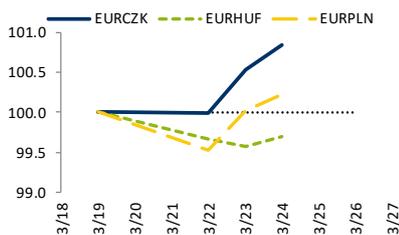




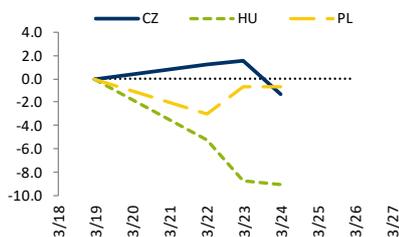
Wednesday, 24 March 2021

Forex markets (index)



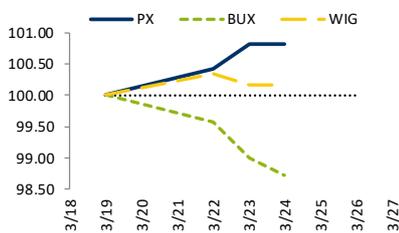
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 26.29 | 26.22 | 0.30 |
| EURHUF | 366.5 | 366.0 | 0.12 |
| EURPLN | 4.626 | 4.616 | 0.20 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.947 | 1.975 | -2.8 |
| HUGB 10Y | 2.65 | 2.66 | -0.2 |
| PLGB 10Y | 1.50 | 1.50 | 0.0 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1088.8 | 1088.8 | 0.00 |
| BUX | 43483 | 43603 | -0.28 |
| WIG | 57695 | 57695 | 0.00 |

Our regional insights:

NBH's statement gently hawkish now

As expected, the National Bank of Hungary (NBH) kept the reference rates unchanged (base rate at 0.6%, O/N deposit rate at -0.05% and O/N lending rate at 1.85%) yesterday. However, the stance of the statement was slightly more hawkish than in the last months.

The NBH revised upward the inflation forecast for this year from 3.5-3.6% YoY to 3.8-3.9% YoY, which was also expected as the oil price was substantial higher in the last months than at the end of 2020. The view for 2022 and 2023 was not changed. The NBH expects that the inflation may return to its inflation target and the fast increase of CPI may be only temporary in the following months. The economic forecast was also moderated slightly from 3.5-6% YoY to 4-6% YoY for 2021. We expected this change as well because of the better GDP figure in 4Q2020.

Although the Monetary Council sees both upside and downside risks regarding inflation developments for the following years, the statement put more emphasize on the upside risks. The MPC highlighted that they will monitor very closely durable part of inflation evolution and they will take the necessary steps in order to maintain price stability. The core inflation filtered from indirect tax changes may be in the focus of NBH, which stood at 3.4% YoY in February and which is forecasted to be around 3% YoY in 2021.

The government bond purchase program will be continued in a flexible way in order to stabilize the market. The MPC has already abolished the 50% maximum limit the NBH can buy from one series two weeks ago. The new element is that no weekly size has been set for bond purchases, so the NBH's activity may depend on the issuance of Debt Management Agency and on the market circumstances.

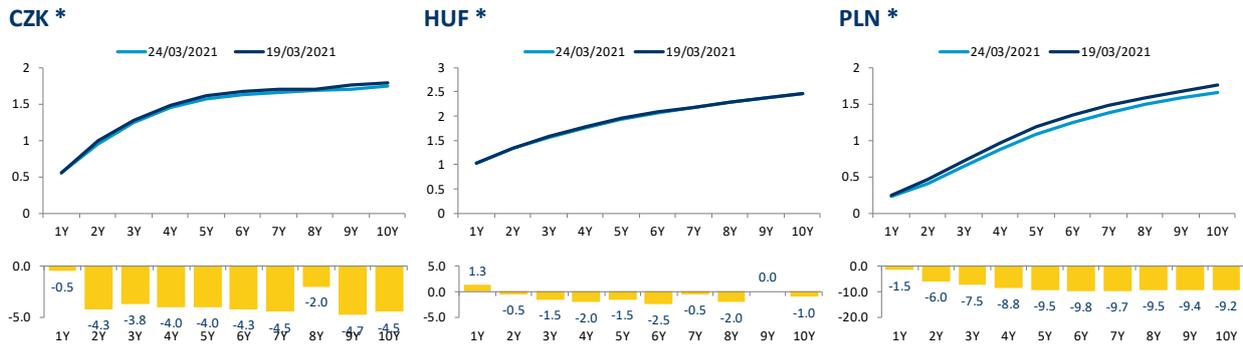
The statement was finished with the following sentences: "The Council closely monitors developments in investors' risk appetite in emerging markets and potential second-round inflationary effects resulting from the restart of the economy. If warranted by an increase in upside risks to inflation, the NBH will be ready to use the appropriate instruments."

All in all we see the NBH statement more hawkish, but we maintain our view that NBH's wait and see approach will stay in place, so we don't expect increase of one-week deposit rate, which the market is pricing now, partly because of the weakening HUF in the last weeks. Recall that in order to stabilize the EUR/HUF, the NBH holds foreign exchange swap tenders, which provide euro liquidity at the end of March. Hence, the main risk comes from negative spill-overs from other emerging markets (and the US rates). If the forint depreciates quickly and substantially in the coming weeks, then it will trigger a hike of one-week deposit rate.

Nevertheless, the first moves of the EUR/HUF after the NBH meeting suggest (HUF is outperformed the region) that pressure on the HUF may moderate thanks to the more hawkish statement. Let's see if it prevails.

David Nemeth, K&H Budapest

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 | 03/24 | 12:00 | CZ bond auction 2014-2027, floating rate | CZK B 03/01/2021 | | | | | 6 | | | |
| CZ | 03/24 | 12:00 | CZ bond auction 2020-2029, 0.05% | CZK B 03/01/2021 | | | | | 6 | | | |
| CZ | 03/24 | 12:00 | CZ bond auction 2017-2033, 2.00% | CZK B 03/01/2021 | | | | | 2 | | | |
| CZ | 03/24 | 14:30 | CNB meeting | % 03/01/2021 | 0.25 | | | | 0.25 | | 0.25 | |
| HU | 03/25 | 11:50 | One week deposit rate | % 03/01/2021 | | | | | | | 0.75 | |
| HU | 03/29 | 9:00 | Trade balance | EUR M 01/2021 *F | | | | | | | 830 | |
| HU | 03/30 | 9:00 | Unemployment rate | % 02/01/2021 | | | | | | | 4.3 | |
| HU | 03/31 | 9:00 | Wages | %, ytd. 01/01/2021 | | | | | | | | 10.6 |
| HU | 03/31 | 9:00 | PPI | % 02/01/2021 | | | | | | | 0.7 | 6.6 |

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