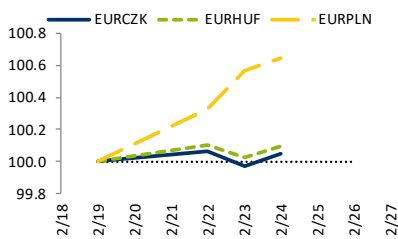




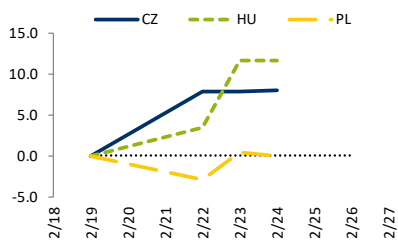
Wednesday, 24 February 2021

Forex markets (index)



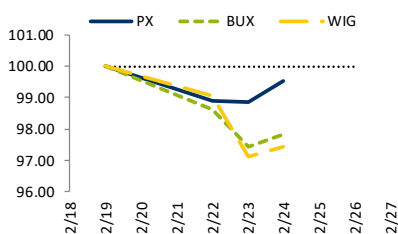
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.88	25.87	0.07
EURHUF	358.9	358.7	0.08
EURPLN	4,510	4,507	0.07

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.594	1.592	0.2
HUGB 10Y	2.54	2.54	0.0
PLGB 10Y	1.33	1.34	-0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1049.3	1042.2	0.68
BUX	43118	42945	0.40
WIG	57215	57029	0.33

Our regional insights:

The NBH still in a wait-and-see mode

Yesterday, The National Bank of Hungary (NBH) left key reference rates (base rate at 0.6%, O/N deposit rate at -0.05%, O/N lending rate at 1.85%) unchanged in line with expectations. The tone of the NBH statement remained cautious just like in January.

The Monetary Council assessed the current economic environment rather positive. Members emphasized that the economy showed bigger resilience on the second wave of the pandemic and so GDP growth can be in the upper side of the range of 3.5-6% YoY what the NBH forecasted in its inflationary report in December.

Regarding the inflation outlook, the statement highlighted that headline inflation may move around 4% YoY temporarily in the second quarter. It added that the 0.2ppt rise of core inflation was driven mainly by the excise duty hike of tobacco and alcohol. The Council sees upside and downside inflation risks as well, and because of changing pricing behavior (due to the lockdowns, pandemic situation and expected economic recovery) an exceptionally cautious approach is warranted in assessing more persistent inflationary effects. The Council emphasized that NBH's clear intention is to prevent the current uncertain global market environment from causing an increase in upside risks to inflation.

Regarding the unconventional tools, the NBH plans to continue its government securities purchase program. The weekly purchasing amount of HUF60bn will be maintained in a flexible manner via auctions and directly on the secondary market. The NBH started to buy government paper with maturities of less than ten years. The program is planned to be maintained for an extended period and it continues to consider it as a priority to increase the share of longer maturities within the maturity profile of government debt.

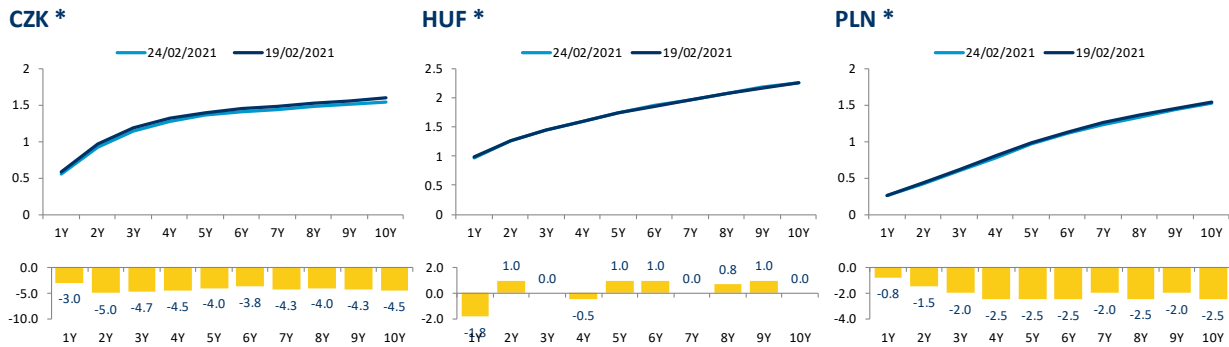
The statement also finished with the same sentences as last month: "Consequently, the Council continuously assesses incoming data, closely monitors the persistence of inflationary effects resulting from the restoration of the economy and the possible inflationary effects of financial market developments. If warranted by a change in the outlook for inflation, the NBH will be ready to use the appropriate instruments."

Based on the stance of the statement we hold our view that the wait-and-see approach may be maintained by the MPC in the following months. The main question is how the NBH may react with its government securities purchasing program on the planned decrease of bond issuance by the Debt Management Agency from end-March. We expect that the NBH may cut back slightly its purchase parallel with the decrease of the issuance. This might have consequences for the bond market.

And last but not least, **although the market started to price in a rate hike, we don't expect any change of the one-week deposit rate of 0.75% in the following months as we think that the NBH would like to see first how the economic rebound continues and how the underlying inflation develops during the year.** Recall that the NBH still expects (according to the December projection) that after this year annual inflation of 3.5-3.6% YoY, it will return to the inflation target of 3% YoY in 2022. These figures will, however, change in a new Inflation Report issued at the end of March.

Dávid Németh, K&H

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	02/24	12:00	CZ bond auction 2021-2024, 0.00%	CZK B 02/01/2021					6			
CZ	02/24	12:00	CZ bond auction 2013-2028, 2.50%	CZK B 02/01/2021					6			
CZ	02/24	12:00	CZ bond auction 2020-2040, 1.50%	CZK B 02/01/2021					2			
HU	02/25	9:00	Wages	% , ytd. 12/01/2020						9.1		8.6
HU	02/25	11:50	One week deposit rate	% 02/01/2021								0.8
HU	02/26	9:00	Unemployment rate	% 01/01/2021					4.3			4.2
PL	02/26	10:00	GDP	% 4Q/2020 *F								-0.7
PL	02/26	15:00	Budget balance	PLN M 01/01/2021								-85014
HU	03/01	9:00	PMI manufacturing	02/01/2021								54.9

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