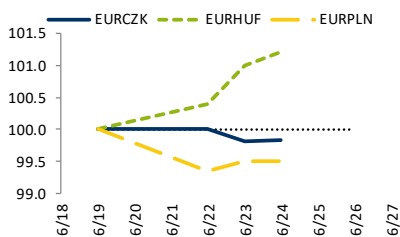




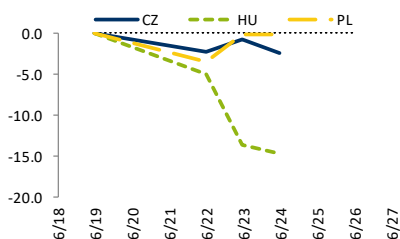
Wednesday, 24 June 2020

Forex markets (index)



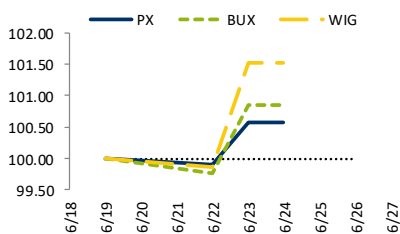
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.62	26.62	0.01
EURHUF	350.0	349.2	0.22
EURPLN	4.445	4.445	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.773	0.790	-1.7
HUGB 10Y	2.10	2.12	-0.6
PLGB 10Y	1.38	1.38	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	933.3	933.3	0.00
BUX	37596	37596	0.00
WIG	51438	51438	0.00

Our regional insights:

The NBH cuts its base rate sooner than expected

The National Bank of Hungary surprisingly cut the base rate by 15bp from 0.9% to 0.75% yesterday. Recall that the base rate was changed last time in May 2016. Since then the NBH modified the monetary policy via unconventional tools. Although we had expected monetary easing in the next months from the NBH, the timing and the tool was a surprise.

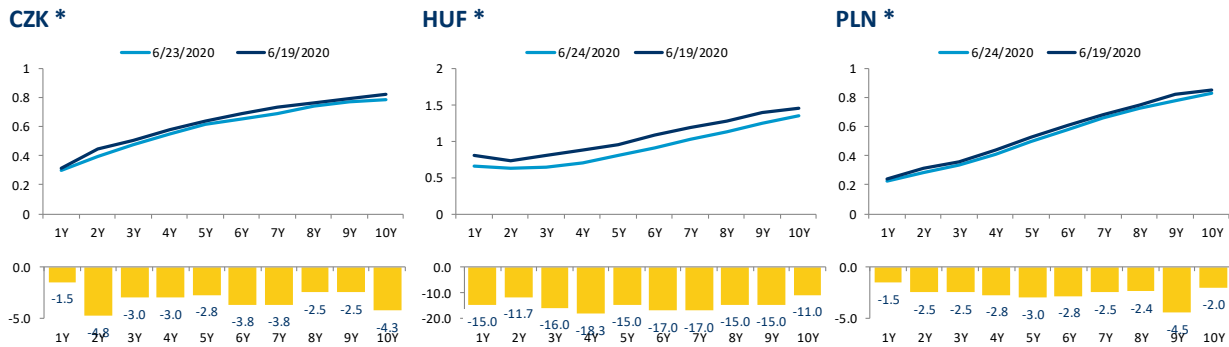
The central bank also published its new quarterly inflationary report. Although the GDP forecast has been revised to the downside, the bank remained very optimistic about the economic outlook. They expect slightly above 7% YoY GDP drop for the second quarter, but they forecast 0.3-2.0% YoY growth for 2020 and 3.8-5.1% YoY increase for 2021. So the staff believes in a fast V-shape rebound in the economy. The optimistic view is based on the expectation that the household consumption and the investments may remain strong thanks to the government's and NBH's economic stimulus programs. We think that the domestic components won't be able to remain so strong as the increase of the wage mass might be much less than a year ago and the corporates may postpone some of their investments. The car manufacturing industry (which has around 5% share in the economy) may reach its full production capacity only around the end of the year or rather only in the first half of next year based on the view of the sector's participants.

The NBH revised the inflation outlook to the downside as well. The core inflation adjusted by tax changes may moderate below 3% YoY in 2021, because of the imported low inflation. The central bank expects a slowdown of price increases in services as well, because they think the pricing behaviour has changed due to the lower demand.

The vice governor, Mr. Barnabas Virág highlighted on the press conference that the current rate cut doesn't mean a start of an easing cycle. The central bank makes its decision based on the new incoming figures, and the current move is only a sign that if the Council sees the need of monetary policy adjustments, they have tools in any direction. He emphasized again that the bond purchasing program is still active (the NBH didn't buy any government bonds in the last weeks), but they use this tool as a safety net in case the market becomes more vulnerable. For now there is no need for it.

The statement highlighted also that all the leading central banks have maintained their extra loose monetary conditions and additionally the central banks in the region cut the base rate in the last months as well. We maintain our view that NBH likes the policy mix of low interest rates and a slow, gradual depreciation of the currency. Previously we said that NBH may start to change its monetary policy in order to push down the short-end of the curve to around 0.5% if EUR/HUF stabilizes between 340 and 345 for a couple of weeks, but it looks like from the current step that the 345 level was enough for the council. We thought that not the base rate but only the 1-week depo rate might be moderated or there would be a cap introduced for the stock that can be placed into the 1-week deposit, but it looks like the NBH turned back to the conventional approach. **We maintain our view that the NBH would like to see around 0.5% Bubor rates in the autumn, so we expect further easing, which might be base rate cut based on the recent move, but according to us the timing will depend on the market sentiment and on the EUR/HUF level.** We still believe that NBH wouldn't like to see a substantial appreciation compared to regional currencies or against the euro from the recent levels we have seen in the last 2-3 weeks.

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	06/24	10:00	Unemployment rate	% 05/01/2020			6		6.1		5.8	
CZ	06/24	12:00	CZ bond auction 2017-2027, 0.25%	CZK B 06/01/2020					5			
CZ	06/24	12:00	CZ bond auction 2020-2040, 1.50%	CZK B 06/01/2020					2			
CZ	06/24	13:00	CNB meeting	% 06/01/2020	0.25				0.25		0.25	

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