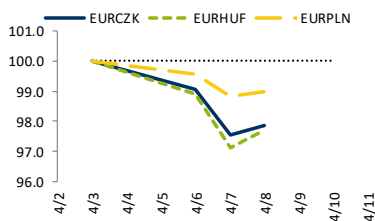




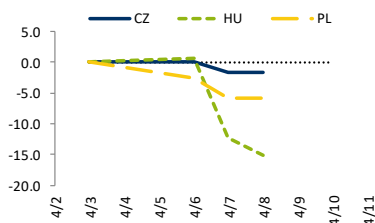
Wednesday, 08 April 2020

Forex markets (index)



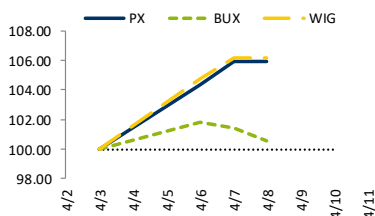
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.20	27.12	0.31
EURHUF	359.3	357.1	0.60
EURPLN	4.534	4.525	0.19

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.324	1.324	0.0
HUGB 10Y	2.66	2.69	-1.1
PLGB 10Y	1.59	1.59	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	820.3	820.3	0.00
BUX	32450	32716	-0.81
WIG	44111	44111	0.00

Our regional insights:

The NBH announces fresh easing and tightening

The National Bank of Hungary (NBH) announced new measures on its Monetary Council meeting yesterday. The overnight and the one-week lending rate was increased from 0.9% to 1.85%, while the base rate and overnight deposit rate was left unchanged at 0.9% and -0.05% respectively. This rate move opens the room for the NBH to hike the deposit rate, as the Council made a decision that the one week deposit rate, which is currently 0.9%, can differ even upside and downside from the base rate level within the interest rate corridor. The one-week deposit tenders are held on every Thursday and the NBH makes the decision every time that at what level the banks can place their money for one week and also the NBH makes the decision that what amount they accept. It means technically that the NBH will have rate setting meeting every week so they can influence the very short end of the curve dynamically. We think that NBH may increase the one-week deposit rate tomorrow to around 1.2-1.3% – FRAs are pricing that levels – and may accept all the money the banks would like to place just like last week.

While the previous step could mean monetary tightening, the NBH introduced easing measures as well. A new QE program will be started through the National Bank buys mortgage and government bonds on the secondary market. A new funding for lending program will be introduced as well. The amount will be HUF1500bn – replaces the current one and it includes the HUF500bn amount which wasn't used up so far – and the maximum duration of the loan has been increased from 10-year to 20-year. This loan can be used almost for anything, even the exiting loans can be refinanced with the new one. The NBH gives the financing at 0% to the banks and maximum 2.5%pt spread can be implemented. One more new element is that the banks can place money into preferential deposit based on the stock of loans (lending in this program) and government bond (after 7th April) at 4% interest rate in the period between May 2020 and June 2021. On one hand it means that NBH gives extra money for banks to take higher risks, but on other hand it also means some upward pressure on the deposit rates.

Finally there is no target amount of liquidity to be crowded out for the second quarter, which was previously set to a minimum HUF300-500bn.

So the NBH announced easing and tightening measures in the same time. The reason might be in our view that they would like to stabilize the exchange rate of the HUF, at least they would like to avoid the deviation (weakening more) compared to other currencies in the region. The NBH's steps suggests that they would like to keep the EUR/HUF rather below 360, but we can imagine that once EURHUF moves below 350, the NBH may start to cut the 1-week deposit rate below 0.9%.

On the other hand they would like to boost the economy and stabilize the long-end of the yield curve. We expect that in short-term the new lending facility might be used more for refinancing, but later on it may boost the lending activity as well. The QE program together with the previously announced collateralized loans program may cap the long end of the curve so some flattening may come.

We should only add that today's released of the March inflation figures (they above the consensus at 3.9% YoY) could easily shrugged-off as the NBH attention is focusing on the help to the economy.

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	04/08	9:00	Unemployment rate 15-64	% 03/01/2020	3.2		3		3.6		3	
HU	04/08	9:00	CPI	% 03/01/2020			0.2	3.9	-0.1	3.6	0.3	4.4
HU	04/08	9:00	Trade balance	EUR M 02/2020 *P							423	
CZ	04/08	10:00	FX reserves of the CNB	EUR B 03/01/2020							134.6	
PL	04/08	14:00	NBP meeting	% 03/01/2020					1		1	
HU	04/09	17:00	Budget balance	HUF B 03/01/2020							-254.6	
PL	04/10	15:00	Budget balance	PLN M 02/01/2020							3427	

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