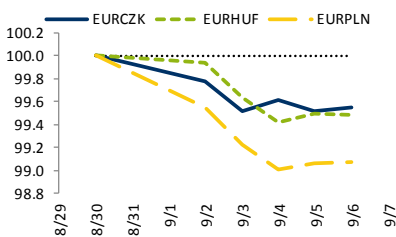




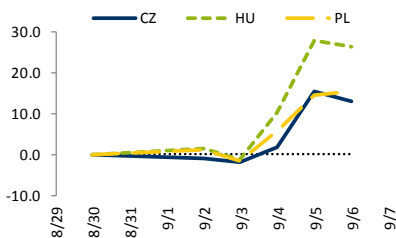
Friday, 06 September 2019

Forex markets (index)



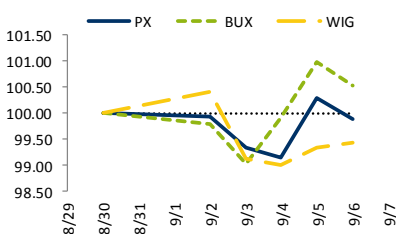
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.84	25.83	0.03
EURHUF	329.6	329.7	-0.01
EURPLN	4.339	4.339	0.01

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.127	1.151	-2.4
HUGB 10Y	2.14	2.15	-0.6
PLGB 10Y	1.98	1.98	0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1036.0	1040.3	-0.41
BUX	40000	40181	-0.45
WIG	56425	56358	0.12

Regional insights

The Hungarian industry and exports look still OK

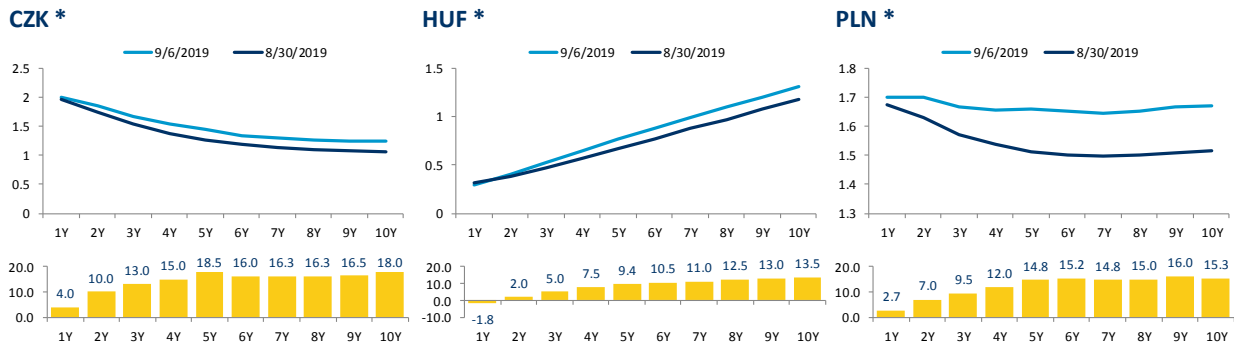
Despite of the European slowing conjuncture, the Hungarian economy looks to be quite resilient so far. The latest figure coming from retail and industrial sector were quite strong. The working-day adjusted retail sales were up by 6.4% YoY in July, which exceed the first 7 months performance of 5.8% YoY. The main driver of the increase is the sales of non-food products, but the fuel consumption went up substantially also. The main difference is compared to the previous years, that now we see fast increase of consumer loans, which suggests that the households extra spending is coming from not only from net real wage growth, but from loans as well, which is less sustainable on medium and long term.

Interestingly, the industrial production delivered a big surprise in July as it had the highest read in this year. The working-day adjusted figure showed 8.7% YoY increase mainly driven by vehicle industry. Although this figure is very impressive, we don't believe in it that it is sustainable, especially that the vehicle demand is not too promising. We won't be surprised if this outstanding good figure is followed by a weak one in August, when lots of the factories are closing because of holiday period. The Hungarian industry may be resistant so far on worsening external environment thanks to the previous investments in last years, which started to work in full capacity in this year. **The strong industry pushed up the export in July as well, which expanded by 7.6% YoY (highest read in the last 12 months) and so the trade balance had higher surplus than a year ago in July.** Although thanks to this figure the deteriorating trend of the trade surplus to the GDP ratio has stopped (4.4% of GDP in July vs. 4.3% of GDP in June), it is more than halved in the last three years (the peak was 9.2% of GDP in November 2016). Taking in account the poor global environment and the strong domestic demand, we expect that the trade balance may deteriorate again in the coming months.

All these figures means that the economy had a strong start in the 3rd quarter, so we don't expect a sudden collapse of the growth, but we think that the August figures – especially in case of the industrial production and export – may be substantially weaker, so we still forecast some slowdown for 3Q19 to around 4.2% YoY, but it till means that the economy may grow close to 4.5% YoY in 2019.

After the EUR/HUF reached new all-time peak this week, it moved back below 330, but it was driven fully by global sentiment and it didn't react on the strong July figures. It suggest that once the global sentiment starts to deteriorate again, it might move back to above 330 levels. In short term, if the positive sentiment remains, we see technically it can move to around 325-326 levels.

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	09/06	9:00	Construction output	% 07/01/2019		1.5		3.7				2.4
CZ	09/06	9:00	Trade balance (national)	CZK B 07/01/2019	-5			0.1		0.9		16.6
CZ	09/06	9:00	Industrial output	% 07/01/2019		0.5		0.1		2.9		-3.8
HU	09/06	9:00	Industrial output	% 07/01/2019				8.7		6.9		-1.8
HU	09/06	9:00	Trade balance	EUR M 07/2019 *P				276				488

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