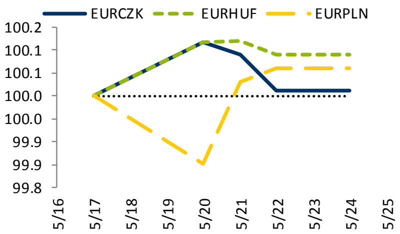
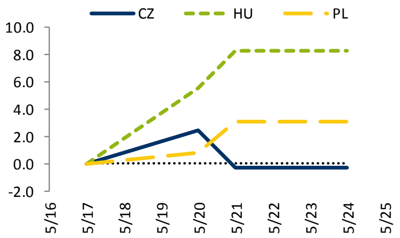
Friday, 24 May 2019

Forex markets (index)



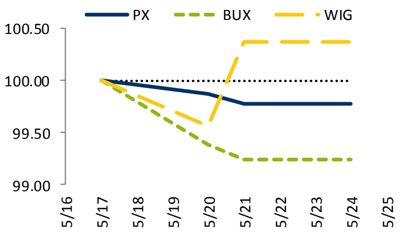
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.77	25.77	0.00
EURHUF	326.4	326.4	0.00
EURPLN	4.308	4.308	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.809	1.809	0.0
HUGB 10Y	3.23	3.23	0.0
PLGB 10Y	2.91	2.91	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1048.3	1048.3	0.00
BUX	39576	39576	0.00
WIG	56772	56772	0.00

Regional insights

NBH's meeting around the corner. Don't expect too much

The upcoming interest-rate-setting meeting of the National Bank of Hungary (NBH) is getting closer. Initially, the meeting scheduled on 28th May (next Tuesday) looked to be quite a non-important event taking in account the March statement of the Council in which the members highlighted that the necessity of monetary policy change may be examined in June in the light of the new quarterly inflationary report. ***We still believe in that there won't be any change of the conditions of the NBH monetary policy now, but the risk of monetary tightening slightly increased as the inflation hit new peak (3.9% YoY) in April and the core inflation is also running well above the inflation target.*** The first quarter GDP growth was the highest in the EU (5.3% YoY), which is well above the long term growth potential of Hungary. The current account deteriorated further and huge surplus we saw two years ago is almost disappeared. The wage dynamic is still around 10% YoY and the labor market is very tight. All these figures suggest that the economy might be in overheated phase, which might call for some monetary tightening. Additionally the currency was also under pressure in the last two months, pushing the EURHUF exchange rate from 313 to 327, which increases the inflationary risks further.

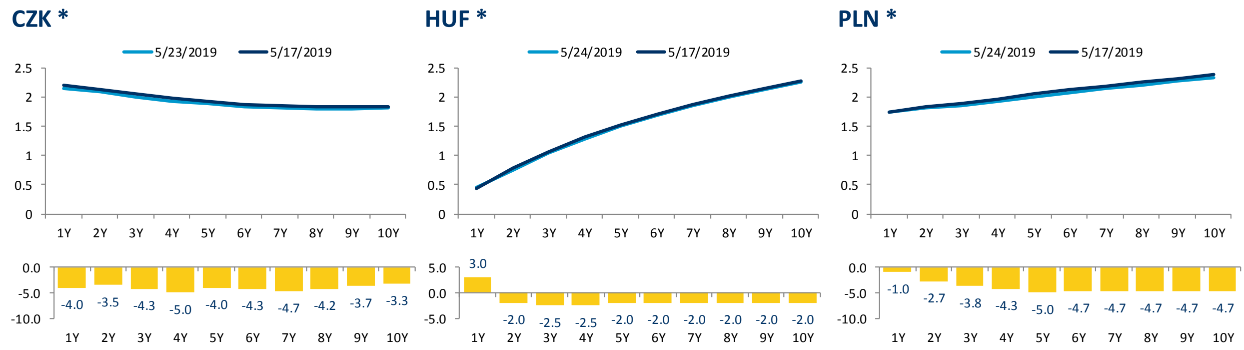
Despite all these above mentioned facts we think that the NBH is still quite happy with the current environment. The latest stability report (published yesterday) emphasized that despite of the booming mortgage market there is no real risk and Hungary is one of the safest in the EU as the debt level is still low even compared to the GDP or to the disposable income. Also the loan the value ratio is subdued and the overwhelming majority of the new loans have fixed interest rates. ***These statements suggests that the NBH would like to maintain the low interest environment in order to boost the economy further.*** Based on the statements of the Ministry of Finance, the government has some concerns about the performance of the European economy, which also supports the view of the NBH according to the international economic environment may cool down the Hungarian economy.

Last but not least the Debt Management Agency will issue new (5-year long) retail bonds from June, providing close to net 5% average annual interest rate for the buyers. This is by far the best investment opportunity for the households in the low risk segment. The NBH may argue for that the new retail bond is also a monetary tightening, which may increase the saving willingness of the households and so it may cool down slightly the domestic consumption.

So we maintain our view that NBH won't change any of their monetary policy instruments now, but in case inflation remains elevated in May as well, the global economic environment won't show a massive slowdown and the EURHUF is traded close to 330, the Council may increase the overnight deposit rate by 10bp (to 5bp) in June and the crowded-out HUF liquidity might be moderated by HUF100bn again just like in June.

Despite of the no change of monetary conditions, the yield curve might be under upward pressure in the coming months in case the households starts to restructure their savings aggressively because of the new retail bond. It means that the households may start to sell some of their funds (like bond funds), their 1-year retail bonds (it offers substantial lower interest rate than the new one) or just putting some of their sight deposit into this new bond. These actions may dry out slightly the HUF liquidity from the market or may create some forced sell off on the bond market. It is also important to mention that in case the NBH sees that the HUF liquidity is drying out, the size of the FX swap tenders may be increased so the NBH may try to keep the very short end of the curve at subdued level.

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	05/24	14:00	Money supply M3	%	04/01/2019					0.4	10.1	0.9	9.9

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