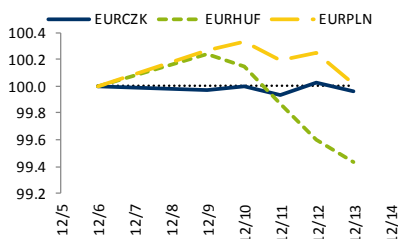




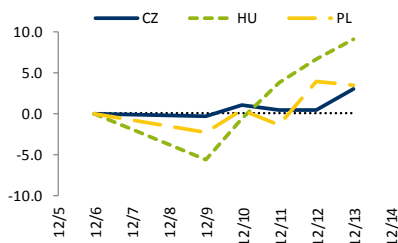
Friday, 13 December 2019

Forex markets (index)



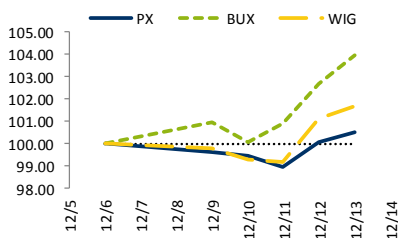
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.52 | 25.53 | -0.06 |
| EURHUF | 328.9 | 329.5 | -0.17 |
| EURPLN | 4.276 | 4.285 | -0.23 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.488 | 1.462 | 2.6 |
| HUGB 10Y | 1.88 | 1.85 | 1.2 |
| PLGB 10Y | 2.03 | 2.03 | -0.2 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1096.5 | 1091.8 | 0.44 |
| BUX | 45954 | 45383 | 1.26 |
| WIG | 56947 | 56621 | 0.57 |

Regional insights

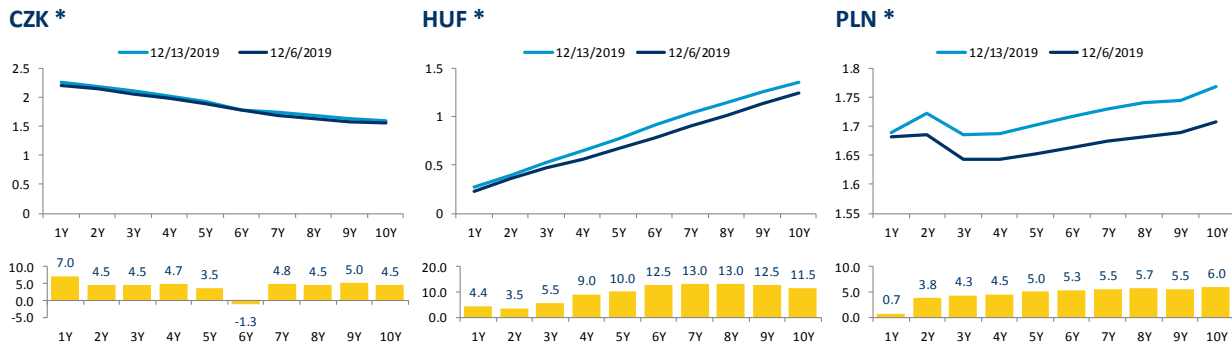
A stronger forint allows the NBH to keep its loose policy

The Hungarian forint has strengthened substantially in the last two weeks and it has broken out from the weakening channel started in middle of June. Hence, The National Bank of Hungary (NBH) could be in slightly more comfortable situation than a month ago mainly thanks to the positive news and market developments. Although we maintain our view that the depreciating currency is still part of the government's and the NBH's policy mix, they would like to see a slower depreciating trend than what we experienced during the last months, so the stabilization of the EUR/HUF in the range of 328 and 335 would be more welcomed by them for the next one or two quarters. Although the consumer price index started to elevate fast and may reach even 4% YoY in the coming months, it is more or less in line with the orbit the NBH predicted in their last quarterly inflationary report. It means that they can maintain their argument that inflation jump is only temporary and may return close to 3% in the second half of 2020. It implies that it is quite unlikely that the NBH may change its monetary policy mixture next Tuesday, when it will be held its interest-rate-setting meeting.

The main question for us how their communication may change as their main argument was that the slowing economic environment may cool down the Hungarian inflationary pressure coming from the high wage growth and strong domestic consumption. But the latest figures and confidence indicators don't confirm that view, so we expect that the NBH may switch their communication related to inflation from asymmetric risk on the downside towards symmetric risks. Although it is only a small change but it would mean that the NBH may not increase the HUF liquidity and doesn't want to push down further the short end of the curve.

We maintain our view that the NBH may have a wait and see stance in the coming months and as their decision is highly depends on ECB's decisions, it is quite unlikely that there might be any monetary tightening in the first half of 2020, despite of they might miss their inflation target in 2020 (we forecast 3.5% average inflation for 2020). **Hence, we think that the NBH may tighten only in a case EUR/HUF pair starts to move sudden above 340 in the next months, because it would endanger even to keep inflation below 4% YoY, which would mean the miss of tolerance range as well. However, in the light of the result of UK's election and a possible easement in China-US trade conflict might save the forint from sudden weakening for the following weeks, which means that the NBH can maintain its current loose monetary stance.**

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 | 12/13 | 10:00 | CPI | % 11/2019 *F | | | | | | | 0.1 | 2.6 |
| CZ | 12/16 | 9:00 | PPI | % 11/01/2019 | | | | | -0.1 | 0.9 | -0.3 | 0.9 |
| CZ | 12/16 | 10:00 | Current account | CZK B 10/01/2019 | 6.6 | | | | 12.5 | | 7.66 | |
| PL | 12/16 | 14:00 | Core CPI | % 11/01/2019 | | | | | 0.0 | 2.5 | 0.3 | 2.4 |
| PL | 12/16 | 14:00 | Current account | EUR M 10/01/2019 | | | | | 442 | | 171 | |
| PL | 12/16 | 14:00 | Trade balance | EUR M 10/01/2019 | | | | | 587 | | 468 | |
| HU | 12/17 | 14:00 | NBH meeting | % 12/01/2019 | 0.9 | | | | 0.9 | | 0.9 | |
| HU | 12/17 | 14:00 | Overnight deposit rate | % 12/01/2019 | -0.05 | | | | -0.05 | | -0.05 | |
| PL | 12/18 | 10:00 | Wages | % 11/01/2019 | | | | | 1 | 6.0 | 2.5 | 5.9 |
| CZ | 12/18 | 12:00 | CZ bond auction 2015-2023, 0.45% | CZK B 12/01/2019 | | | | | 2 | | | |
| CZ | 12/18 | 12:00 | CZ bond auction 2017-2033, 2.00% | CZK B 12/01/2019 | | | | | 5 | | | |
| CZ | 12/18 | 13:00 | CNB meeting | % 12/01/2019 | 2 | | | | 2 | | 2 | |
| PL | 12/19 | 10:00 | Industrial output | % 11/01/2019 | | | | | -6.1 | -1.1 | 7.8 | 3.5 |
| PL | 12/19 | 10:00 | PPI | % 11/01/2019 | | | | | 0.1 | 0.2 | -0.4 | -0.1 |
| HU | 12/20 | 8:30 | Current account | HUF B 3Q/2019 | | | | | | | -122 | |

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