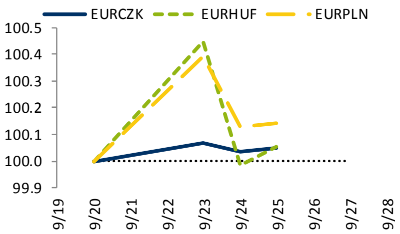
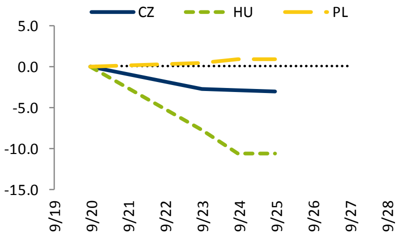
Wednesday, 25 September 2019

Forex markets (index)



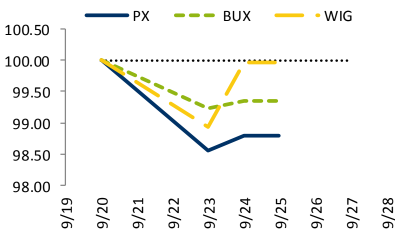
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.88	25.87	0.02
EURHUF	333.9	333.7	0.07
EURPLN	4.380	4.380	0.02

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.315	1.317	-0.2
HUGB 10Y	1.85	1.85	0.0
PLGB 10Y	2.05	2.05	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1047.6	1047.6	0.00
BUX	40848	40848	0.00
WIG	57463	57463	0.00

Our regional insights:

The NBH shrugs-off the weak forint and stays on hold

Yesterday, the National Bank of Hungary left all the reference rate unchanged (base rate 0.9%, O/N deposit rate -0.05%, O/N lending rate 0.9%) in line with the expectations, but they increased the monthly average crowded out liquidity by HUF100bn from HUF200-400bn to HUF300-500bn for 4Q19. Although this latter move may look to be as a monetary easing step, in the reality it means no difference as the market remains HUF liquid and so the Bubor may remain closer to the lower band of the interest rate channel. We have highlighted earlier many times that the game changer will be when the average crowded out liquidity may move to zero, because it would mean in the current circumstances that the Bubor may move from the lower edge of the interest rate channel to the upper edge of it. This move rather may affect the market the way that the volatility during the months may be lower.

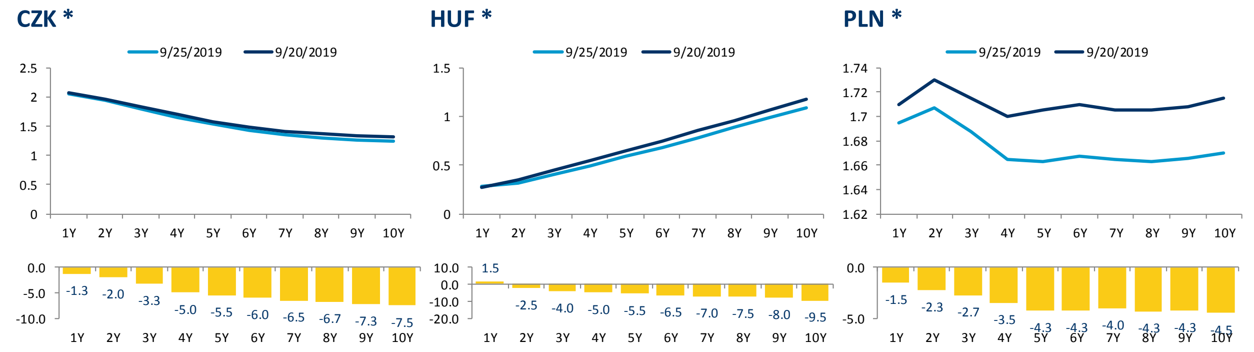
More important was, how the NBH has judged the current economic and market environment. The NBH still believes in that the external slowdown may fully counterbalance the domestic inflationary pressure, moreover they see rather downward risk in the inflation orbit. They think that he current weakening of the HUF won't push up the consumer price index maximum it makes the external and internal effect balanced. It was interesting that the new inflationary report (despite that he NBH sees more downward risks in price developments) still contains above inflation target CPI for the next years. The NBH expects some economic growth moderation, but according to them it may remain above 3% YoY on their forecast horizon.

The statement was finished with the following sentences:" Council applies a cautious approach, relying mainly on the incoming data and the projections in the quarterly published Inflation Report. Future developments in the outlook for inflation will be a decisive factor in the necessity of further measures." **It means that the MPC is not thinking now in monetary policy cycles, rather their decision will be based on the latest figures, and can be reversed from one quarter to the other. We maintain our view that NBH will have a wait and see approach in the upcoming quarters** (so we don't expect monetary easing) and the next step might be towards tightening, but it may come only in 2021.

It looks like that the NBH is not worrying about the weakening of the HUF, and although we saw limited spill-over effect of exchange rate last year, the risk is still there that there that it will be different in this year, as the domestic demand is still strong and the costs of the importers went up, so they may try to pass through the weaker HUF to the consumers especially if EURHUF remains at the current level. Even in that case we don't think that the CPI may accelerate substantially (we expect roughly 15% pass-through effect of exchange rate into CPI), so it may not the NBH to push towards monetary tightening in the near future. **Despite of this comfortable situation we believe that the speed of the weakening is not fully welcomed by the government, so if EUR/HUF keeps moving on above 340, the NBH may try to stop it via verbal intervention.**

Fundamentally we think that inflation may remain above 3% YoY and GDP growth may slow slightly below 3% YoY in the next two years, while current account balance (which was already in minus territory in 2018) may stabilize between -0.5% and -1% of GDP, and the wage dynamic may remain quite elevated, which suggest that the HUF may depreciate gradually by 1-2% yearly**. In short run we think that the market overreacted the current situation and some correction may come, which is partly also supported by EU funds money, in case the NBH starts to convert it on the market (it depends on that how NBH's see the current international sentiment, that do they need higher foreign currency reserves or not – Hungary has appropriate level of reserves recently).** Hence, we maintain our view that the main trading range might remain between 325 and 335 in the coming months, as there are also strong fundamentals in Hungary, like low budget deficit, decreasing public debt, healthy banking sector and low private debt etc.

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
CZ	09/25	12:00	CZ bond auction 2017-2027, 0.25%	CZK B	09/01/2019					2			
CZ	09/25	12:00	CZ bond auction 2017-2033, 2.00%	CZK B	09/01/2019					2			
CZ	09/25	12:00	CZ bond auction 2015-2023, 0.45%	CZK B	09/01/2019					4			
CZ	09/25	13:00	CNB meeting	%	09/01/2019	2.00				2.00		2.00	
HU	09/27	9:00	Unemployment rate	%	08/01/2019					3.4		3.4	

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