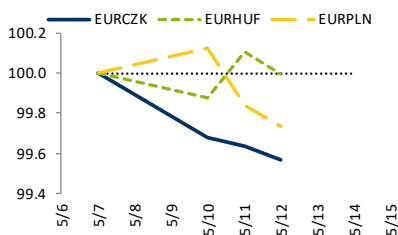




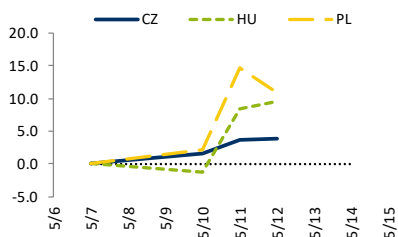
Wednesday, 12 May 2021

Forex markets (index)



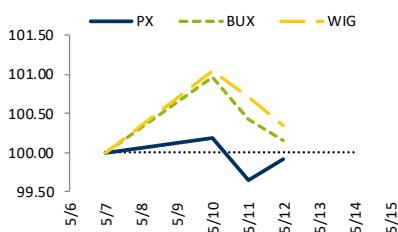
| | LAST | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.54 | 25.55 | -0.07 |
| EURHUF | 358.1 | 358.5 | -0.11 |
| EURPLN | 4,543 | 4,548 | -0.11 |

Gov. bonds 10 Y (bps change)



| | LAST | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.815 | 1.813 | 0.2 |
| HUGB 10Y | 2.86 | 2.85 | 0.4 |
| PLGB 10Y | 1.79 | 1.83 | -2.1 |

Equity indices (index)



| | LAST | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX | 1109.0 | 1105.9 | 0.28 |
| BUX | 44232 | 44351 | -0.27 |
| WIG | 62321 | 62552 | -0.37 |

Our regional insights:

Hungary's inflation above 5%, what next?

The Hungarian headline inflation jumped from 3.7% YoY in March to 5.1% YoY in April. The core inflation, however, increased only slightly from 2.8% YoY in March (which was the lowest reading in the last two years) to 3.1% YoY in April.

The main driver of the booming inflation was the low base in last April (mainly due to fuel price drop). This element alone pushed annual inflation up by 1%pt, while the indirect tax increase of alcohol and tobacco added another 0.2%pt to headline consumer price index.

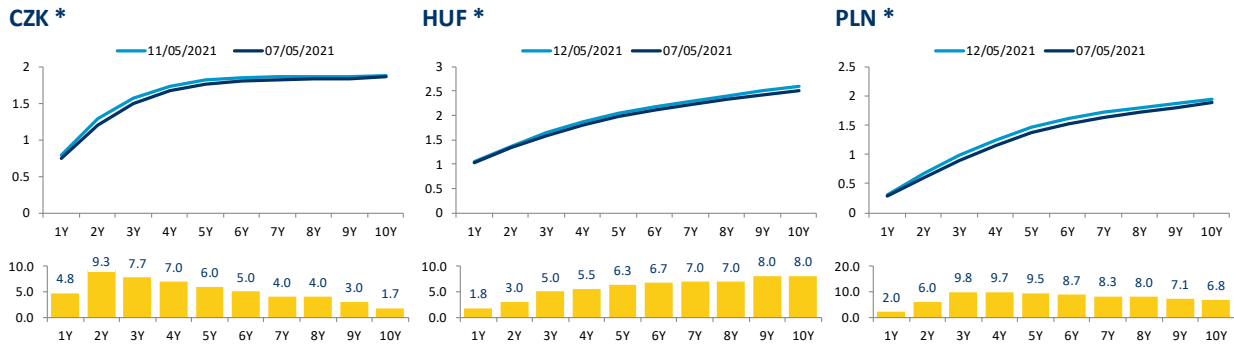
Although the core inflation and the core inflation filtered for indirect tax changes are close to the NBH inflation target of 3% YoY, there are some elements the NBH should monitor closely. The monthly price rise excluding the fuel price change was above the average of the 2015-2020 period. It could be partly because of the start of the reopening of the economy. The shops and many services have already restarted their operations in April. The inflation expectations increased slightly in April and the range of the expectations are rather asymmetric on the upside, meaning that the lower part of the range is around 2% YoY while the upper part is around 6% YoY.

Looking ahead the inflation may increase slightly further in May to 5.3% YoY, partly due to the oil price increase since the middle of April. The big question mark is how the gradual opening of the hospitality sector may affect the headline inflation in the coming months. We still see inflation drop in the summer to slightly below 4% YoY followed by a modest acceleration to around 4.5% YoY in the last quarter.

We think that the NBH may continue to practice its wait and see approach as the core inflation remained close to its inflation target, but a chance of a tightening has increased with the April figure. We maintain our view that the inflation report in September will be crucial, as at that time the NBH will have broader picture about the price activities after the reopening of the economy. Should the underlying inflation start to accelerate, then we expect that NBH's tightening move may come from around September. On the other hand, our forecast still shows that the headline may slow below 3.5% YoY next year as there will be no secondary effects of the current jump of prices. Hence, that is why our baseline scenario still suggests that the NBH one-week deposit rate may be left unchanged at 0.75% in this year.

David Németh, 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 | 05/12 | 12:00 | CZ bond auction 2021-2031, floating rate | CZK B 05/01/2021 | | | | | 4.00 | | | |
| CZ | 05/12 | 12:00 | CZ bond auction 2021-2032, 1.75% | CZK B 05/01/2021 | | | | | 6.0 | | | |
| CZ | 05/12 | 12:00 | CZ bond auction 2020-2040, 1.50% | CZK B 05/01/2021 | | | | | 2.0 | | | |
| HU | 05/13 | 11:50 | One week deposit rate | % 05/01/2021 | | | | | | | | |
| PL | 05/14 | 10:00 | CPI | % 04/2021 *F | | | | | | | 0.7 | 4.3 |
| CZ | 05/14 | 10:00 | Current account | CZK B 03/01/2021 | | | | | | | 24.28 | |
| PL | 05/14 | 10:00 | GDP | % 1Q/2021 *P | | | | | | | -0.7 | -2.8 |
| PL | 05/14 | 14:00 | Current account | EUR M 03/01/2021 | | | | | | | 1619.0 | |
| PL | 05/14 | 14:00 | Trade balance | EUR M 03/01/2021 | | | | | | | 883.0 | |

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