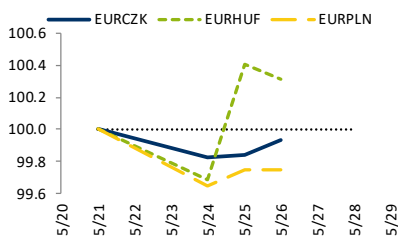




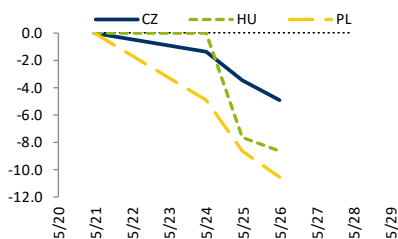
Wednesday, 26 May 2021

Forex markets (index)



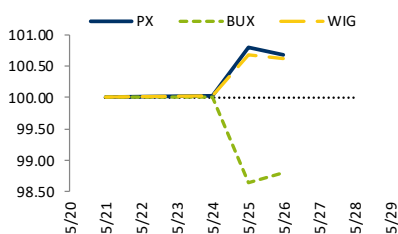
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.44	25.42	0.09
EURHUF	349.6	349.9	-0.09
EURPLN	4,485	4,485	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.712	1.726	-1.4
HUGB 10Y	2.94	2.95	-0.3
PLGB 10Y	1.76	1.78	-1.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1166.7	1168.3	-0.13
BUX	45841	45765	0.16
WIG	64021	64055	-0.05

Our regional insights:

The NBH rate hike almost a done deal in June

Yesterday, the National Bank of Hungary left all its reference rates (base rate 0.6%, O/N deposit rate -0.05% and O/N lending rate 1.85%) unchanged in line with expectations. The statement of the NBH was more hawkish than a month ago and it mostly repeated the messages vice governor, Mr. Virag Barnabas delivered last Monday.

The performance of the economy exceeded the NBH's expectations in the first quarter, and they said that this year's growth can be close to the upper edge of the range (between 4% and 6% YoY) they forecasted in March.

The Monetary Council emphasized more the upward risks to inflation. The economic recovery can be faster and the restart of the economy may cause demand-supply frictions in the coming months, pushing up the inflation figure. The sustained rise of commodity prices and international freight costs result in a higher external inflation environment and the tightening of labor markets with dynamic wage growth pushes up inflationary risk as well. So the message is clear: the NBH may substantially increase its inflation forecast in its June report. The main question is how fast inflation may return to its target in their new prognoses as they always highlighted previously that the current jump of inflation is only temporary.

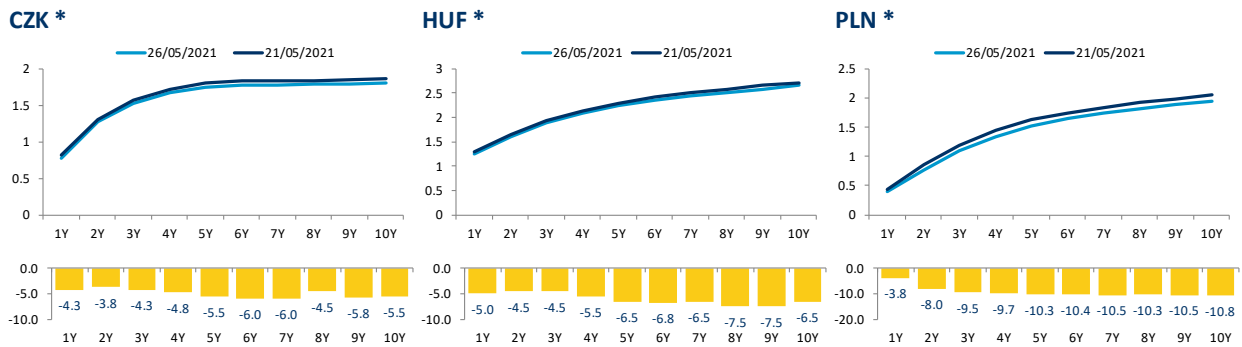
There were no references to the change of the unconventional monetary policy tools. The NBH plans to remain active in the government bond market in the coming months as well and will maintain a flexible purchasing program depending on the market circumstances. The funding for growth scheme is planned to continue as well, but the optimal size and structure of the programmes are continuously assessed by the Monetary Council, which leaves the door open for a change for the upcoming months.

Just like at the end of the first quarter, NBH will hold foreign exchange swap tenders providing euro liquidity for the market at the end of June in order to preserve the stability of monetary conditions.

The statement finished with stronger words as it highlights that the risks to the outlook for inflation have recently continued to strengthen even further. They emphasized again that the June Inflation Report will be key in assessing the outlook and the council reiterates that they are ready to tighten the monetary conditions in a proactive manner to the extent necessary in order to ensure price stability and to mitigate inflation risks.

Based on the statement of the MPC, some monetary tightening can be taken almost for granted in June. As the Council highlighted that the difference between the base rate and the one-week deposit rate will be maintained as long as warranted by the inflationary risks, **we expect that there may be 15bp rate hike in both instruments at the end of June.** Further actions might depend of the evolution of inflation and inflation expectations in the summer time, but we see quite high chance for another 15bp tightening till the end of September.

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	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			
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								

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