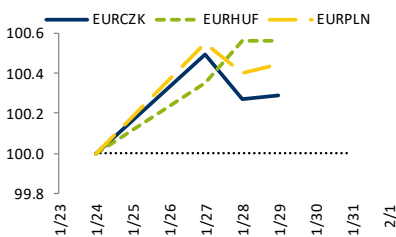




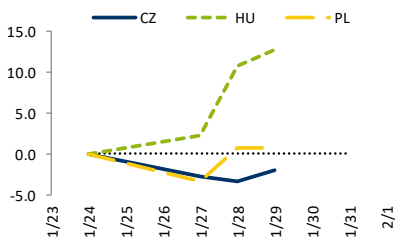
Wednesday, 29 January 2020

Forex markets (index)



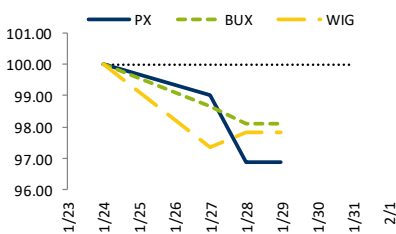
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.22	25.21	0.02
EURHUF	338.1	338.1	0.00
EURPLN	4.274	4.272	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.525	1.512	1.3
HUGB 10Y	2.20	2.18	0.9
PLGB 10Y	2.25	2.25	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1107.5	1107.5	0.00
BUX	43671	43676	-0.01
WIG	57336	57336	0.00

Our regional insights:

The NBH still in a wait-and-see mode

Yesterday, the National Bank of Hungary (NBH) left all the reference rates unchanged in line with the market expectations and there were only very few new elements in the statement either.

The main message of the NBH that the inflation outlook has balanced risks on the downside and upside, and according to their forecast the inflation may return to their target of 3% YoY on their relevant time horizon. It would be a huge surprise if they change this frame as they just modified the risk from downside to a balanced one in December, so any further change is very unlikely until March, when the next inflation report will be published. They think that local factors are heating the inflation while the external factors are cooling it.

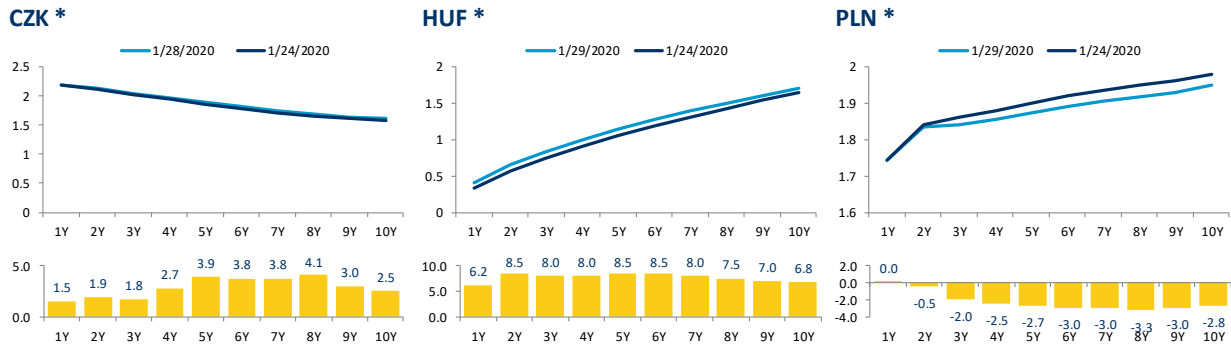
The MPC left the average amount of liquidity to be crowded out for 1Q20 at HUF300-500bn, which was also expected as the Council makes changes only quarterly and the revision will come only in March. Although they didn't change the target amount, it doesn't mean that they cannot decrease further the stock of foreign currency via influencing the extra liquidity in the market. In January it was well above the target, so it can easily happen that the market will face with further HUF withdrawal in the coming weeks. **There will be around EUR400m foreign currency swap redemption next Monday and we expect that only roughly half of it might be renewed.**

The Council highlights that the Hungarian economic growth may remain strong in 2020, which is driven by investment, but on the other hand the fiscal policy is countercyclical and the MAK+ (retail bond) supports the high saving willingness of the households.

The statement also emphasized that the coronavirus has increased the uncertainty, which can erode the vulnerable improving business sentiment and may cause an increase in risk aversion in emerging markets. So the statement was finished: "In its monetary policy decisions, the Monetary Council applies a cautious approach, relying mainly on the incoming data and the projections in the quarterly published Inflation Report. The necessity of further measures will be determined by the persistent change in the outlook for inflation, which will be monitored closely by the Monetary Council".

Based on the move of EURHUF, the market was not fully satisfied with statement as it moved close to its Monday (and all-time) peak of 338.5, which suggest that markets wanted a more hawkish stance. We think that it shouldn't have been expected from the NBH as they cannot react harshly on the move of the exchange rate, but they started to fine tuning the HUF liquidity, which suggest that some change of their tone may come in March. **We think that the NBH's moves highly depends on the government's boosting package and on the spill-over effect of the weak HUF into the inflation in the coming months. This kind of wait and see approach of NBH doesn't support a sudden change of the bullish trend of the EUR/HUF, but we think that the gradual decrease of HUF liquidity may stop it.** Still, we see important resistance EUR/HUF levels at 338.5 and 340, while on the other side 336 and 334 could be strong support 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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	01/29	9:00	Unemployment rate	%	12/01/2019			3.3		3.5		3.5	
PL	01/29	10:00	GDP	%	2019 *P					4.2		5.1	
CZ	01/29	12:00	CZ bond auction 2015-2023, 0.45%		CZK B 01/01/2020					4			
CZ	01/29	12:00	CZ bond auction 2007-2057, 4.85%		CZK B 01/01/2020					1			
HU	01/31	9:00	Wages	%, ytd.	11/01/2019					11.1		11.6	
HU	01/31	9:00	Trade balance	EUR M	11/2019 *F							500	
CZ	01/31	10:00	Money supply M2	%	12/01/2019							7.6	
PL	01/31	15:00	Budget balance	PLN M	12/01/2019							-1882	

Contacts

Brussels Research (KBC)			Global Sales Force		
Mathias van der Jeugt	+32 2 417 51 94		Brussels		
Peter Wuyts	+32 2 417 32 35		Corporate Desk		+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95		Institutional Desk		+32 2 417 46 25
Dublin Research			France		
Austin Hughes	+353 1 664 6889		London		+44 207 256 4848
Shawn Britton	+353 1 664 6892		Singapore		+65 533 34 10
Prague Research (CSOB)			Prague		
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Petr Dufek	+420 2 6135 3560				
Bratislava Research (CSOB)			Bratislava		
Marek Gabris	+421 2 5966 8809				+421 2 5966 8820
Budapest Research			Budapest		
David Nemeth	+36 1 328 9989				+36 1 328 99 85

ALL OUR REPORTS ARE AVAILABLE VIA OUR KBC RESEARCH APP (iPhone, iPad, Android)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

