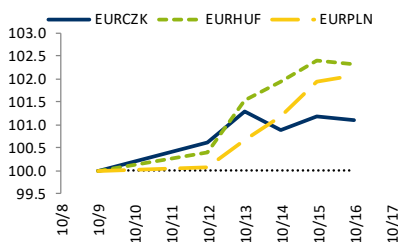




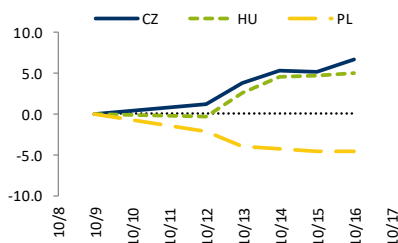
Friday, 16 October 2020

## Forex markets (index)



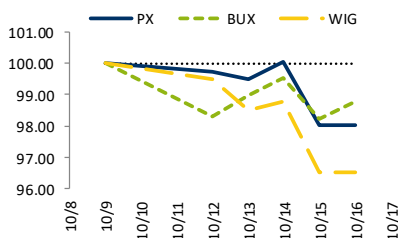
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.33	27.35	-0.06
EURHUF	364.6	364.8	-0.07
EURPLN	4.558	4.552	0.13

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.980	0.965	1.5
HUGB 10Y	2.22	2.22	0.1
PLGB 10Y	1.26	1.26	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	855.5	855.5	0.00
BUX	33245	33061	0.56
WIG	47482	47482	0.00

## Regional insights

## While the forint remains under pressure, the NBH stays in a wait-and-see mode

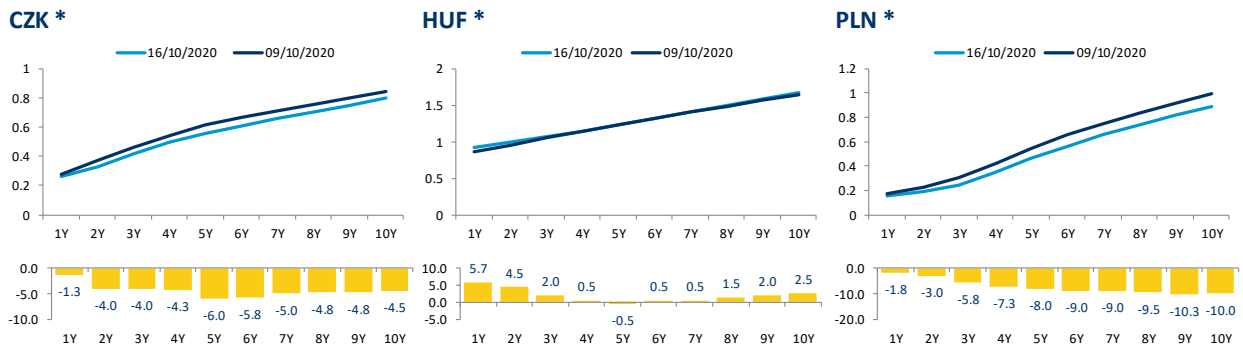
The forint weakened suddenly (within three days) from around 356 and started to test the 365 levels around the euro. This move has eliminated fully the previous strengthening of the HUF, which happened after the surprise drop of the September inflation figure. The depreciation was not a forint specific event as the regional currencies (like CZK and PLN) has weakened roughly the same since first of October and even more since beginning of September. The reason of the weakening is the deteriorating pandemic situation in these countries.

National Bank of Hungary increased the interest rate of one-week deposit by 15bp from 0.6% to 0.75%. That move stopped the HUF weakening around 366.5 against the euro. In the last couple of weeks the interest rate level of one week deposit has left unchanged at 0.75%. The main question is that what could be the next EURHUF level, when the NBH tightens further the monetary conditions.

The NBH will have a regular rate setting meeting on 20th October (next Tuesday). We don't expect any move from the Council in order to stop the depreciation of the currency. The latest drop of inflation was a surprise for the NBH as well, so now the maneuvering room increased for them. It means that they can let the currency move further if the unfavour international sentiment remains. ***We maintain our view that NBH won't touch the base interest rate in the coming months even if the EUR/HUF moves close to or even above 370. In that case we expect that the interest rate of the one week deposit might be increased further, but we don't expect such a move before the EUR/HUF breaks above historic high levels (371.5). Additionally it looks like from the previous actions, that although the interest rate of the one-week deposit could be changed weekly, the NBH doesn't want to manage it so frequently.***

Although we don't expect any change of the base rate, there could be some fine tuning of the government bond purchasing program. The NBH may focus more and more on the ten year segment of bonds and may highlight that the program may be continued for a longer period. It is also quite likely that the statement may emphasize that the inflation got closer to the target and the disinflationary pressure may increase due to the recession in the economy. On the other hand they may highlight that the upcoming economic figures may reflect strong rebound of the growth. We maintain our view that once the EURHUF can stabilize around 350-355, The NBH may cut back the one-week deposit rate to the base rate level of 0.6%, but now it looks like that it won't happen in the next couple of weeks, moreover in case EURHUF moves above 370, the chance of further temporary rise of one-week deposit rate is increasing, but we highlight again that now the maneuvering room for NBH is bigger than a month ago, so they may not hurry with such a move.

## 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	10/16	9:00	PPI	%	09/01/2020		0.2	-0.4	0	-1	-0.3	-0.5
PL	10/16	14:00	Core CPI	%	09/01/2020				0.4	4.2	0	4.0

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