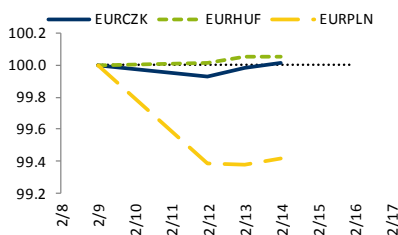




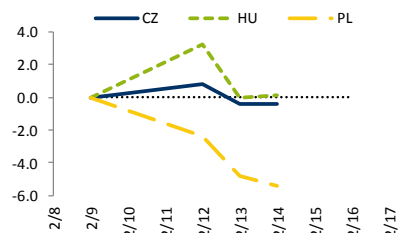
Wednesday, 14 February 2018

Forex markets (index)



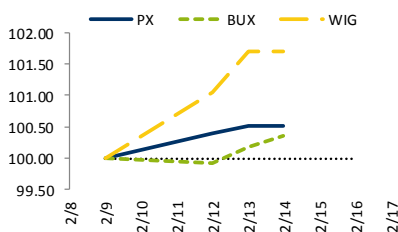
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.39	25.39	0.03
EURHUF	312.0	312.0	0.00
EURPLN	4.169	4.167	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.857	1.857	0.0
HUGB 10Y	2.51	2.51	0.0
PLGB 10Y	3.51	3.51	-0.2

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1111.8	1111.8	0.00
BUX	38457	38387	0.18
WIG	63009	63009	0.00

Our regional insights:

Hungarian economy grew by 4% in 2017

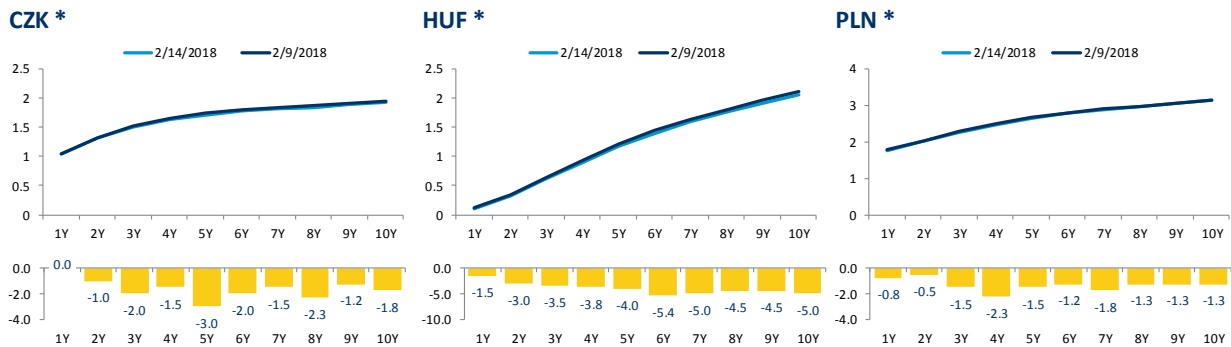
The Hungarian economy grew faster than expected in 4Q17 (4.4% Y/Y vs. 4.2% Y/Y expectations), while the calendar adjusted figure showed an even faster growth of 4.8% Y/Y. The main drivers of the growth from the supply side were the market services and the construction. Based on the monthly available figure the households consumption might be one of the biggest contributor to the economic growth, but also the investment (partly thanks to the EU funds and partly to the low interest environment). **We think that despite of the favorable international environment the net export might pull back the Hungarian economy as import dynamic exceeded the export one.** The industrial production showed up poor monthly figures in 4Q17, so it might add less to the GDP in last quarter. The low base in 2016 also supported the high GDP growth figure. The Hungarian economy grew by 4% Y/Y in 2017 and by 4.2% Y/Y adjusted by working days, which was also slightly higher than our expectation of 3.9% YoY growth. **Looking ahead, we expect that the structure of the growth might be quite similar as it was in 2017, so households consumption and investment may boost the Hungarian economy. The former one is boosted by the net real wage increase, while the latter one by the EU funds money and government spending.** Additionally both are supported by increasing lending activity as well. Regarding the sectors the market services might be the biggest contributor to the growth, but construction may add little less, while industrial production may add little more to the growth in 2018 than in 2017. Overall, we expect this year's economy growth around 3.8% Y/Y.

The GDP figure confirms our view that both the NBH and the government implement too loose policy, so we highlight the need of some tightening from both monetary and fiscal policy side for this year, which might happen after the election from 3Q18. The NBH cautious approach is also supported by yesterday's release of the January inflation. Recall that while the consumer price index remained at 2.1% Y/Y in January in line with the expectations, while the core inflation moderated slightly from 2.6% Y/Y in December to 2.5% Y/Y in January. Although looking ahead we expect that the inflation may start accelerate from 2Q18 partly because of changing international environment we still forecast 3% Y/Y inflation to the end of the year. Hence, **this suggests that the NBH may maintain its dovish stance till the end of 1H18, but it may be followed by a hawkish stance in the second half of the year, which means that the stock of the cross currency swaps may be kept more or less unchanged in 2Q18, while might be started to moderate from 3Q18 letting the short end of the curve moving up gradually.**

Czech inflation eases as expected in January

The Czech headline inflation eased as expected in January as it reached 2.2% y/y last month. While a spike in some food prices (butter) has faded away, the inflation has been recently supported by higher energy prices. **Looking ahead the Czech headline inflation should oscillate close the January figure in coming months, which leave CNB's policy in a wait-and see mode for some time.**

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	Time	Indicator	Unit	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	9:00	CPI	%	01/01/2018	0.7	2.3	0.6	2.2	0.7	2.2	0.1	2.4
HU	9:00	GDP	%	4Q/2017 *P		4.2	1.3	4.4	1.1	4.2	0.9	3.9
PL	10:00	GDP	%	4Q/2017 *P		5.2			1.1	5.1	1.2	4.9
PL	10:00	CPI	%	01/01/2018	0.2	1.9			0.2	1.8	0.2	2.1
CZ	9:00	GDP	%	4Q/2017 *A	0.6	5			0.6	5	0.5	5
PL	14:00	Wages	%	01/01/2018					-8.1	6.9	7.9	7.3
HU	17:00	Review rating - S&P		3BB- pos 1st revision								

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