 04/01/2019						10.6		10.2
HU	06/28	9:00	PPI	% 05/01/2019							1	4.1
PL	06/28	10:00	CPI	% 06/2019 *P		2.4			0.2	2.4	0.2	2.4

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