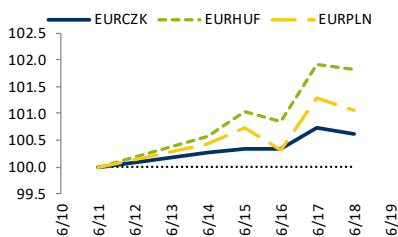




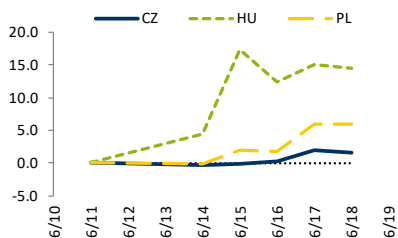
Friday, 18 June 2021

Forex markets (index)



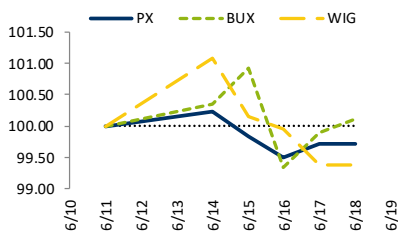
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.52	25.55	-0.11
EURHUF	354.6	355.0	-0.10
EURPLN	4.546	4.557	-0.23

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.639	1.644	-0.5
HUGB 10Y	2.85	2.86	-0.2
PLGB 10Y	1.78	1.78	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1174.0	1174.0	0.00
BUX	48905	48796	0.22
WIG	65806	65806	0.00

Regional insights

Forint trades at weaker levels as it eyes NBH's rate hike

The Hungarian forint had quite volatile days, it has weakened from 345 to 356 against the euro in one week time, so trading almost at the same levels where it was before NBH's vice governor spoke about the start of the tightening cycle in middle of May. Recall that the NBH will have an interest-rate-setting meeting next Tuesday (22nd June) and although the rate hike can be taken for granted, there are questions about the size and the further time of the steps of the increase.

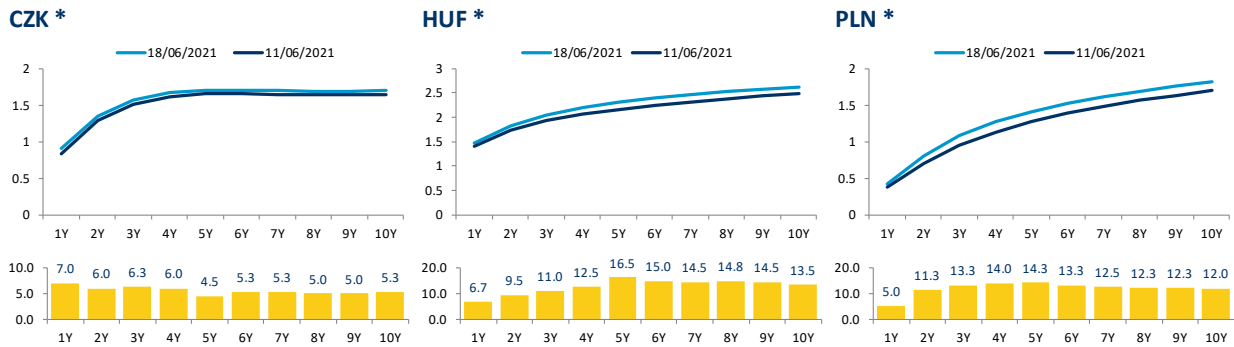
From a macroeconomic point of view, the latest figures confirmed that the economy may expand above 6% YoY in this year, which means that GDP may reach the end-2019 level already this year, and taking in account the loose fiscal policy, may grow around 5% YoY next year. Although headline inflation remained at 5.1% YoY in May, the core inflation increased from 3.1% YoY in April to 3.4% YoY in May and the average inflation may be above 4% YoY in 2021, above the tolerance range of NBH inflation target of 3% YoY +/- 1%point. The NBH will publish its quarterly inflationary report and it will be interesting how they see the development of inflation in the next quarters and what kind of risks they identify. They may increase both GDP and inflation forecasts, which supports the start of the tightening cycle.

Hence, we expect that the Monetary Council may increase the NBH base rate by 30bp from 0.6% to 0.9% and the one-week deposit rate by 15bp from 0.75% to 0.9%. The interest rate corridor might be left unchanged at -0.05% and 1.85% and so the band may become symmetric again. We think that less tightening would mean a big negative surprise for the market, which would push the EUR/HUF to a higher level, while a bolder move may strengthen the forint.

The statement of the MPC will be important too. The Council has already made the decision that the funding for lending scheme will finish, but the corporate bond issuance program and the government bond purchasing program is still in place. We expect that the latter might be continued till the end of the year, while the former might be stopped already during the autumn.

The main question is how many hints will be in the NBH statement about the timing and the end of the tightening cycle. Based on the latest statement of a MPC member, the NBH may increase the reference rate only quarterly, so the next step might come in September (in that case we expect 30bp hike), although our original view was that the base rate might be increased by 15bp in July, followed by another one in August or September as well, reaching the 1.2% level by end September. Further steps will highly depend on the evolution of external environment and inflation, but in our base case, we expect the next move only for 2022. Although the NBH has no exchange rate target, we think that the pass-through effect of exchange rate get bigger than last year, so it is very important how the commodity and raw material prices develop in the next quarters as Hungary has to import many of these things. It also means that the NBH would like to see rather a stable, relatively strong forint in the next quarters. So in case the forint weakens against its trading partners, the NBH may have to tighten more in order to push the inflation back to its targeted level. All in all there are a lot of uncertainties ahead, so the NBH's moves may be driven by data, but we think that the first target of the effective reference (interest) rate might be 1.2% end 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	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	06/18	10:00	Wages	% 05/01/2021			-2.9	10.1	-2.8	10.4	-2.1	9.9
HU	06/21	8:30	Current account	HUF B 1Q/2021							185.0	
PL	06/21	10:00	PPI	% 05/01/2021							0.5	5.3
PL	06/21	10:00	Industrial output	% 05/01/2021							-9.2	44.5
PL	06/22	10:00	Retail sales	% 05/01/2021							-7.7	21.1
HU	06/22	14:00	NBH meeting	% 06/01/2021							0.6	
HU	06/22	14:00	Overnight deposit rate	% 06/01/2021							-0.1	
CZ	06/23	14:30	CNB meeting	% 06/01/2021							0.3	
PL	06/24	10:00	Unemployment rate	% 06/01/2021							6.3	
HU	06/24	11:50	One week deposit rate	% 06/01/2021							0.75	
PL	06/24	14:00	Money supply M3	% 05/01/2021							-0.1	11.2

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