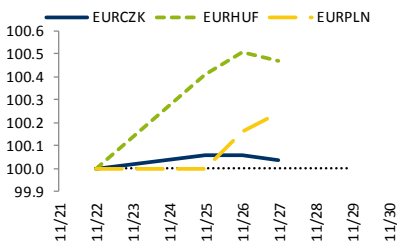




Central Europe
Wednesday

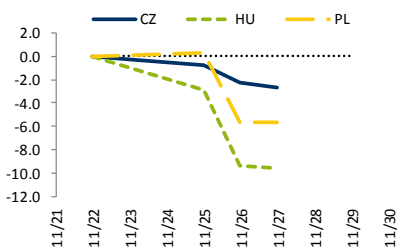
Wednesday, 27 November 2019

Forex markets (index)



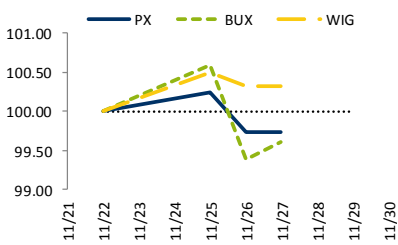
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.50 | 25.51 | -0.02 |
| EURHUF | 336.0 | 336.1 | -0.04 |
| EURPLN | 4.309 | 4.305 | 0.08 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.411 | 1.415 | -0.4 |
| HUGB 10Y | 1.77 | 1.77 | -0.1 |
| PLGB 10Y | 1.99 | 1.99 | 0.0 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1079.0 | 1079.0 | 0.00 |
| BUX | 43884 | 43782 | 0.23 |
| WIG | 58052 | 58052 | 0.00 |

Our regional insights:

Low carry puts the forint under pressure

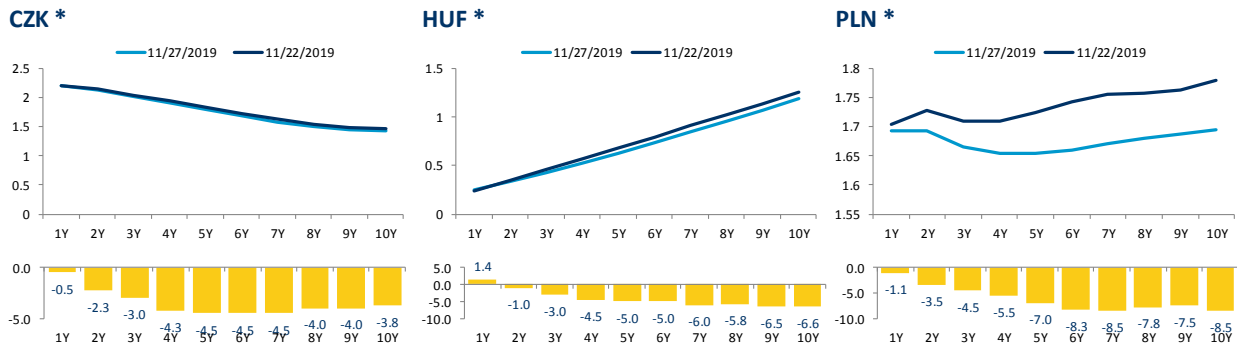
Although there were published quite positive data about Hungary in the last weeks, like the impressive above 5% YoY economic growth, stable state budget, decreasing public debt, EU fund inflows etc., the HUF is the worst performer in the region. The main reason behind it, in our view, that the core inflation reached the upper level of the NBH's inflation target tolerance range of 4% YoY, which is quite neglected by the MPC. They are still talking about downward pressure on inflation, and they strongly believe in it that the external environment (cooling growth and low inflation) may fully counterbalance the strong domestic factors (high wage growth, booming retail sales) and the weakening HUF (they expect that the depreciating HUF won't push up the price of the imported products). **In this environment the NBH maintains the lowest interest rates and by far the highest real negative rates. This rate differential may create some position against HUF, for example buy CZK, PLN or even USD and sell HUF.**

The main question is that what is the level of EUR/HUF with the NBH feels itself less comfortable, but it looks like at the moment that 335 is not that level. We maintain our view that the weak HUF and the domestic factors may keep the inflation above the target in the next 2-years, which may suggest some monetary tightening, but the low interest environment is more important for NBH, so we still don't expect any substantial change of monetary policy for the coming month. From technical point of view the EUR/HUF around 337 means an important resistance level, and if it goes above it can move even to 341, where we see that upper edge of the weakening trend, which started in March. The lower edge of this range is now around 330, where you can find the 100-day moving average as well. Fundamentally we still expect some 2% depreciation yearly, which means the in positive sentiment the HUF may strengthen to between 320 and 325, while in negative sentiment may weaken to 340-345 in the coming quarters.

EUR/HUF spot rate



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 | 11/27 | 9:00 | Unemployment rate | % 10/01/2019 | | | 3.5 | | 3.5 | | 3.5 | |
| PL | 11/27 | 10:00 | Unemployment rate | % 10/01/2019 | | | 5 | | 5.1 | | 5.1 | |
| CZ | 11/27 | 12:00 | CZ bond auction 2015-2023, 0.45% | CZK B 11/01/2019 | | | | | 2 | | | |
| CZ | 11/27 | 12:00 | CZ bond auction 2017-2033, 2.00% | CZK B 11/01/2019 | | | | | 3 | | | |
| CZ | 11/29 | 9:00 | GDP | % 3Q/2019 *P | | | | | 0.3 | 2.5 | 0.3 | 2.5 |
| HU | 11/29 | 9:00 | Wages | %, ytd. 09/01/2019 | | | | | | | | 11.5 |
| HU | 11/29 | 9:00 | GDP | % 3Q/2019 *F | | | | | 1.1 | 5.0 | 1.1 | 5 |
| PL | 11/29 | 10:00 | GDP | % 3Q/2019 *F | | | | | | | 1.3 | 3.9 |
| PL | 11/29 | 10:00 | CPI | % 11/2019 *P | | | | | 0.1 | 2.5 | 0.2 | 2.5 |

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