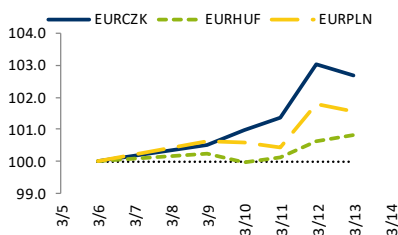




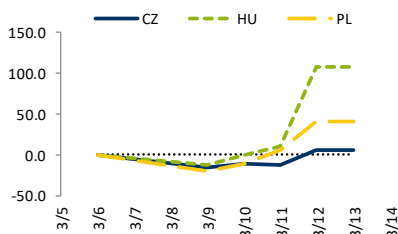
Friday, 13 March 2020

Forex markets (index)



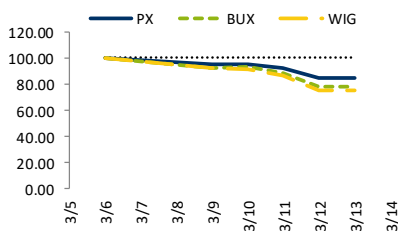
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.11	26.20	-0.34
EURHUF	338.7	338.0	0.20
EURPLN	4.368	4.378	-0.21

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.182	1.182	0.0
HUGB 10Y	2.96	2.97	-0.1
PLGB 10Y	2.04	2.04	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	815.7	815.7	0.00
BUX	32318	32318	0.00
WIG	37164	37164	0.00

Regional insights

The coronavirus and the NBH: on hold will prevail

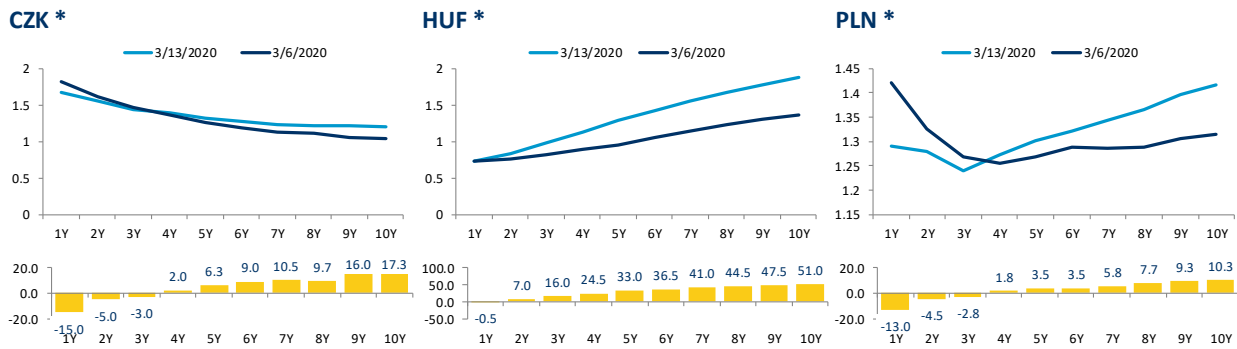
The international environment changed substantially since the latest NBH monetary policy decision, when the Monetary Council left all the monetary policy instruments unchanged but suggested that there could come some tightening if inflationary developments requires it.

Although the latest February inflation figure was slightly above the market expectation (4.4% YoY vs. 4.3% YoY survey) and moderated from the seven-year peak of 4.7% YoY, the sudden drop of oil prices and the expected global slowdown due to the Covid-19 virus infection, the inflation orbit changed substantially. We see the Hungarian headline inflation drop below 3% YoY already in April and it may remain around the NBH's inflation target in the remaining of the year. It means that the inflationary pressure, which was quite strong at the beginning of the year is diminishing at least for the next couple of quarters. The NBH will publish its next quarterly inflationary report in March, so it will be important how they evaluate the current development, and what will be the estimation for the inflation orbit for the next two years. We expect that it will confirm our view that inflation may drop and may remain around the NBH inflation target (3.0%).

Additionally, the global leader central banks started a substantial easing cycle, so the argument that Hungary has one of the lowest interest rate environments is no longer unique. So the previous carry trades, which might be partly financed from HUF, may be closed in the near future. It means that the currency pressure has also moderated substantially on the NBH.

All in all, the result of the above mentioned development is that the NBH can maintain its wait and see approach regarding the interest rate decision, but it has to focus on the negative effects caused by the measures globally, which were introduced in order to stop the infection of Covid-19 virus. **It means that the NBH may focus on maintaining the excess liquidity in the markets, to give financing for the banks if needed and even to introduce new funding for lending programs for SMEs, although Hungary has ongoing programs, which can be used any time. We expect that this policy may be maintained until other central banks start the tightening cycle or until the risks factors are diminishing and the Hungarian economy returns on the way we have seen in the last years. So, no change is expected at least till the end of the year and the NBH may react on the economic and market environment with its flexible tools.**

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	03/13	9:00	Retail sales	%	01/01/2020	2.4	2.1		3.5		4.6	
PL	03/13	10:00	CPI	%	02/01/2020			0.3	4.4	0.9	4.4	

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