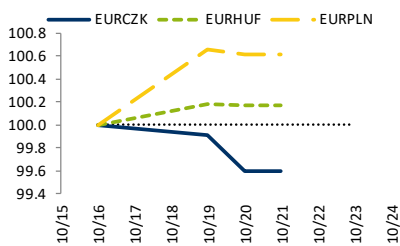




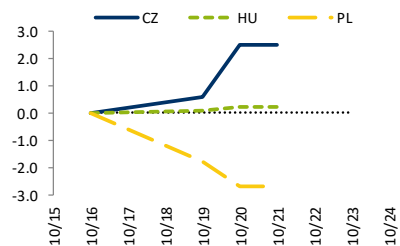
Wednesday, 21 October 2020

## Forex markets (index)



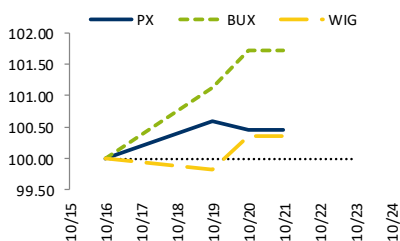
	LAST	PREVIOUS	CHANGE (%)
EURCZK	27.18	27.18	0.00
EURHUF	365.0	365.0	0.00
EURPLN	4,574	4,574	0.00

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	0.990	0.990	0.0
HUGB 10Y	2.23	2.23	0.0
PLGB 10Y	1.25	1.25	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	871.0	871.0	0.00
BUX	33799	33799	0.00
WIG	48386	48386	0.00

## Our regional insights:

## NBH's next move? The forint will decide it.

Yesterday, The National Bank of Hungary (NBH) left all the reference rate unchanged in line with the expectations. The Council emphasized that the uncertainty regarding the development of the pandemic and the economic performance is extremely high. The statement replied the latest (September) forecasts of the NBH about the economic outlook and it highlighted that the consumer price index moderated in September partly due to the unusual pricing behaviour in the current pandemic situation but also because of development of food prices. The Council sees that there are upward and downward pressure elements on consumer prices and they will monitor closely the development of underlying inflation.

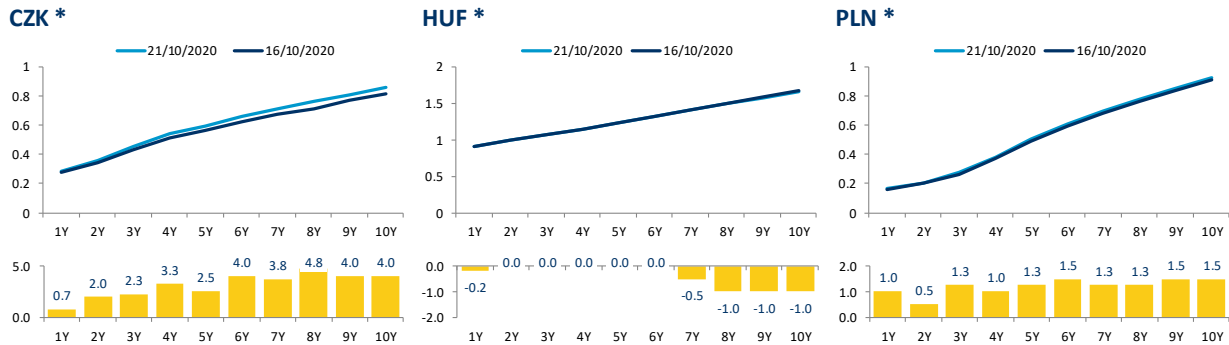
The two most important part of the statement were the forward guidance regarding the asset purchasing program and the one-week deposit rate. The NBH may continue its bond purchasing program in the coming months and they will maintain it until they think it is necessary. It means that they may buy bonds during next year as well. The limit of the amount available for purchase of certain certain series of government securities has been increased from 33% to 50%. The NBH would like to focus on the longer tenors in the future as well and the increase of the limit allows them to buy 15-years bonds in bigger portion as well. The central bank uses this tool flexible, depending on the market.

In case of the one-week deposit, the NBH will maintain the difference to the base rate as long as inflationary risk warrant it. They confirmed that the one-week deposit will be used in the coming weeks as a response to the increasing risk aversion vis-à-vis emerging markets. The interest rate of this deposit will be set at weekly tenders in the future as well.

The statement was finished with the following sentence: "If warranted by a change in the outlook for inflation, the NBH will be ready to use the appropriate instruments."

The statement confirms our view that the NBH follows now a wait and see approach and with the decreasing inflation the manoeuvring room increased for them. **We expect that the interest rate level of one-week deposit rate may be kept unchanged until the market sentiment remains nervous. A hike may come in a case the EUR/HUF moves to new historic high level (above 370), while a rate cut may be delivered if the EUR/HUF stabilizes around or below 355 and inflation moderates to 3% YoY.** We believe, however, the base rate level won't be touched in the next months, and we maintain our view that the NBH would like to cut back the one-week deposit rate to the base rate level as soon as possible, but it is not likely to happen in the next 5-6 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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	10/21	10:00	Retail sales	%	09/01/2020			-1.8	2.7	-2.4	2.4	-2.6	0.4
CZ	10/21	12:00	CZ bond auction 2020-2029, 0.05%		CZK B 10/01/2020					3			
CZ	10/21	12:00	CZ bond auction 2020-2040, 1.50%		CZK B 10/01/2020					2			
PL	10/22	14:00	Money supply M3	%	09/01/2020					0.2	16.2	0.2	16.2
PL	10/23	10:00	Unemployment rate	%	09/01/2020					6.1		6.1	

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