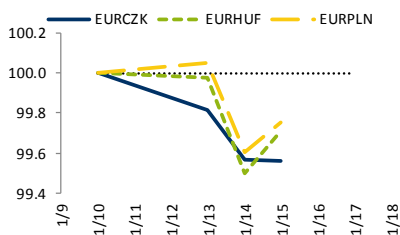




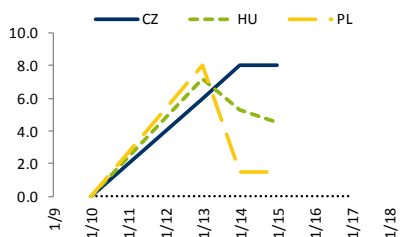
Wednesday, 15 January 2020

## Forex markets (index)



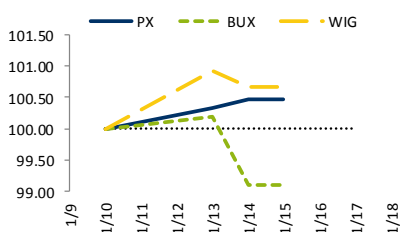
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.15	25.15	0.00
EURHUF	333.1	332.4	0.21
EURPLN	4.223	4.217	0.15

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.658	1.658	0.0
HUGB 10Y	2.06	2.07	-0.4
PLGB 10Y	2.27	2.27	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1139.1	1139.1	0.00
BUX	44960	44960	0.00
WIG	59119	59119	0.00

## Our regional insights:

## The Hungarian inflation hits 4% and the forint firms

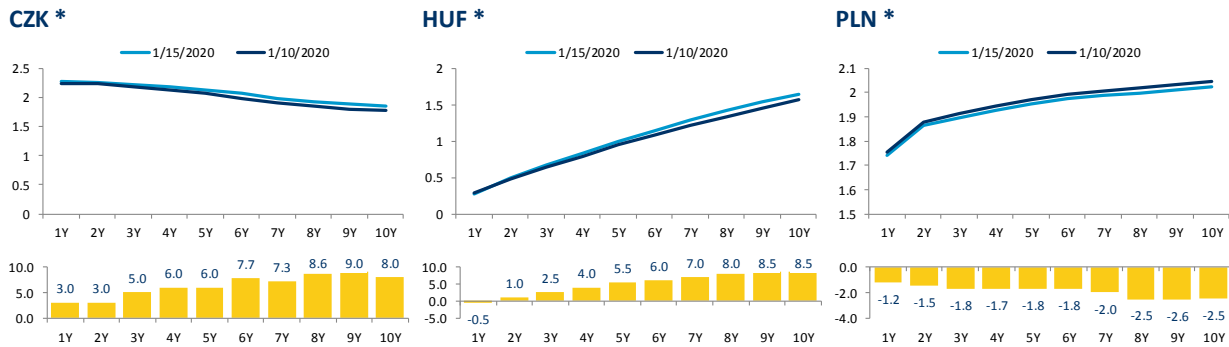
The Hungarian consumer price index jumped from 3.4% YoY in November to 4.0% YoY in December in line with the expectations and so the average inflation was 3.4% YoY in 2019 vs. the inflation target of 3% YoY, although that NBH has a tolerance range of +/-1%pt. The two main reasons which were pushing up the headline figure were base effect (oil price change) and the food price.

The prices in the market service sector, which are up by roughly 5% YoY, were increasing slightly less than a year ago in December, which was the main reason why the core inflation moderated from 4% YoY in November to 3.9% YoY in December. It is also important to emphasize that all the three inflation figures, which are calculated by the NBH and which try to identify the underlying trends of the inflation were running mostly above 3% YoY in the last 12 months.

Based on our calculation the headline inflation may remain around 4% YoY in the coming two months, followed by a sharp drop to around 3% YoY till May, which might be the bottom level of inflation in 2020. We might see between 3.5% YoY and 4% YoY figures in the second half of the year and so the average yearly inflation might be around 3.5% YoY in 2020, which means that it may overshoot again the inflation target. The main drivers of inflation may be the quite strong domestic consumption, the around 7-8% YoY wage growth, the forced excise duty hike of tobacco by EU and the weak HUF level. On the other side we can identify the low imported inflation as a cooling factor of consumer price index. The stat office registered a drop of tradable goods price for 2019, which shows that the effect of low imported inflation was stronger than the effect of the weaker HUF in 2019.

It is also an important point to monitor closely in 2020, who the inflation expectations are changing as we see an upward trend since 2016 and more and more people are expecting even above 4% YoY inflation. If this trend continuous, it would force the NBH to change its ultra-loose monetary policy, but we think that it won't happen at least in the first half of 2020 and there could be only very minor changes in 2H20 as well. So what we have to focus on in case of inflation development are: the imported inflation, the spill-over of weaker HUF and increasing cost (mainly wages). **Taking in account the risks regarding price development we see bigger chance for surprise towards a tighter monetary policy than a looser one for 2020.**

## 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	01/15	10:00	CPI	% 12/2019 *F							0.8	3.4
CZ	01/15	12:00	CZ bond auction 2015-2023, 0.45%	CZK B 01/01/2020					5			
CZ	01/15	12:00	CZ bond auction 2017-2027, 0.25%	CZK B 01/01/2020					5			
CZ	01/16	9:00	PPI	% 12/01/2019					0.0	2.0	-0.1	0.9
PL	01/16	14:00	Core CPI	% 12/01/2019					0.6	3.2	0	2.6

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