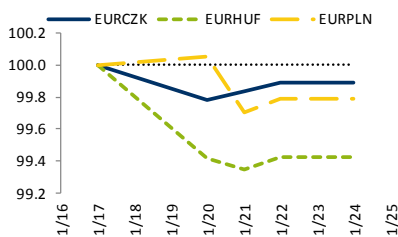




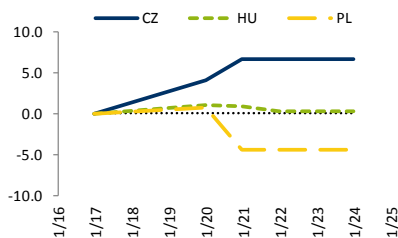
Friday, 24 January 2020

Forex markets (index)



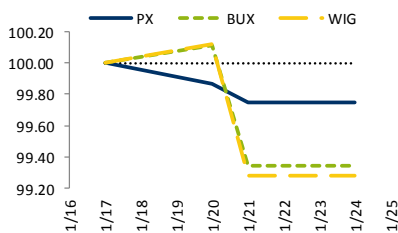
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.12	25.12	0.00
EURHUF	334.4	334.4	0.00
EURPLN	4.232	4.232	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.718	1.718	0.0
HUGB 10Y	2.18	2.18	0.0
PLGB 10Y	2.28	2.28	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1130.1	1130.1	0.00
BUX	44132	44132	0.00
WIG	58616	58616	0.00

Regional insights

Don't expect from the NBH too much on Tuesday

The National Bank of Hungary (NBH) will hold its next rate setting meeting next Tuesday (28th of January). Although it would be normally quite a non-important event – as based on the last years' practice of the NBH, the main changes of monetary policies were done at the end of the quarters – the continuously weakening HUF and the inflation at edge of the NBH tolerance range raises the question of a possible need of monetary policy change.

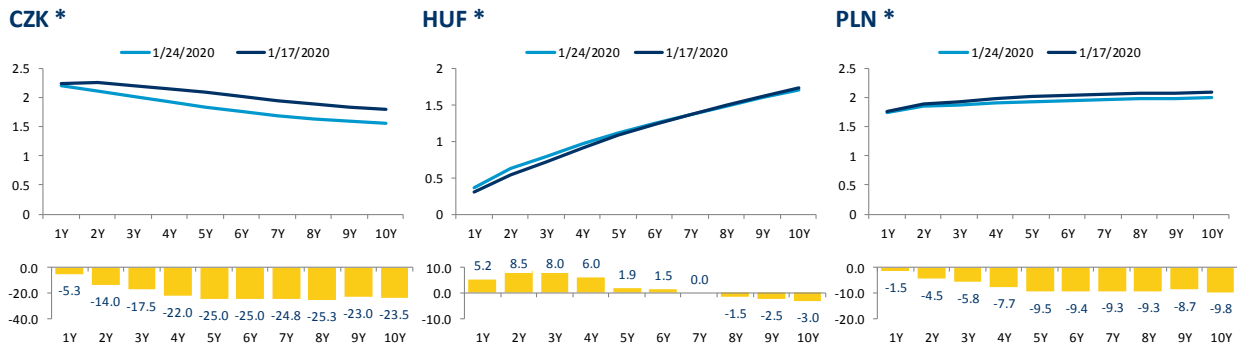
It is important to mention that the high inflation of 4% YoY (core inflation at 3.8% YoY) won't trigger automatically any monetary policy change as it was driven mainly by base effect and it fitted into the NBH's and also into the market's expectations. The Council may highlight that the CPI is expected to moderate in 2Q20 (January and February figure might remain around 4% YoY), which is true as base effect may push the headline inflation down to around 3% YoY temporary, but we expect that the core inflation may remain rather around 3.5% YoY. It will be also important, that what kind of economic growth stimulus will be announced by the government in the coming months, because if it boosts the domestic market, it may push the underlying inflation pressure higher, on which the NBH may have to react later in the year. But in short, we don't expect that the NBH may change its tone of monetary policy because of inflation, rather they may confirm their statement that the inflation risks are balanced on the downside and upside, which requires a wait and see approach.

The other main question that how they interpret the weak HUF level. From inflation perspective they may highlight as always, that the spill-over effect of the exchange rate is very limited, and the imported inflation is also subdued, so they don't have exchange rate target and the current level of HUF is not endangers the achievement of their inflation target. But on the other hand the uncertain international sentiment requires a cautious monetary policy. **We expect that the NBH may try to influence the exchange rate in short term rather with the change of foreign currency swaps on Mondays. In case the HUF is weakening too much they may not renew the full redemption of FC swaps (via they decrease the HUF liquidity on the market), just like they have done in this Monday.**

All in all we maintain our view that the quite loose monetary condition may be maintained and we don't expect any substantial monetary tightening for the coming months, but in case the inflation moderation will be less than expected and the government will have a strong economic stimulus program, the tone of MPC may shifted toward the tightening from March.

David Nemeth, K&H (Budapest)

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	01/24	14:00	Money supply M3	%					2.3	9.1	1.2	9.4

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