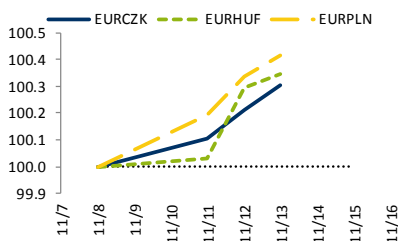




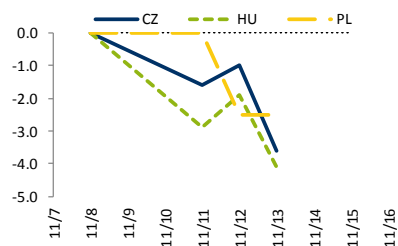
Wednesday, 13 November 2019

Forex markets (index)



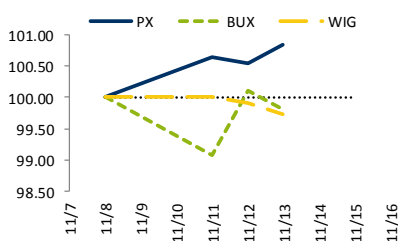
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.56	25.54	0.09
EURHUF	334.8	334.6	0.05
EURPLN	4.284	4.280	0.08

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.535	1.561	-2.6
HUGB 10Y	2.06	2.08	-1.1
PLGB 10Y	2.14	2.14	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1087.4	1084.1	0.30
BUX	43359	43492	-0.31
WIG	59036	59141	-0.18

Our regional insights:

The forint is heading to all-time lows again

The low-yielding Hungarian forint has been again under selling pressure this week as the EUR/HUF pair is approaching all-time highs again. It seems that the Hungarian currency still cannot bet on any help from the domestic central bank as NBH's tolerance to high(er) inflation prevails.

Recall that the Hungarian consumer price index increased from 2.8% YoY in September to 2.9% YoY in October, while the core inflation went up from 3.9% YoY to 4% YoY, which is the highest read since end of 2012 (except this May, when the figure was at the same level).

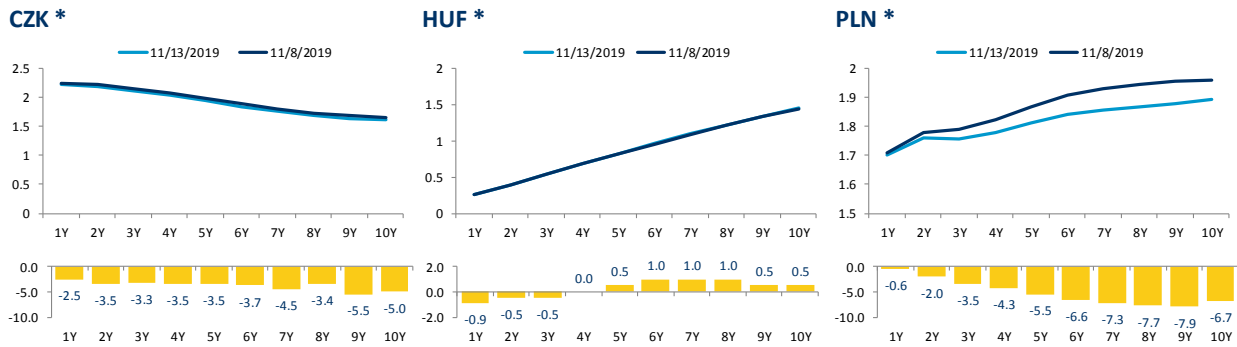
The unprocessed foods, tobacco and alcohol were the main drivers of further acceleration of core inflation. Although the market services prices increased by the same level as previous years in October, it is still one of the faster growing price group in this year. The huge gap between the headline and core inflation is due to the development of fuel prices, which rose substantially till October last year followed by a sudden drop in November and December. This base effect will push the headline inflation up to around 3.8% YoY till the end of the year so the gap between the core and headline inflation will narrow substantially.

The main question is still that the low imported inflation may be able to counterbalance the weakening forint and the domestic driven price pressure or the consumer price index may remain above the inflation target of NBH (3% YoY) for an extended period. We see that the labour market is still quite tight so the wage dynamic might remain quite elevated in 2020. Additionally the households borrowing willingness looks to be quite high, which also may boost the domestic consumption. So we think that the NBH may miss its inflation target in 2020 as the average headline inflation may be around 3.5% YoY.

Despite of the accelerating consumer price index the NBH may maintain its dovish main message, that they see rather downside risk in inflation development because of the external environment, so the quite loose monetary conditions may be maintained. At least the NBH hasn't increased the outstanding stock of HUF via foreign currency swaps, but we don't expect any substantial monetary tightening in the coming quarters.

Nevertheless it was also interesting that NBH's governor, Mr. Matolcsy together with the vice-governor, Mr. Nagy published a short research paper about the problems of inflation calculation methodology, which puts more emphasis on the elements which are distorting the inflation on the upside. It also confirms our view that NBH may want to maintain the low interest environment as long as possible.

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	11/13	10:00	Current account	CZK B 09/01/2019	-9.2		11.5	2.3	11.2	-10.7		
CZ	11/13	12:00	CZ bond auction 2017-2027, 0.25%	CZK B 11/01/2019				2				
CZ	11/13	12:00	CZ bond auction 2017-2033, 2.00%	CZK B 11/01/2019				3				
PL	11/13	14:00	Current account	EUR M 09/01/2019				-220		-606.0		
PL	11/13	14:00	Trade balance	EUR M 09/01/2019				8		-55		
CZ	11/14	9:00	GDP	% 3Q/2019 *A	0.4	2.6		0.3	2.6	0.7	2.8	
HU	11/14	9:00	GDP	% 3Q/2019 *P					4.3	1.1	4.9	
PL	11/14	10:00	GDP	% 3Q/2019 *P				1.1	4.1	0.8	4.5	
PL	11/14	10:00	CPI	% 10/2019 *F						0.2	2.5	

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