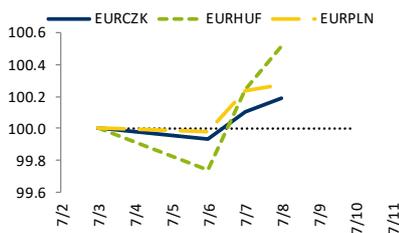




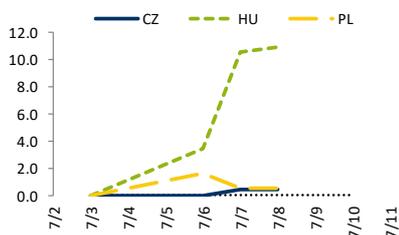
Wednesday, 08 July 2020

Forex markets (index)



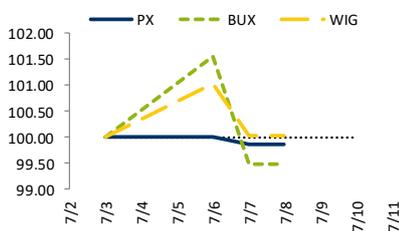
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.74	26.72	0.09
EURHUF	355.2	354.2	0.27
EURPLN	4.477	4.475	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.775	0.775	0.0
HUGB 10Y	2.34	2.34	0.2
PLGB 10Y	1.35	1.35	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	936.8	936.8	0.00
BUX	35748	35748	0.00
WIG	50974	50974	0.00

Our regional insights:

Hungarian headline inflation up on higher oil prices and weak(er) forint in June

The Hungarian consumer price index jumped from 2.2% YoY in May to 2.9% YoY in June in line with the market expectations. The volatile oil price and exchange rate were the main drivers of the acceleration of headline inflation as the fuel price increased by 9.3% MoM, adding 0.6%pt to the headline inflation. Although the market services prices slowed down slightly, the weakening forint pushed the durable goods (like cars, furniture, bicycles etc.) price up and so the core inflation remained at 4% YoY, which is the upper edge of the NBH's tolerance range.

Looking ahead the fuel price might increase further in July as the government increased the excise duty (this is an automatic correction in case average Brent price below 45USD/barrel in one quarter). The main question is how the pricing behaviour has changed in the market services as the demand may remain lower compared to last year. We expect some slow moderation of market services inflation, but it may remain above 4% YoY in the whole year.

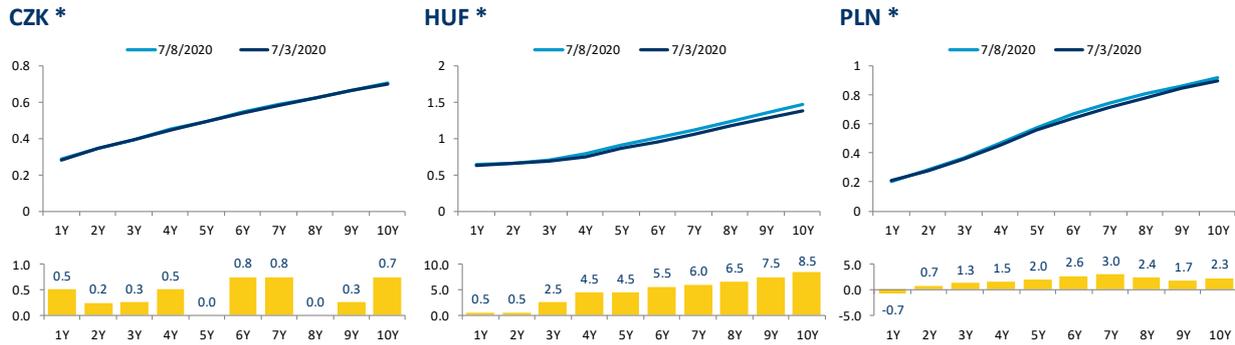
The core inflation adjusted by indirect tax changes stuck at 3.5% YoY in June, while the demand sensitive goods and services price increased marginally. Based on the report the NBH published about the monthly development of inflation there is no strong argument against the 15bp rate cut in this month, which was mentioned by the vice governor, Mr. Virag one and half week ago.

We see consumer price index to fluctuate around 3% YoY in the following months, and so the average inflation might be around 3.1-3.2% YoY in 2020. The development of inflation expectations means for us some concern as it is increasing gradually and although the uncertainty is quite high because of the Covid-19 crisis, our expectations became asymmetric to the upside. It increases the risk that in case economy starts to rebound some inflation pressure may return, so we maintain our view that average consumer price index may remain above inflation target (but within the tolerance range) in 2021 as well.

Based on the statements and on the actions of the NBH, ***we think that the July monetary policy action may mainly depend on the market environment and on the evolution of forint, as the slowing economy and the level of inflation allows for the Monetary Council to cut the base rate by 15bp, which has been almost priced in fully.***

David Nemeth, K&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	07/08	9:00	Retail sales	% 05/01/2020	-14.0		-12.2		-14.4		-21.2	
HU	07/08	9:00	CPI	% 06/01/2020			0.4	2.9	0.7	2.9	0.4	2.2
CZ	07/08	12:00	CZ bond auction 2014-2027, floating rate	CZK B 07/01/2020					3			
CZ	07/08	12:00	CZ bond auction 2020-2031, 1.20%	CZK B 07/01/2020					2			
HU	07/08	17:00	Budget balance	HUF B 06/01/2020							-1051.5	
CZ	07/09	9:00	Unemployment rate 15-64	% 06/01/2020	3.8				3.7		3.6	
HU	07/09	9:00	Trade balance	EUR M 05/2020 *P							-561	
CZ	07/09	10:00	FX reserves of the CNB	EUR B 06/01/2020							134.5	
CZ	07/10	9:00	CPI	% 06/01/2020	0.4	3.1			0.2	2.9	0.4	2.9

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