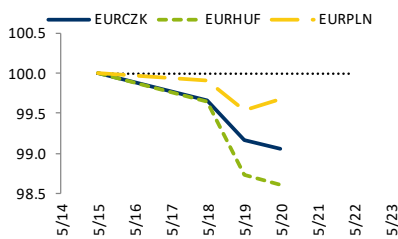




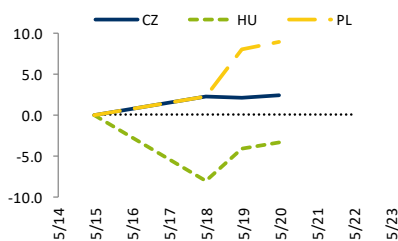
Wednesday, 20 May 2020

## Forex markets (index)



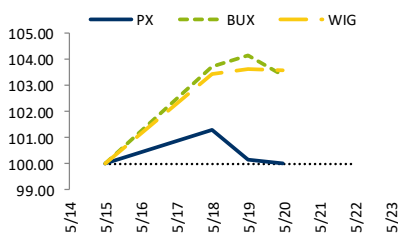
|        | LAST  | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 27.45 | 27.48    | -0.10      |
| EURHUF | 349.7 | 350.1    | -0.12      |
| EURPLN | 4,554 | 4,547    | 0.14       |

## Gov. bonds 10 Y (bps change)



|          | LAST  | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 0.820 | 0.817    | 0.3          |
| HUGB 10Y | 1.89  | 1.88     | 0.4          |
| PLGB 10Y | 1.39  | 1.38     | 0.7          |

## Equity indices (index)



|     | LAST  | PREVIOUS | CHANGE (%) |
|-----|-------|----------|------------|
| PX  | 867.7 | 868.9    | -0.14      |
| BUX | 35201 | 35452    | -0.71      |
| WIG | 45923 | 45950    | -0.06      |

## Our regional insights:

**Should the forint strengthen, the NBH may ease again**

In the last couple of weeks the forint stabilized in the range of 348 and 358 against the euro. Although the EUR/HUF pair traded around 330 at the beginning of the year and between 320 and 330 a year ago it looks like that the National Bank of Hungary has no problem with the current levels. It is not like when the currency suddenly moved from 340 to 370 in couple days of time. The NBH re-activated the 1-week deposit at that time, with the interest rate level of the base rate (currently 0.9%), widened the interest rate corridor from minus 0.05% and 0.9% to minus 0.05% and 1.85% and highlighted that the 1-week deposit rate can be moved within the new range depending on the market circumstances. So it meant an immediate rate hike and opened the room for additional ones as well.

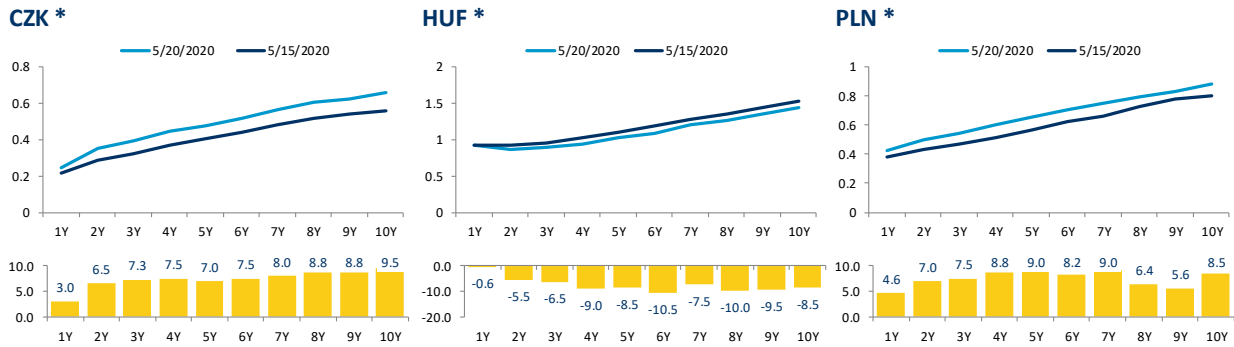
Based on the former behaviour of the NBH, the main question is how long they want to maintain the higher interest rates on the short end of the curve. We think that the central bank would like to avoid sudden and substantial exchange rate moves and they still prefer the gradual depreciation of the currency. So the NBH is focusing more on the volatility and less on the exact level of the EUR/HUF. Additionally, Hungary has now the highest nominal interest rate among the Visegrad countries and the NBH still would like to boost the borrowing activity.

The consumer price index started to drop significantly since the beginning of the year (from 4.7% YoY in January to 2.4% YoY in April), but the core inflation remained above 4% YoY. The inflation was the main reason why the forint started to weaken in the last year, as the core inflation moved above the inflation target, the domestic demand was strong and so further price increases were expected. The NBH didn't react on it, because they highlighted that inflation will moderate to their inflation target on their monetary policy horizon. Now the question is what if the core inflation starts to moderate, because it could confirm some monetary easing on the short end of the curve especially if the currency starts to strengthen as well. The headline inflation may fluctuate between 2% YoY and 3% YoY till the end of the year, but it may jump to around 3.5% YoY in April. Although we expect that the core inflation may start to moderate, it may remain above 3% YoY the whole year.

Regarding the currency and monetary policy, **we think that in case the EUR/HUF is able to stabilize between 340 and 345 against the euro, the NBH may start to reverse its action on the short end of the curve. It means that they may not accept all the money the banks would like to place into 1-week deposit, so some liquidity may move into overnight deposit rate at minus 0.05%.** In our view the central bank may continue this move until Babor rates are decreasing at least to 0.5%, so in a stable market environment some further monetary easing may come from NBH.

David Németh, K&amp;H

## 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      | 05/20 | 9:00  | PPI                                      | % 04/01/2020     |          |     | -0.5   | -0.8 | -0.8      | -1.1  | -0.5     | 0.4  |
| PL      | 05/20 | 10:00 | Wages                                    | % 04/01/2020     |          |     |        |      | -0.8      | 4.5   | 3        | 6.3  |
| CZ      | 05/20 | 12:00 | CZ bond auction 2014-2025, 2.40%         | CZK B 05/01/2020 |          |     |        |      | 6         |       |          |      |
| CZ      | 05/20 | 12:00 | CZ bond auction 2014-2027, floating rate | CZK B 05/01/2020 |          |     |        |      | 4         |       |          |      |
| CZ      | 05/20 | 12:00 | CZ bond auction 2020-2040, 1.50%         | CZK B 05/01/2020 |          |     |        |      | 2         |       |          |      |
| PL      | 05/21 | 10:00 | Industrial output                        | % 04/01/2020     |          |     |        |      | -19.1     | -13.7 | 2.4      | -2.3 |
| PL      | 05/21 | 10:00 | PPI                                      | % 04/01/2020     |          |     |        |      |           | -1.4  | -0.5     | -0.5 |
| PL      | 05/22 | 10:00 | Retail sales                             | % 04/01/2020     |          |     |        |      | -19       | -22.5 | -3.3     | -7.1 |

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