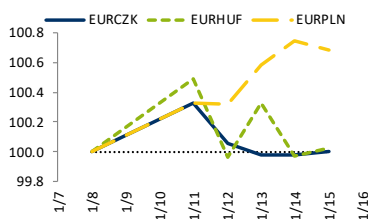




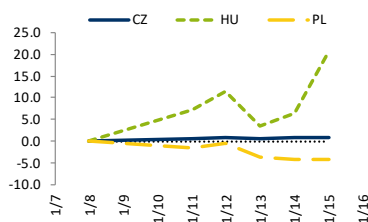
Friday, 15 January 2021

## Forex markets (index)



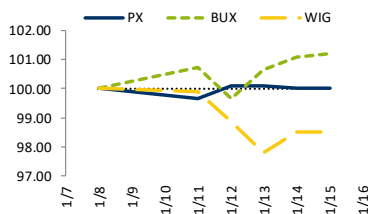
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.15	26.15	0.02
EURHUF	359.4	359.2	0.05
EURPLN	4.541	4.544	-0.06

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.291	1.291	0.0
HUGB 10Y	2.32	2.18	6.6
PLGB 10Y	1.19	1.19	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1075.6	1075.6	0.00
BUX	44929	44876	0.12
WIG	58945	58945	0.00

## Regional insights

## With 4% core inflation in December, the NBH does not want to join a currency war

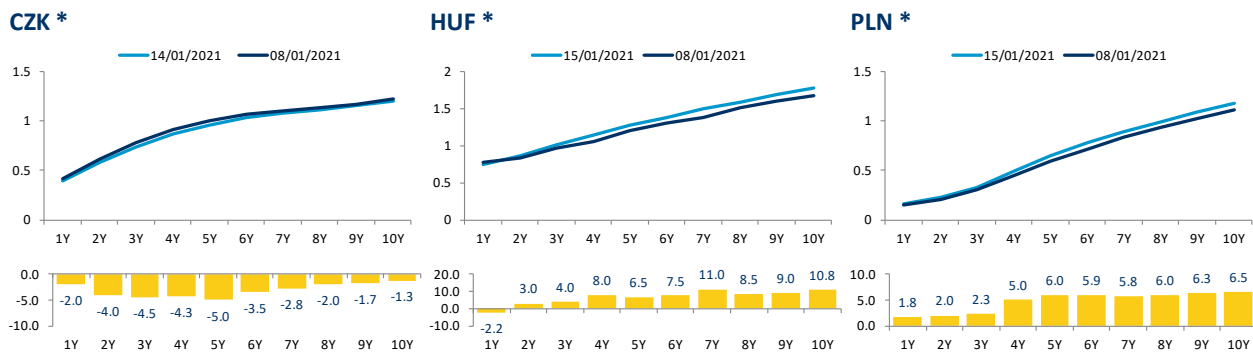
The Hungarian consumer price inflation remained at 2.7% YoY in December in line with the expectations, while core inflation increased slightly from 3.9% YoY in November to 4% in December.

Since the food price increase peaked in 2Q20, it is gradually slowing and the Statistical Office registered price decreases four times in the second half of the year. In case of the tradable goods the price increase is quite stable and below the headline inflation. Market services inflation slightly moderated in December thanks to two subgroups: domestic holidays and car & garage rental. Fuel and tobacco prices were up substantially, which pushed up the headline inflation by 0.5ppt.

Looking ahead, the headline inflation may remain at the current level in January, followed by some increase in February and March to around 3% YoY. The year-on-year inflation may jump first temporarily above 4% YoY in 2Q21 followed by a sudden drop slightly below 3% YoY in 3Q21 (due to a negative base effect). We see consumer prices at 3.6% YoY at the end of the year, while average inflation may remain at around 3.3% YoY in 2021. The uncertainties about the inflation development are still high especially in case of the market services.

The current figures fit into NBH's latest projection, so we don't expect any change of monetary policy for the coming weeks. The core inflation filtered for indirect tax changes remained at 3.4% YoY in December and although it is higher than the inflation target of 3% YoY, it is within the tolerance range of +/- 1ppt. The inflation expectations are still asymmetric on the upside, but it moderated slightly in December, which also support the NBH wait-and-see approach. **Vice-governor, Mr. Virag said that the NBH doesn't want to participate in a currency war, which might be a reaction on the latest statements and action of the Polish central bank.** It also confirms our view that the Council would like to see some stabilization of the exchange rate. We maintain our view that the NBH may moderate back the one-week depo rate level (0.75%) to the level of base rate (0.6%) in 1Q21, but the timing of this move is highly depends on the evolution of the EUR/HUF and on the international market sentiment. The central bank may maintain its unconventional tools (asset purchase program and lending facilities) in the following months in order to support the government spending and investment in the economy during the pandemic times.

## 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	01/15	10:00	CPI	%	12/2020 *F							0.1	2.3
PL	01/18	14:00	Core CPI	%	12/01/2020					-0.1	3.6	0.2	4.3
CZ	01/19	9:00	PPI	%	12/01/2020					0.2	-0.1	-0.5	-0.1
PL	01/21	10:00	Wages	%	12/01/2020					7.3	5.0	0.5	4.9
PL	01/22	10:00	PPI	%	12/01/2020					0.3	0.0	0.0	-0.2
PL	01/22	10:00	Retail sales	%	12/01/2020					22.4	1.2	-5.4	-5.3

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