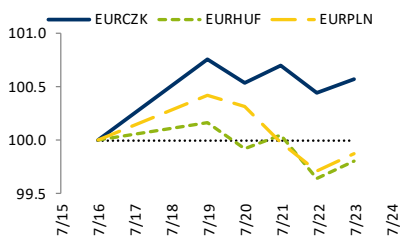




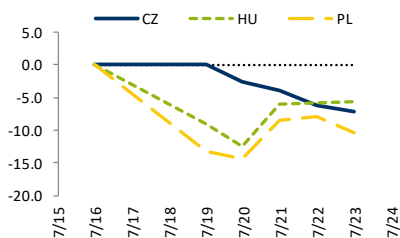
Friday, 23 July 2021

## Forex markets (index)



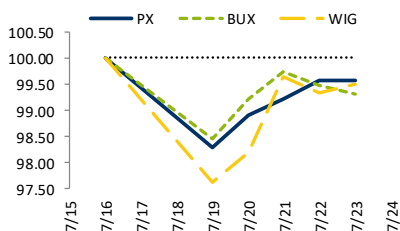
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.67	25.63	0.13
EURHUF	358.7	358.1	0.16
EURPLN	4.574	4.567	0.16

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.665	1.674	-0.9
HUGB 10Y	2.77	2.77	0.0
PLGB 10Y	1.54	1.56	-1.5

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1192.2	1192.2	0.00
BUX	47678	47757	-0.17
WIG	66993	66882	0.17

## Regional insights

## The Hungarian market starts to price-in a 30bps hike

The National Bank of Hungary (NBH) will have an interesting rate-setting meeting on next Tuesday. The last weeks' development, like increasing inflation in June and weakening forint against the euro, confirms the continuation of rate hiking cycle for the coming month, but the speed and the timing of the tightening is still uncertain.

The vice-governor of NBH, Mr. Virag said earlier that the July rate setting meeting will provide clear guidelines for the MPC's monetary policy intention, which suggest that the next step on Tuesday may be a good leader for the gradual increase of the base rate. After the June rate setting meeting we expected that the MPC may increase the reference rate by 15bp monthly till end of September, followed by one more 15bp rate hike in the last quarter and so the base rate may be at 1.5% at the end of this year.

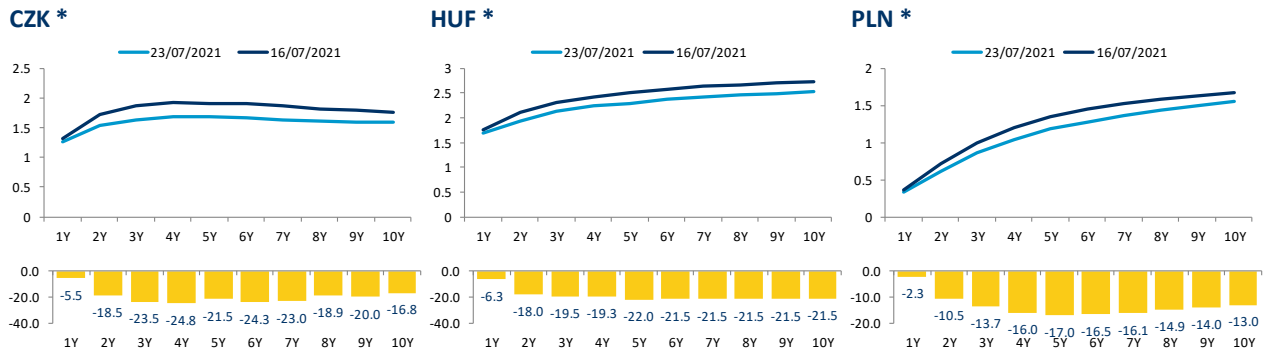
**After the surprise jump of inflation in June the market started to expect rather 30bp hike for July, but we think that the monthly 30bp hike is too fast, so in case the NBH hikes 30bp, it might be only a one-off and then it may switch back to the 15bp steps.** It is also a question when the central bank may start to increase the O/N deposit rate, which stays at -0.05% at the moment, but we think that this step may come only after the benchmark rate moves above 1.2%. Additionally it is important to highlight that some of its liquidity tools, like the foreign currency swap tender via the NBH provided extra HUF liquidity for the market has been cancelled during the last weeks, so **the NBH pulls out some extra forint liquidity from the market, which is also means monetary tightening.**

We are quite confident in it that the overwhelming majority of the tightening might be delivered in this year, as the NBH would like to frontload the cycle in order to anchor the inflation expectations in an environment where the headline inflation run well above the central bank's target. As it looks like that inflation may moderate below 5% YoY in the coming months, it can support the NBH's effort to anchor the inflation expectations as well.

So all in all we maintain our view that the NBH base rate might be at the 1.50% level at the end of the year, but we see in this forecast rather upside risk, because there are still big uncertainties how the pricing behaviour of the service providers has changed and how long the demand-supply frictions may last.

Dávid Németh, K&amp;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
PL	07/23	10:00	Unemployment rate	%	06/01/2021		5.9		6.0		6.1	
HU	07/27	14:00	NBH meeting	%	07/01/2021						0.9	
HU	07/27	14:00	Overnight deposit rate	%	07/01/2021						-0.1	
HU	07/28	9:00	Unemployment rate	%	06/01/2021						3.90	
CZ	07/28	12:00	CZ bond auction 2014-2027, floating rate	CZK B	07/01/2021				2.0			
CZ	07/28	12:00	CZ bond auction 2021-2032, 1.75%	CZK B	07/01/2021				6.0			
CZ	07/28	12:00	CZ bond auction 2020-2040, 1.50%	CZK B	07/01/2021				3			
CZ	07/30	9:00	GDP	%	2Q/2021 *A						-0.3	-2.4
HU	07/30	9:00	Wages	%, ytd.	05/01/2021							10.1
HU	07/30	9:00	Trade balance	EUR M	05/2021 *F						97.0	
PL	07/30	10:00	CPI	%	07/2021 *P						0.1	4.4
CZ	07/30	11:00	Money supply M2	%	06/01/2021							10.7
PL	07/30	15:00	Budget balance	PLN M	06/01/2021						9350.0	
HU	08/02	9:00	PMI manufacturing		07/01/2021						54.7	
PL	08/02	9:00	PMI manufacturing		07/01/2021						59	

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