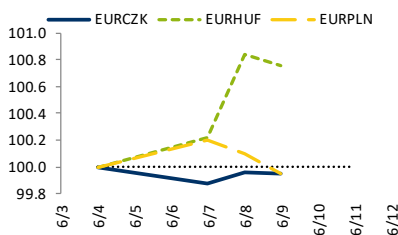




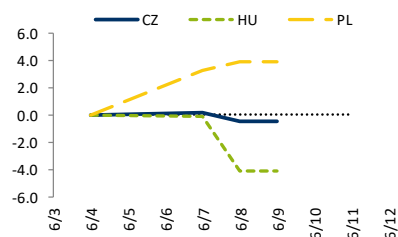
Wednesday, 09 June 2021

Forex markets (index)



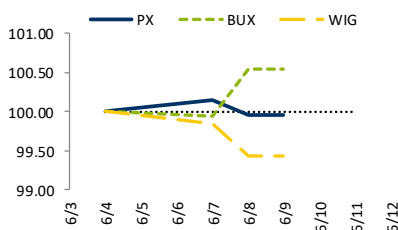
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.42	25.43	-0.01
EURHUF	348.5	348.8	-0.09
EURPLN	4.460	4.466	-0.15

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.673	1.673	0.0
HUGB 10Y	2.84	2.84	0.0
PLGB 10Y	1.85	1.85	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1178.0	1178.0	0.00
BUX	48546	48546	0.00
WIG	66498	66498	0.00

Our regional insights:

Inflation above 5% may trigger more aggressive start of NBH's tightening cycle

The Hungarian headline inflation remained at 5.1% YoY in May, while the core inflation increased from 3.1% YoY in April to 3.4% YoY in May. The headline figure was slightly below the market expectations.

Clearly, the main driver of the increase of core inflation was market services. The prices went up by 1.9% MoM in case of restaurants, while the price of entrance tickets to sport events and museums jump by 1.8% MoM as well. All happened because of the gradual opening of the economy.

The tradable goods price index also boosted the inflation. This subgroup is effected by the forint exchange rate, where the pass through effect might have increased since the last year, so not only the increasing demand, but the relatively weak forint could push the prices up.

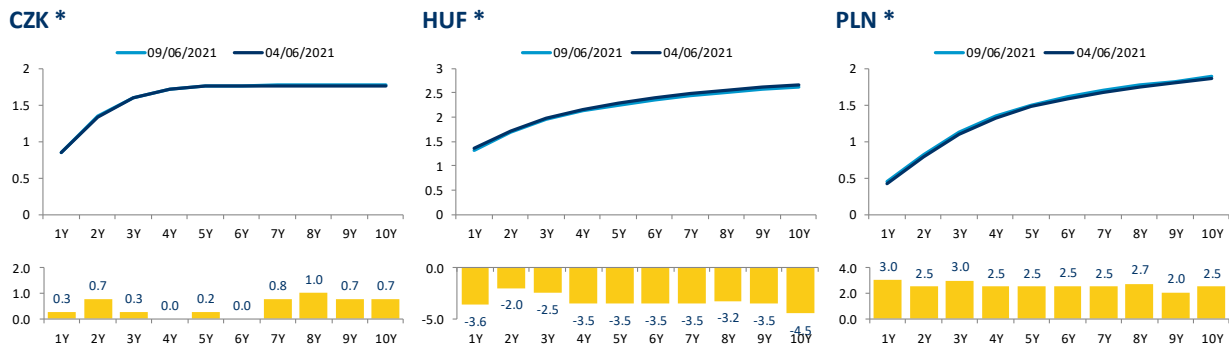
The free parking was abolished at the end of May but it hasn't been put into the May inflation, so it will push up the June figure, which will have an approximately 0.2%pt effect on the headline CPI. Additional upward pressure may come from the seasonal fruits and vegetables, as in some cases the harvest was relatively poor.

We think that we have seen the peak of annual inflation this year, and it may moderate to 4.9% YoY in June and even it may bottom around 4% YoY in July and August. It will be followed by a second wave of upward move to around 4.5% YoY till the end of the year and so the average inflation may be slightly above 4% YoY in 2021.

The inflation expectations went up again, its range was between 3% YoY and 8% YoY in May, which might be uncomfortable for the National Bank of Hungary (NBH), although it highlighted that it showed unusual volatility similar to the consumer price index.

Based on underlying development of inflation and the statements of the NBH, a rate hike in June is almost certain, the question is rather the size of the tightening. The vice-governor of NBH, Mr. Virag said on a conference this morning that they would like to remove sustained inflation risks rapidly and the tightening cycle will be started with an effective move. These sentences suggest that the Monetary Council may increase both the base rate and one-week deposit rate at the end of the month and the gap between the two instruments may be abolished as well. It means that the benchmark rate might be increased by at least 30bp, while the one-week deposit rate by 15bp, which might be followed by further an additional 15-15bp hikes in July and August. It is also important to emphasize that the NBH stops its funding-for-growth scheme in next months as it doesn't plan to increase the HUF3000bn limit of the program. So, the tightening of monetary policy will come not only through interest rate hikes, but also via the withdrawal of some NBH's unconventional tools.

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
HU	06/09	9:00	Trade balance	EUR M 04/2021 *P			321				876	
HU	06/09	9:00	CPI	% 05/01/2021			0.5	5.1	0.5	5.3	0.8	5.1
CZ	06/09	12:00	CZ bond auction 2021-2031, floating rate	CZK B 06/01/2021					4			
CZ	06/09	12:00	CZ bond auction 2021-2032, 1.75%	CZK B 06/01/2021					6			
CZ	06/09	12:00	CZ bond auction 2020-2040, 1.50%	CZK B 06/01/2021					2			
PL	06/09	14:00	NBP meeting	% 06/01/2021	0.10				0.10		0.10	
CZ	06/10	9:00	CPI	% 05/01/2021	0.4	3.1			0.5	3.1	0.5	3.1
HU	06/10	11:50	One week deposit rate	% 06/01/2021							0.75	
PL	06/11	14:00	NBP minutes	NBP 06/01/2021								

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