



Central European Daily

Wednesday, 18 November 2015

Headlines

Currencies		% chng
EUR/CZK	27.03	0.1
EUR/HUF	310.8	-0.2
EUR/PLN	4.24	0.0
EUR/USD	1.06	-0.4
EUR/CHF	1.08	0.1

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.09	0.11	0.02	0.08
EUR/PLN		0.33	0.09	0.14
EUR/HUF			0.21	0.07
EUR/USD				0.60

correlations of 30 min changes over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.25	-1
HUF	1.32	-2
PLN	1.62	-1
EUR	-0.17	-1

GB	%	bps chng
Czech Rep. 10Y	0.52	-2
Hungary 10Y	3.43	0
Poland 10Y	2.75	5
Slovakia 10Y	0.83	-3

CDS 5Y	%	bps chng
Czech Rep.	51	1
Hungary	160	-2
Poland	73	0
Slovakia	51	1

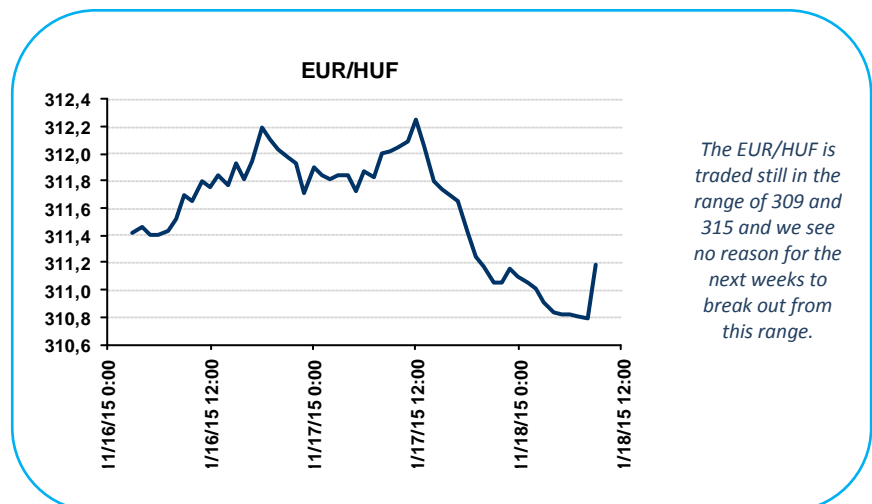
Source: Reuters

NBH to keep its base rate unchanged as long as possible

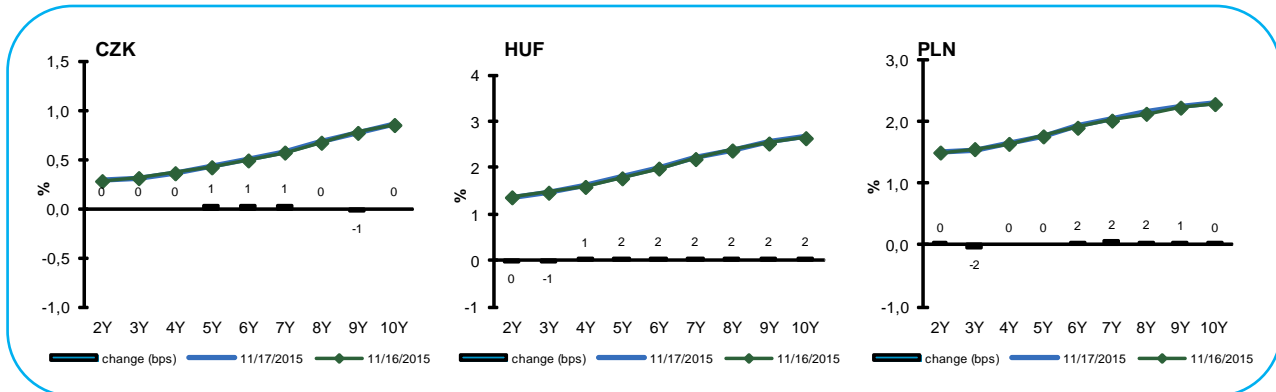
Yesterday, the National Bank of Hungary (NBH) left base rate unchanged at 1.35% in line with the market expectation. The stance of the statement also didn't change compared to the previous month. The Monetary Council sees still inflation gradually increasing, which might achieve the inflation target of 3% Y/Y only at the end of the forecasted horizon (second half of 2017). Although the domestic demand pushes up the core inflation, the low cost environment holds back the increase of consumer price index. The Council highlighted that there are many uncertainties in foreign sentiment, which still calls for cautious monetary policy. The statement was finished with the following sentence: "If the assumptions underlying the Bank's projections hold, the current level of the base rate and maintaining loose monetary conditions for an extended period, over the entire forecast horizon, are consistent with the medium-term achievement of the inflation target and a corresponding degree of support to the economy."

It is clear that the NBH would like to keep its base rate unchanged as long as possible, and looking ahead no base rate hike is expected for 2016. On the down side there are two main risks: 1) Poland restarts a substantial rate cut cycle 2) The EUR/HUF moves below 305 permanently. These cases may force NBH to cut the base rate in 1Q16, but this is not our base case scenario.

Nor the EUR/HUF neither the bonds reacted on the decision. The EUR/HUF is traded still in the range of 309 and 315 and we see no reason for the next weeks to break out from this range. The ECB's and FED's decision will have key importance in the first two weeks of December. Taking in account that the government might be happier with the current levels of exchange rate at the end of the year (because of the FC denominated debt within the gross public debt), we don't expect radical movements for this year.



Interest-rate Swap Curves



Calendar

Country	Time	Indicator	Period	Forecast		Actual		Consensus		Previous		
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y	
PL	14:00	Wages	%				10/01/2015		1.6	3.6	0.9	4.1

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