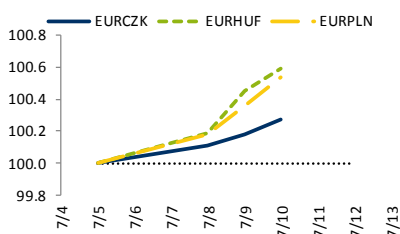




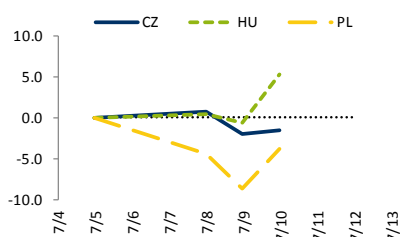
Wednesday, 10 July 2019

Forex markets (index)



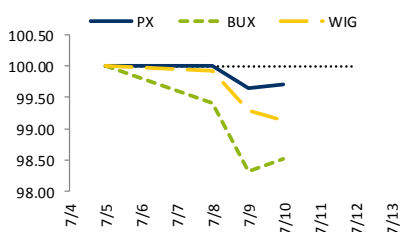
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.58	25.55	0.09
EURHUF	326.1	325.7	0.14
EURPLN	4.274	4.266	0.18

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.394	1.390	0.4
HUGB 10Y	2.36	2.30	2.6
PLGB 10Y	2.24	2.19	2.2

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1049.1	1048.4	0.06
BUX	40414	40327	0.21
WIG	60108	60200	-0.15

Our regional insights:

Lower Hungary's inflation gives the NBH a chance to wait

The Hungarian headline inflation dropped substantially in June – from 3.9% YoY to 3.4% YoY – slightly below the market expectations. The core inflation moderated by 0.2%pt to 3.8% YoY in last month.

The main reason behind the fall of headline inflation was the fuel price as the oil price started to rise last year, while we saw some fuel price moderation in last month. Without this effect the inflation would moderate only to 3.7% YoY. The remaining part of the lower inflation came from durable tradable goods (mainly from vehicle), energy and tobacco price moderation.

On the other hand the market services price increased again although at least June was the first month in this year when the price rise was smaller than a year before but it was still the second highest in the last ten years.

So we see two different trends: the domestic components (consumption, wages) are still fuelling inflation, while the external factors (oil, deteriorating external demand) are cooling the CPI. In short run, till September the external factors will remain stronger, so the inflation may drop close to 3% YoY, but CPI may jump substantially in the last two months because of base effect, so it may be close to 4% YoY at the end of the year. It is also important that the inflation expectations of the households are slowly, but gradually increasing, although it is still in line with the NBH's tolerated inflation range.

All the above mentioned figures confirms our view that the NBH may remain on the wait and see approach till September and any further (even symbolic) monetary tightening may come only in case if the domestic price pressure strengthens or the big central banks (ECB and FED) reverse their dovish monetary stance. So the chance of no change of monetary policy for September increased.

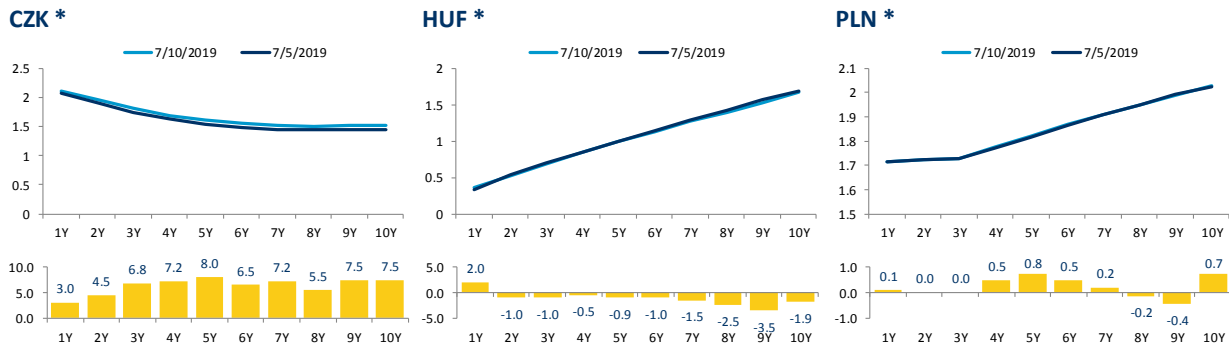
The solid Czech industry decouples from weak PMIs

Although purchasing managers' indices indicate a recession in the Czech Republic, hard data from the real economy still do not suggest anything alike. This impression is confirmed by the recently published Czech industry figures, which contrast with the pessimism represented by the PMI and the results of the German industry.

In fact, Czech industrial production grew by 3.2% y-o-y in May, mainly thanks to the automotive industry, which alone had almost a 7% increase in production. In recent months automakers clearly managed to gradually cover the decline in production from the beginning of the year. Of course, this doesn't say much about all suppliers in the automotive industry connected to foreign final manufacturers.

Although the Czech industry figures for April and May indicate that Czech GDP growth is unlikely to repeat the excellent result from the beginning of the year in the second quarter, it is quite certain that the Czech economy is not balancing on the edge of recession - as the PMI or the inverted yield curve suggest. After all, the June data on the Czech unemployment rate stagnating at historical lows (2.6%), or ever growing retail sales (2.7% y-o-y in May) give the same signals.

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	07/11	9:00	CPI	%	06/01/2019	0.1	2.6			0.1	2.7	0.7	2.9

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