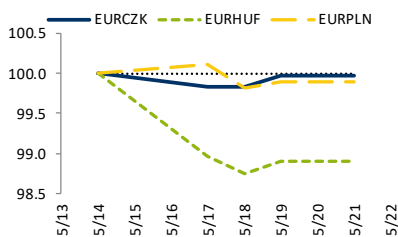




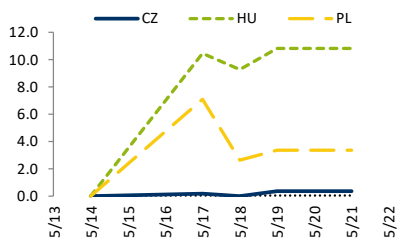
Friday, 21 May 2021

Forex markets (index)



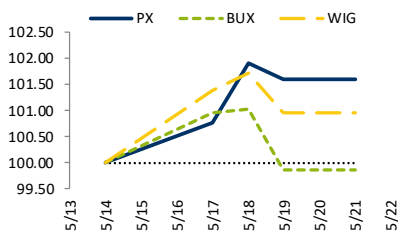
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.46	25.46	0.00
EURHUF	351.3	351.3	0.00
EURPLN	4.522	4.522	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.767	1.767	0.0
HUGB 10Y	3.21	3.21	0.0
PLGB 10Y	1.93	1.93	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1139.7	1139.7	0.00
BUX	45371	45371	0.00
WIG	62827	62827	0.00

Regional insights

Some thoughts about NBH's meeting on Tuesday

The sentences of NBH's vice governor, Mr. Virag Barnabas makes next week's MPC meeting exciting. He said on Monday that NBH has to prepare itself for tightening as the economy bounces back fast and inflation increased above the market expectations. Still he emphasized that the June Inflationary Report will be key in their decision making, so **no important monetary policy change is expected on next Tuesday (25th May)**. Of course, the NBH statement will be very important and hopefully may give some clarification about the timing and the speed of tightening.

Although the MPC's statement became slightly more hawkish in the last months, emphasizing more the upward risks regarding the inflation and highlighting that the Council is ready to react in order to maintain price stability, we expected that a real shift of monetary policy might come only later. We thought that NBH would like to see first to what level the inflation moderates after the peak in May during the summer, when the economy has been reopened. Additionally, the EUR/HUF started to appreciate gradually in the last weeks, which suggested that the market accepted NBH's wait and see approach, so the timing of the vice governor's words was a huge surprise.

The reason could be partly that the government plans to accept a loose state budget proposal for 2022, with a deficit target of 5.9% of GDP, while the Budgetary Council (the governor of NBH is a member of the Council as well) asked for a tighter budget as they are concerned about the danger of an overheated economy. As the government didn't want to change the proposal, because of the uncertainty of the recovery and we think also because of the parliamentary election which will be held in next year, the NBH had to shift its tone to a more hawkish one.

Based on the previous statements of MPC and having in mind that the Council reacts on lasting inflationary tendencies with the change of the benchmark rate, which stays at 0.6%, **we expect that it might be increased to 0.75% in June. The main question is: will they increase the one-week deposit rate as well at that time, or rather they increase both simultaneously in the next months and so they abolish the gap between the two instruments? We expect 0.9% base rate and one week deposit rate by the end of 3Q while further actions may highly depend on the evolution of the inflation and the HUF.** It is also interesting that contrary to the FED or ECB, NBH plans to maintain its bond purchasing program (which limit has been increased from HUF2000bn to HUF3000bn just couple of weeks ago), although we think that the weekly purchase might be moderated in 2H21. It is also a question what will happen with the other instrument (like funding for lending or liquidity providing programs) the NBH has introduced in order to support the recovery. As the government provides lots of subsidized loans and programs, we expect that the NBH may withdraw its instrument, so the tightening may come rather via the unconventional tools, than from the increase of benchmark rate. So we're looking forward to what kind of forward guidance the NBH will give in its statement.

Dávid Németh, K&H Budapest

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
PL	05/24	10:00	Industrial output	%	04/01/2021						18.60	18.9
PL	05/24	10:00	Retail sales	%	04/01/2021						15.0	15.2
PL	05/25	14:00	Money supply M3	%	04/01/2021						1.4	14.4
HU	05/25	14:00	NBH meeting	%	05/01/2021							
HU	05/25	14:00	Overnight deposit rate	%	05/01/2021							
PL	05/26	10:00	Unemployment rate	%	04/01/2021						6.40	
CZ	05/26	12:00	CZ bond auction 2021-2024, 0.00%	CZK B	05/01/2021					4.0		
CZ	05/26	12:00	CZ bond auction 2021-2031, floating rate	CZK B	05/01/2021					4.0		
CZ	05/26	12:00	CZ bond auction 2021-2032, 1.75%	CZK B	05/01/2021					6.0		
HU	05/27	9:00	Unemployment rate	%	05/01/2021							
HU	05/27	11:50	One week deposit rate	%	05/01/2021							
HU	05/28	9:00	Wages	%, ytd.	03/01/2021							
HU	05/31	9:00	PPI	%	04/01/2021							
CZ	05/31	10:00	Money supply M2	%	04/01/2021							
PL	05/31	10:00	GDP	%	1Q/2021 *F							

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