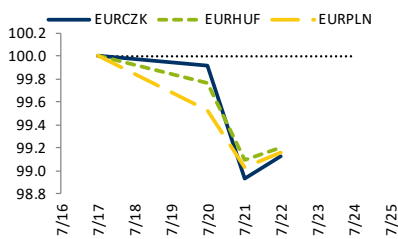




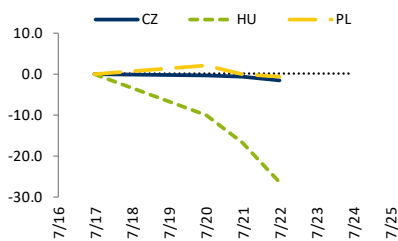
Wednesday, 22 July 2020

## Forex markets (index)



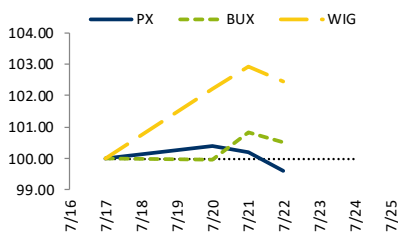
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.41	26.36	0.20
EURHUF	350.4	350.0	0.11
EURPLN	4,440	4,434	0.13

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.912	0.921	-0.9
HUGB 10Y	2.08	2.17	-4.4
PLGB 10Y	1.30	1.31	-0.7

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	945.2	950.8	-0.59
BUX	35389	35488	-0.28
WIG	52298	52537	-0.45

## Our regional insights:

## The NBH cuts as expected, but signals further reductions may not come

The National Bank of Hungary (NBH) cut the base rate by 15bp from 0.75% to 0.6% in line with the expectations. It was the second reference rate moderation in a row, but the Monetary Council highlighted that they would like to keep the short-term yields at a safe distance from a range close to zero. This is a new element especially as short-rates were around 0% between beginning of 2017 and end of 2019, when the economy was booming.

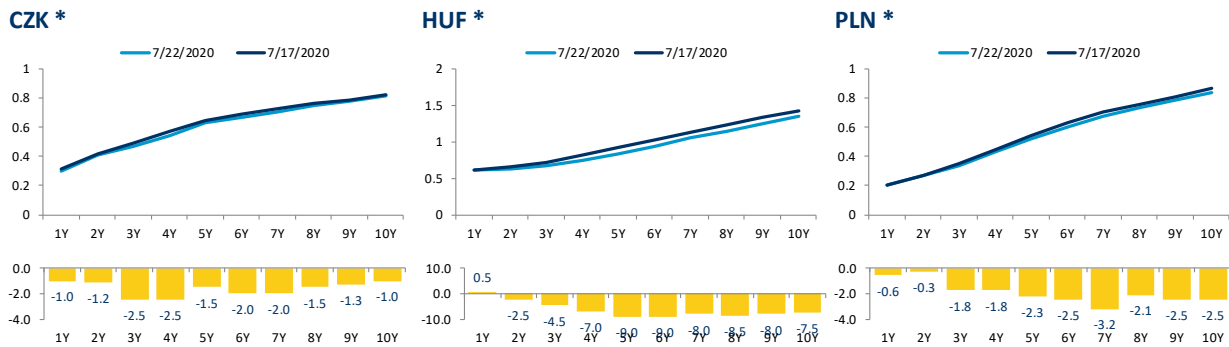
The Monetary Council sees the inflation development in line with their expectation, and they emphasized that the core inflation adjusted by indirect tax changes may moderate below their inflation target of 3% YoY in 2021. The view about the economic performance this year has remained, so the central bank still believes in the small positive growth for this year, which is an extremely optimistic scenario in our view.

The National Bank of Hungary will restart its bond purchasing, but it will focus only on the very long end of the curve, meaning over 15-year maturities. In the meantime, the size of the collateralized loans will be moderated, so it means that on one hand the NHB would like to flatten the yield curve, and on other hand would like to support the lengthening of the government debt.

One more important element of the statement is, that the central bank would like to use its target instruments mainly (Funding for Growth Scheme Go! and the Bond Funding for Growth Scheme) in case the outlook of growth deteriorates substantially.

*The statement suggests that there won't be a further rate cut, but its highlights that the Council continuously assesses incoming data and change in the outlook for inflation, which leaves the door open for further base rate movements. We maintain our view that some further easing may still come in the next month, which may push the short end of the yield to around 0.5%, but it will highly depend on the international sentiment and on the development of the EUR/HUF exchange rate.* It is also important to highlight that the non-conventional tools may play much bigger role in the monetary policy adjustment and the current loose monetary condition may be maintained for an extended period. We can imagine some temporary tightening of the condition only in case if there is a massive global sell-off and the forint starts to weaken fast and substantially.

## 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	07/22	12:00	CZ bond auction 2015-2030, 0.95%	CZK B 07/01/2020					3			
CZ	07/22	12:00	CZ bond auction 2020-2040, 1.50%	CZK B 07/01/2020					2			
PL	07/22	14:00	Money supply M3	% 06/01/2020							2.7	16.0
PL	07/23	10:00	Unemployment rate	% 06/01/2020							6.00	
HU	07/29	9:00	Unemployment rate	% 06/01/2020								
CZ	07/31	9:00	GDP	% 2Q/2020 *A								
HU	07/31	9:00	Wages	%, ytd. 05/01/2020								
HU	07/31	9:00	Trade balance	EUR M 05/2020 *F								
CZ	07/31	10:00	Money supply M2	% 06/01/2020								

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