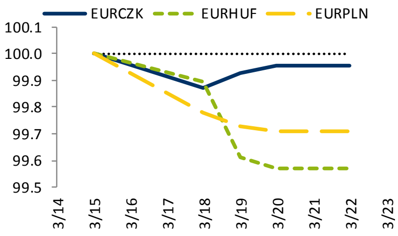
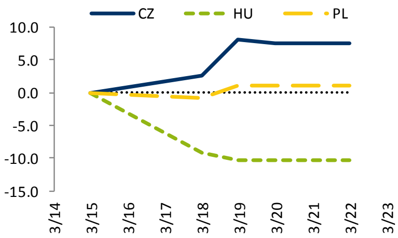
Friday, 22 March 2019

Forex markets (index)



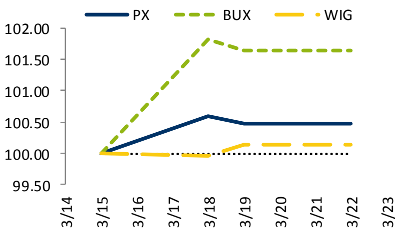
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.64	25.64	0.00
EURHUF	313.0	313.0	0.00
EURPLN	4.287	4.287	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.956	1.956	0.0
HUGB 10Y	3.12	3.12	0.0
PLGB 10Y	2.90	2.90	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1075.4	1075.4	0.00
BUX	42014	42014	0.00
WIG	60788	60788	0.00

Regional insights

It’s still too early for the NBH to hike next Tuesday

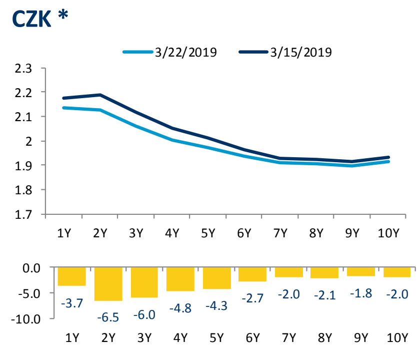
The Hungarian forint appreciated gradually since mid-February, when EUR/HUF was touched 320 level. The FX market started to price in monetary tightening from NBH and additionally two rating agencies (Fitch and S&P) upgraded the sovereign rating by one notch as well. The strengthening of the HUF was supported by also the switch of the tones of big central banks like ECB and FED (they become more dovish), but this switch of the tones bring the NBH into the more difficult situation.

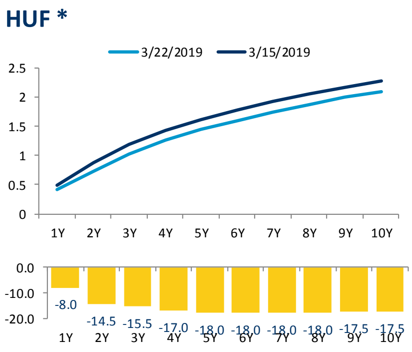
The domestic components of the Hungarian economy are still quite strong. The GDP grew by close to 5% YoY in 2018, the construction is still booming, just like the households consumption and investments. The borrowing of households is also increasing, the new loans are up by close the same level as it was before the crisis. The headline inflation around the 3% inflation target, while the core inflation is on an upward trend and it is above the target. Wage dynamic is still very high (around 10% YoY) as there are lack of labor force in many sectors. All these figures suggests that the NBH should start the normalization of its monetary policy. But the NBH has started a new funding for lending program for SMEs at the beginning of the year, which suggest that the NBH is not planning fast monetary tightening, but they are talking about the preparation on the start of monetary normalization.

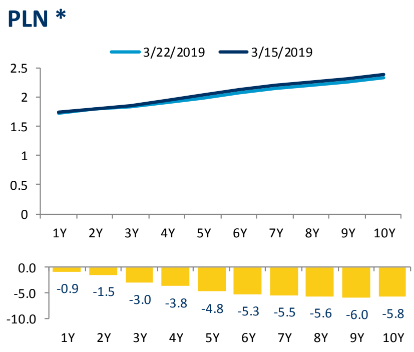
The situation become not so obvious because of the deteriorating international environment. Europe is slowing, which might hurt the Hungarian growth as well. Additionally the stronger HUF might be also not welcomed by the NBH, as the labor cost is increasing faster than the productivity. Although the Council highlighted in their last statements that the local components of the economic is more important during their decision making than the moves of the global central banks, but **we think that the more hawkish stance may push NBH rather in a wait and see approach and won’t hurry with monetary tightening. So, we maintain our view that no substantial monetary tightening will be taken place in next Tuesday, maximum some marginal change may happen, like the moderation of average amount of liquidity crowed-out for the second quarter might be moderated from HUF400-600bn to HUF300-500bn. We expect that overnight deposit rate to be kept unchanged at -15bp, which might be increase to 0% rather in April or May time only.**

This kind of no real change of monetary policy might push the EUR/HUF further up as the market expect more radical changed from the NBH, so if there is no change of monetary policy instrument we think that the current weakening of the HUF, which started on Thursday may continue in next week as well and in that case EURHUF may try to test the 320 level. We see strong resistance level around 317, 320 and 321.5, while strong support levels 315, 312.5 and 310. We believe that NBH might be happier with that level of exchange rate as it won’t endanger the achievement of inflation target and it also supports the export. We also maintain our view that NBH may speed up the tightening rather only in 2H19, when we might see also stronger European economic figures, which might bring the ECB also closer to some monetary tightening.

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
PL	03/22	14:00	Money supply M3	%	02/01/2019					0.6	9	-1.4	8.8

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