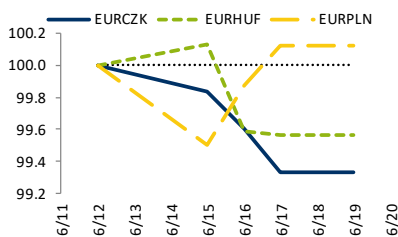




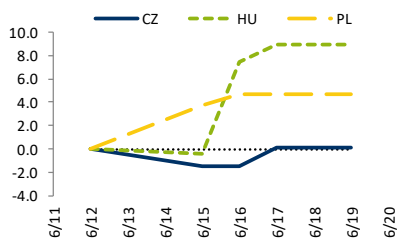
Friday, 19 June 2020

## Forex markets (index)



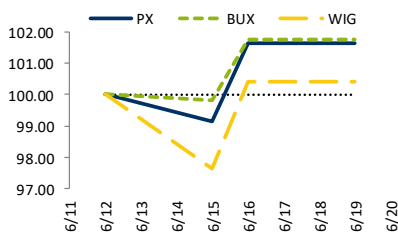
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.57	26.57	0.00
EURHUF	345.2	345.2	0.00
EURPLN	4.457	4.457	0.00

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.877	0.877	0.0
HUGB 10Y	2.29	2.29	0.0
PLGB 10Y	1.37	1.37	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	946.4	946.4	0.00
BUX	38061	38061	0.00
WIG	50385	50385	0.00

## Regional insights

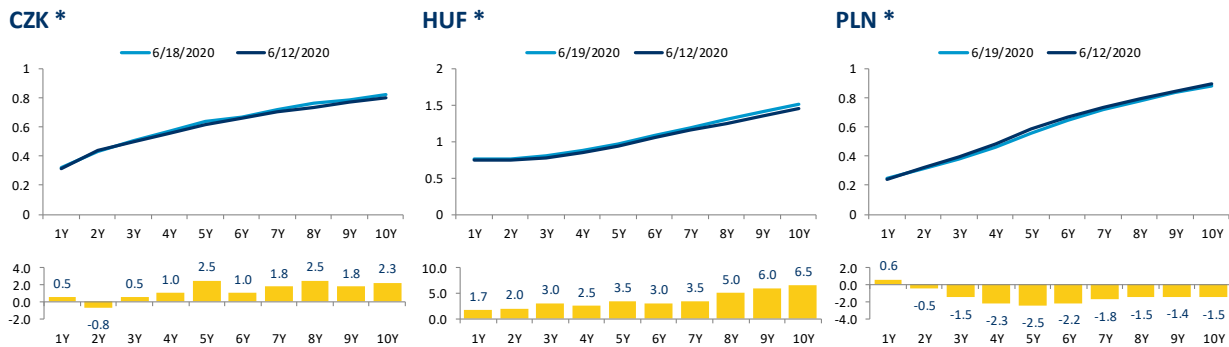
## The NBH to stay on hold, but may look at one-week depo

The National Bank of Hungary will publish its new quarterly inflation report next week. The bank has the most optimistic outlook about the Hungarian economic development (expecting 2-3% YoY growth for this year), so it will be interesting how they change their economic outlook, and how it affects the inflation orbit. The Council emphasized in the last meetings that the underlying inflation may return to target in their relevant time horizon so no monetary policy adjustment is needed, but the uncertainty in the economic environment and in the markets are high so the central bank built up a flexible system in order to be able to react fast on the changes.

We don't expect that the MPC changes any of the monetary policy tools next Tuesday, so the main reference rates may be kept unchanged and the unconventional tools may remain in force as well. Though there are two elements in the monetary policy mix that need some explaining. The bond purchasing program started at the beginning of May but has stopped in the last two weeks (no purchasing). Already after the first week it was moderated step by step compared to the original plans (buying weekly HUF80-100bn on the market). Based on the statements and comments by the National Bank it looks like that this tool is used for stabilization of the market. Since the government has no financing problem (partly thanks to the euro bond issuances and the incoming EU funds money) and the yields are also quite stable on the secondary market, the NBH may not use this tool in the next couple of weeks. In case of the mortgage bonds, the gradual purchasing continued, although the amounts are quite small. So the limits of the programs (HUF1000bn of government bond and HUF300bn of mortgage bond purchase) won't achieve even in a year's time based on the 6-weeks experiences, so the question is whether the MPC will set new targets or just let the program in force with the current conditions. We think that there will be no change now, they just will emphasize the flexibility of this tool.

The other interesting point is the increasing HUF stock which is placed into 1-week deposit. The NBH activated this tool in order to stop the forint weakening. The EUR/HUF stabilized in the last weeks around 345, which is still higher than at the beginning of the year, but it is in line with the other currency moves in the region. The main policy of the NBH was to maintain low interest environment, but now the Hungarian short rates are among the highest in the region, so it raises the question how long the NBH wants to maintain this especially if they strongly believe in that the inflation may moderate to their inflation target and the forint remains relatively strong. We think that the NBH may start to decrease the rate or limit the money that can be placed into the 1-week depo sooner or later. Especially because we think that some of the money that is placed there is because of the arbitrage opportunity on the market, which was not loved by NBH in the past. All in all we don't expect any change on Tuesday, and the statement might be quite neutral, possibly slightly dovish and may highlight the flexibility of the monetary policy 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
PL	06/19	10:00	Industrial output	%	05/01/2020		10.1	-17.0	8.9	-18.0	-25.5	-24.6
PL	06/19	10:00	PPI	%	05/01/2020		0	-1.5	0.1	-1.5	-0.6	-1.3

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