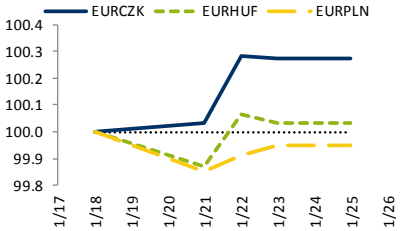
Written by ČSOB Prague and K&H Budapest

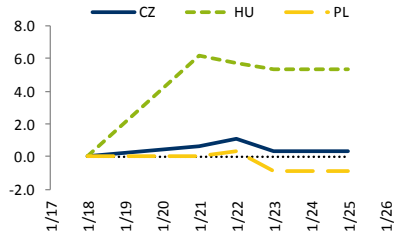
Friday, 25 January 2019

Forex markets (index)



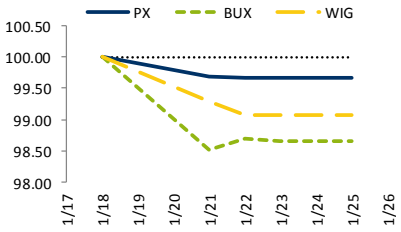
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.65	25.65	0.00
EURHUF	318.1	318.1	0.00
EURPLN	4.286	4.286	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.829	1.829	0.0
HUGB 10Y	2.90	2.90	0.0
PLGB 10Y	2.83	2.83	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1017.0	1017.0	0.00
BUX	40945	40945	0.00
WIG	59735	59735	0.00

Regional insights

Will the upcoming NBH meeting confirm market speculations on monetary tightening?

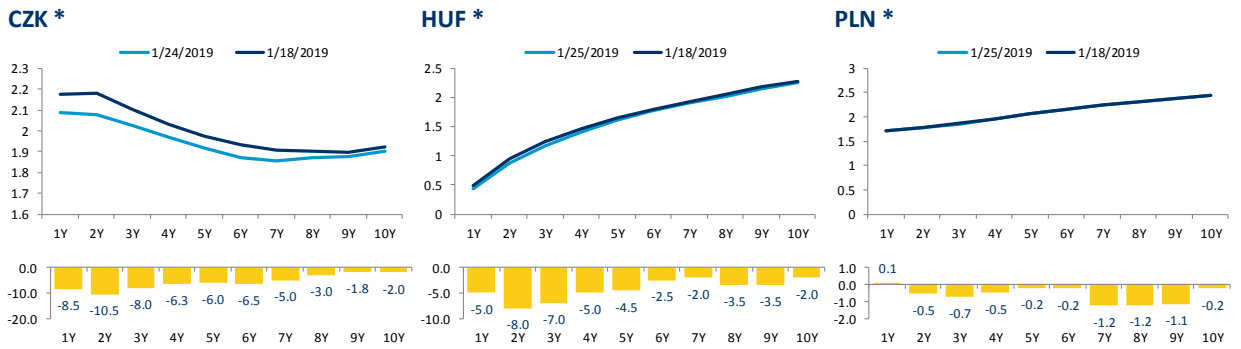
The rate setting meeting, the National Bank of Hungary (NBH) will hold next Tuesday, will be very interesting. Not because we expect any change of the monetary policy – we think that the benchmark rate and the interest rate corridor may be left unchanged – but because of the massage of the Council's statement. **Deputy vice governor of NBH, Mr. Nagy said in a panel discussion last week, that in case the core inflation filtered from indirect tax changes reaches or moves above 3% YoY, it suggest that the NBH achieved its inflation target.** As the December figure was 2.9% YoY and it shows an increasing trend in the last six months, the market started to speculate on monetary tightening, the short end of the curve was pushed up and the HUF strengthened.

Now the question is that the NBH confirms these relatively hawkish statement what Mr. Nagy delivered or they step back slightly and repeats rather the December statement, which has already opened the door towards monetary tightening for this year (and it included the same massage), but it suggested any substantial move rather for 2H19.

It will be quite a surprise in the current environment, when FED became less hawkish, the ECB plans no tightening at least till end of summer and the rate hikes might be stopped also in the region, that the NBH switches its tone to a more hawkish one. So we expect no change of statement from the Council, highlighting that they will focus on the incoming figures and will making their decisions depending on their outcome.

We maintain our forecast on monetary policy, which is that the NBH may start to move towards tightening in 2Q19, but it might by only a very smooth step first letting to decrease the stock of foreign currency swap slightly. The second step may come in 2H19, when the NBH may start to move up the interest rate corridor and so the -15bp overnight deposit rate may be increased to positive territory till the end of the year. It also means that the short end of the curve – below one year – may move up by roughly 80bp till end-2019.

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

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	+32 2 417 32 65
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)			
Jan Cermak	+420 2 6135 3578	**Prague**	+420 2 6135 3535
Petr Dufek	+420 2 6135 3560	Prague (Equities)	+420 2 2142 4216
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	**Bratislava**	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	**Budapest**	+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 data of the report and are subject to change without notice.