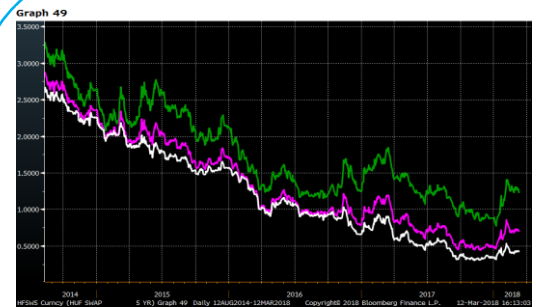


Fix HUF interest rates (yields) jumped significantly in the last 2 months

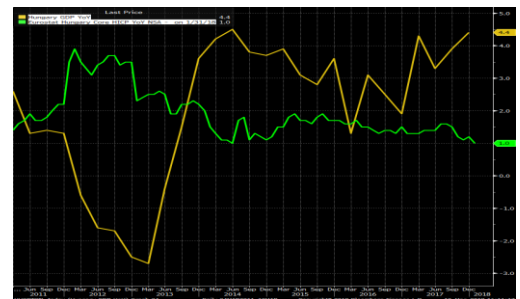
Source: Bloomberg					Source: Bloomberg					Source: Bloomberg	
Short term interest rates HUF(%)					IRS HUF Forward start (%)					Base rate (%)	
	12.3.18	5.1.18			12.3.18	5.1.18			12.3.18		
BUBORON	- 0.04	- 0.01	-0.03	IRS 2Y	0.97	0.59	0.38	Eurozone	0.00		
BUBOR1M	0.02	0.02	-	1Y Forward	IRS 4Y	1.52	0.92	0.60	US	1.50	
BUBOR3M	0.03	0.03	-	2Y Forward	IRS 3Y	1.28	0.75	0.53	Great-Britain	0.50	
BUBOR6M	0.05	0.05	-	IRS 5Y	1.56	0.91	0.66	Canada	1.25		
IRS HUF source: Bloomberg(%)					CAP 6month BUBOR (%), source: Bloomberg					New-Zealand	1.75
IRS 2Y	0.44	0.31	0.13	3Y 1.00%	1.25			Japan	0.10		
IRS 3Y	0.71	0.46	0.26	3Y 2.00%	0.70			Poland	1.50		
IRS 5Y	1.25	0.77	0.48	5Y 1.00%	4.25			Czech Republic	0.75		
IRS 10Y	2.24	1.62	0.62	5Y 2.00%	2.79			Australia	1.50		
Zero cost (ZC) collar 6 month BUBOR, calculation by K&H based on Bloomberg data(%)					ZC KO cap collar on 6m BUBOR, calculation by K&H based on Bloomberg data(%)					Hungary	0.90
12.3.18					12.3.18					Turkey	8.00
collar 2Y	0.50-1.00			3Y	0.50-0.70		2.00	Romania	2.25		
collar 3Y	0.70-1.00			5Y	0.55-1.00		3.00				
collar 5Y	0.59-1.75										
collar 10Y	1.97-2.75										

Market commentary and significant price changes:

- The Council sees that the economy is growing with its potential growth level. The stock of the corporate loans were up by 10% YoY, while in the retail segment increased by 2% YoY. The economy may grow around the same speed in 2018 as in 2017, and some slowdown may come only in 2019.
- The statement highlighted that the January inflation figure was in line with the NBH's expectations and so the inflation orbit remained unchanged. According to them the CPI may reach the inflation target of 3% YoY only in the middle of 2019.
- There were more sentences about the international environment focusing on the deteriorating investment sentiment and the possible future of FED and ECB monetary policy. It emphasized that the market expects rate hike from FED in March, while ECB may maintain its loose monetary conditions, but there are huge differences among the central banks in the region (because of different inflation targets), which may maintain the differences among the monetary policies.
- The council confirmed that the current loose monetary conditions – including the usage of all unconventional tools – will be continued for an extended period. The new targeted amount of the average liquidity crowd-out will be set on next meeting in March. The statement highlighted that the swap tenders the NBH introduced from this years are working well, and they target the relative spread of the Hungarian interest rate compared to the international yields. They still focus on both the short and the long end of the curve.
- The statement was not a surprise, as the inflation orbit in the 1Q18 supports the NBH's loose monetary policy views, but we maintain our view the CPI may accelerate faster and may reach 3% YoY at the end of the year. It may call for monetary policy tightening as well, but it might come only after the election. First we expect that the NBH may be more neutral in 2Q18.
- With a 5-year collar transaction, 6 month BUBOR might be locked into a range of 0.59% and 1.75% in case of a non-amortizing 5-year loan. With the help of the transaction full protection can be achieved against higher than 1.75% 6-month BUBOR while the company can't benefit from lower interest rates than 0.59%. The 6 month BUBOR is currently 0.05%.
- Should you have any request please contact your relationship manager or treasury relationship manager.



The 5, 3 and 2 year IRS rose significantly in the last 2 months chasing the rise in USD and EUR yields. (source: Bloomberg)



January YoY core inflation fell to 1% (green line), while YoY GDP growth reached 4.4% (yellow line). (Source: Bloomberg).

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. K&H Bank cannot guarantee that these forecasts will materialize and cannot be held liable in a 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 ir described herein. Although information has been obtained from and is based upon sources K&H Bank believes to be reliable, K&H Bank does not guarantee the accuracy of this information, which may be incomplete or c All opinions and estimates constitute a K&H Bank judgment as of the data of the report and are subject to change without notice.

This non-exhaustive information contains only the main characteristics of the products. You can find the exact description, possible changes in market value, scenarios at maturity and further risks in the detailed and term sheet, which can be sent to you if you contact your relationship manager or which can be downloaded from K&H Banks site: www.kh.hu or which can be found in the K&H Treasury Handbook of Market Risk M: which can be downloaded from www.kh.hu. The above transactions are suitable to those companies who are suitable for at least 1st, 2nd and 3rd level complexity types of interest rate deals, based on their MIFID matrix.