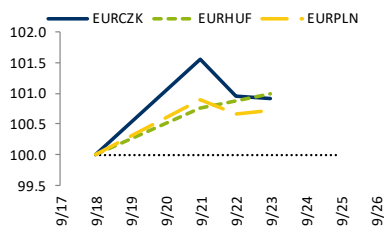




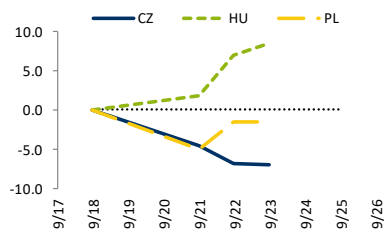
Wednesday, 23 September 2020

Forex markets (index)



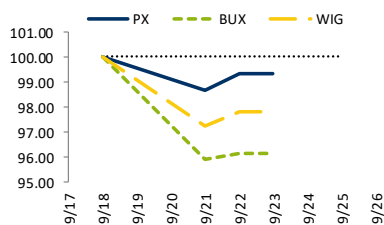
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.98	26.99	-0.04
EURHUF	363.7	363.3	0.12
EURPLN	4.491	4.489	0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.825	0.826	-0.1
HUGB 10Y	2.45	2.44	0.6
PLGB 10Y	1.33	1.33	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	868.1	868.1	0.00
BUX	32297	32297	0.00
WIG	48741	48741	0.00

Our regional insights:

The NBH signals a carefully hawkish tone

As expected, the National Bank of Hungary (NBH) left all the reference rates unchanged in line with the market expectations yesterday. However, the stance of the statement was slightly hawkish.

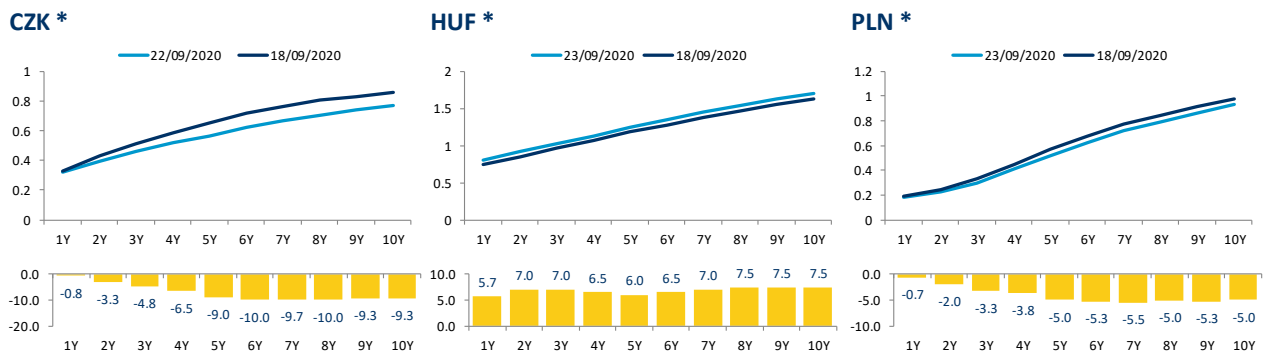
Recall that the NBH also published its new forecasts for inflation and GDP growth. The former was increased from 3.2-3.3% YoY to 3.5-3.6% YoY for 2020, while from 3.2-3.3% YoY to 3.4-3.6% YoY for 2021. The economic outlook was substantially deteriorated from 0.3-2% YoY growth to 5.1-6.8% YoY recession for 2020, while the expansion was increased from 3.8-5.1% YoY to 4.4-6.8% YoY for 2021 and from 3.5-3.7% YoY to 4.5-5.7% YoY for 2022. The NBH's new forecast fits into the market consensus view.

It was interesting how the central bank interprets the higher inflation forecast, which exceeds the target in next year as well, but remains in the tolerance range. Additionally, the recent situation is uncomfortable also because of the substantial decrease of the GDP, so the development of inflation might require monetary tightening, while the economy need easing policy. The NBH put the focus on the price stability and they emphasized that they will monitor closely how persistence the current inflationary effect may become. The Council highlighted that they are ready to use the appropriate instruments in order to maintain price stability. Based on the presentation of vice governor, Mr. Virag, we expect that the NBH may increase the interest rate of the one-week deposit temporary in case HUF weakens further and it endangers the achievement of inflation target. The central bank also uses its FX swap facilities in order to stabilize the short-end of the yield curve around the base rate level. The government bond purchasing program will be continued in the next weeks and the central bank is able to buy bonds on the secondary market even in the size of the full gross issuance need in the last three months, but at the moment they didn't change their weekly purchase of HUF40bn. As the NBH's holdings of 15 or longer paper are close to 33% of the outstanding, they may buy mainly 10-year long papers from the market.

Although the NBH highlighted that the fiscal and reform policy can help the Hungarian economic rebound, the Council increases the size of their corporate bond program from HUF450bn to HUF750bn and its funding for lending program will be maintained as well in order to boost lending and economic growth.

All in all there was no surprise in the statement. The Monetary Council doesn't want to cut the base rate in the current environment (they want to keep short-term yield at a safe distance from a range close to zero) and in our view the chance of a temporary monetary tightening (increase of the one-week depo rate) has increased because of the depreciation of the forint and its effect on inflation. As the inflation may start to decrease from October, this tightening pressure may moderate in November and December.

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
PL	09/23	10:00	Unemployment rate	%	08/01/2020					6.1		6.1	
CZ	09/23	13:00	CNB meeting	%	09/01/2020					0.25		0.25	

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