



Central European Daily

Tuesday, 10 November 2015

Headlines

Currencies		% chng
EUR/CZK	27.02	0.0
EUR/HUF	313.3	-0.4
EUR/PLN	4.25	-0.4
EUR/USD	1.07	0.1
EUR/CHF	1.08	-0.2

FX Correlation Matrix

	EUR/PLN	EUR/HUF	EUR/USD	EUR/CHF
EUR/CZK	0.09	-0.03	0.10	-0.02
EUR/PLN		0.08	0.17	0.00
EUR/HUF			0.02	-0.18
EUR/USD				0.61

correlations of 30 min changes
over past 5 sessions

FRA 3x6	%	bps chng
CZK	0.25	0
HUF	1.38	0
PLN	1.65	-1
EUR	-0.15	-4

GB	%	bps chng
Czech Rep. 10Y	0.58	1
Hungary 10Y	3.50	0
Poland 10Y	2.95	2
Slovakia 10Y	0.88	-3

CDS 5Y	%	bps chng
Czech Rep.	50	0
Hungary	163	-1
Poland	74	0
Slovakia	50	0

Source: Reuters

Hungary's headline inflation back in positive territory

The Hungarian headline inflation jumped from -0.4% Y/Y in September to 0.1% Y/Y in October, which is slightly above the market consensus. The core inflation increased from 1.3% Y/Y to 1.5% Y/Y.

The detailed figure shows that food prices (both the processed and the unprocessed ones) went up substantially (0.8% M/M rise), while tradable goods inflation continued to accelerate and it reflects the highest level since end-2012. All these tendencies suggest that the domestic consumption is strengthening which may keep on the rise of the inflation. Additionally the fuel price may increase again as the dollar strengthened substantially against the HUF, which may trigger roughly 2.5% increase of fuel prices. The last year's fuel price drop will fall out from the base in the last two months this year as well, which may push the CPI back above 1% Y/Y at the end of the year, but the average inflation may be around 0% this year. Regarding next year's development, consumer price index may exceed 2%, we expect that it may be between 2.5% and 3% Y/Y at the end of 2016, while the average inflation may be around 2% Y/Y in 2016.

The fresh inflation figure doesn't change NBH's monetary policy. It confirms that the current level of base rate at 1.35% is appropriate and it looks like now that in order to achieve the inflation target of 3% Y/Y there is no need for monetary loosening. We think that **only significant HUF's strengthening (moving the EUR/HUF pair below 305 for a longer period) might trigger a base rate cut**, in other case the NBH would like to keep the base rate unchanged in 2016. The unconventional tools (lending programs, probably some bond purchasing on the secondary market etc.) may be used in the coming months in order to help the economic growth and help the market in the process of self-financing program.

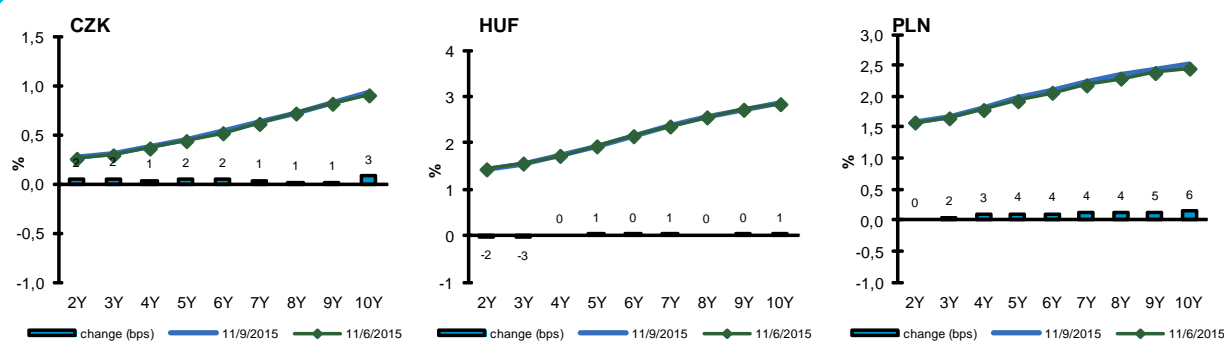
HU: Inflation



Source: Thomson Reuters Datastream / Fathom Consulting

Hungary's headline (annual) inflation bounced back into positive territory.

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
HU	9:00	CPI	% 10/01/2015	0		0.2	0.1	0.1	0	-0.6	-0.4

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