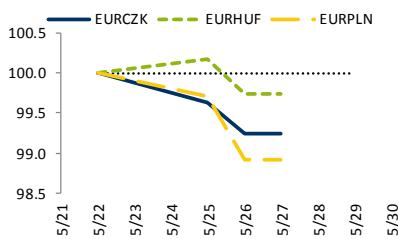




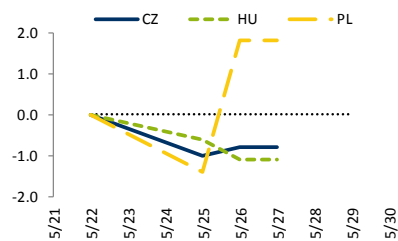
Wednesday, 27 May 2020

Forex markets (index)



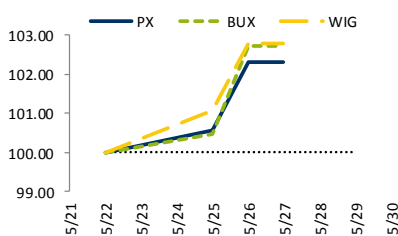
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.11	27.11	0.00
EURHUF	349.6	349.6	0.00
EURPLN	4.468	4.468	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.792	0.792	0.0
HUGB 10Y	1.97	1.97	0.0
PLGB 10Y	1.44	1.44	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	897.3	897.3	0.00
BUX	35999	35999	0.00
WIG	47191	47191	0.00

Our regional insights:

NBH on hold as expected

Yesterday, the National Bank of Hungary (NBH) left the key reference rates unchanged (base rate at 0.9%, O/N deposit rate at minus 0.05% and O/N lending rate at 1.85%) in line with the expectations. There was no change in case of the unconventional tools either.

The statement highlights that the fundamentals of the Hungarian economy are strong, and the vulnerability decreased substantially during the last ten years. The market sentiment improved and the volatility moderated. The risk-taking willingness depends on the developments of the pandemic and the US-China conflict.

MPC emphasized that the consumer price index moderated below their inflation target in April (thanks to the fuel price drop) and maintained their view that the core inflation may stabilize at 3% YoY in next year from the current level of 4.3% YoY.

Regarding their monetary policy, the statement listed the measures, which have been introduced in the last two months and which created a flexible tools set, so the NBH can react on the future economy and market developments very fast.

The Council will make their decisions based on the incoming data and then will use all the available monetary policy tools in order to maintain price stability and support the Hungarian financial system.

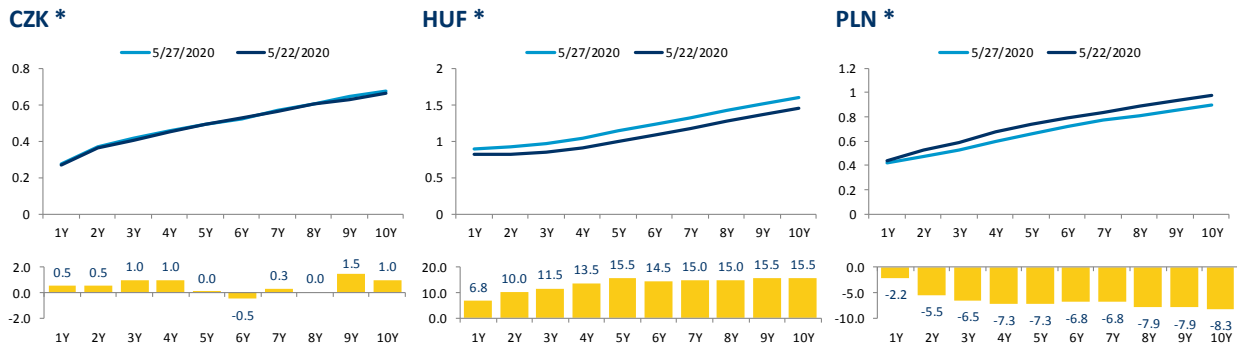
We assess the stance of the statement quite neutral, it didn't give real forward guidance in any direction, rather it suggests that NBH may have a wait and see approach in the coming weeks. The June decision will be more important as the new quarterly inflation report will be published as well.

Meanwhile, the NBH activity on the bond market moderated week-by-week. While the NBH bought HUF79bn government bonds on the first week, there was only HUF40bn and HUF20bn purchase on the second and third week, so it looks like that the HUF1000bn won't be spent in 10-12 weeks as originally was suggested by the NBH. We expect that in case the international sentiments start to deteriorate or the demand on the bond auctions moderates substantially, the NBH may return on the market more aggressive again.

The market has already started to price in some rate cut on the short-end of the curve. Although NBH didn't suggest this move now, we think that NBH would like to see the BUBOR rates around 0.5% in 6-month time in order to boost the economy.

A stable exchange rate (EUR/HUF around 345) and core inflation (starting to moderate well below 3% YoY) could be the main triggers towards the monetary easing, which won't be a rate cut, rather the limitation of money can be placed into one-week deposit.

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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	05/27	9:00	Unemployment rate	%	04/01/2020					4.6		3.7	
HU	05/28	9:00	Wages	%, ytd.	03/01/2020						8.8		9.1
PL	05/28	14:00	NBP meeting	%	05/01/2020	0.5				0.5		0.5	
HU	05/29	9:00	GDP	%	1Q/2020 *F					-0.4	2.2	-0.4	2.2
PL	05/29	10:00	GDP	%	1Q/2020 *F							-0.5	1.9
CZ	05/29	10:00	Money supply M2	%	04/01/2020								9.9
PL	05/29	10:00	CPI	%	05/2020 *P						3.0	-0.1	3.4
PL	05/29	15:00	Budget balance	PLN M	04/01/2020								-9355

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