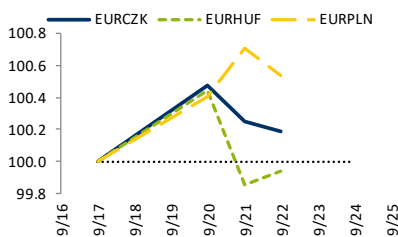




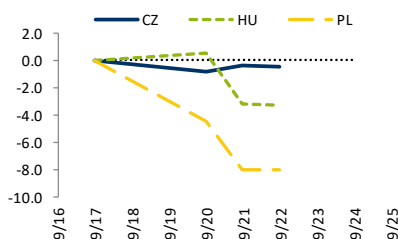
Wednesday, 22 September 2021

Forex markets (index)



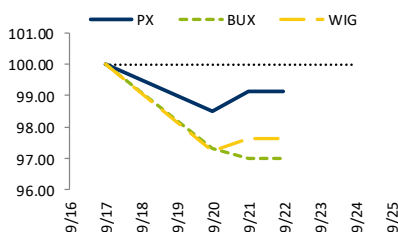
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.41	25.42	-0.07
EURHUF	352.7	352.4	0.09
EURPLN	4.616	4.624	-0.17

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.985	1.986	-0.1
HUGB 10Y	3.10	3.10	0.0
PLGB 10Y	1.96	1.96	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1294.2	1294.2	0.00
BUX	50816	50816	0.00
WIG	69420	69420	0.00

Our regional insights:

The NBH slows down a pace of its hiking cycle

The National Bank of Hungary (NBH) extended its tightening cycle, but it slowed down the speed of tightening, because the base interest rate increased only by 15bps from 1.5% to 1.65% yesterday. The overnight deposit and lending rates and the one-week deposit rate were increased also by 15bps. The median of the market expectation was 25bps rate hike, so the NBH delivered a (downside) surprise.

Yesterday's decision is strange from the point of view that the NBH increased its inflation outlook for this (from 4.1% YoY to 4.6-4.7% YoY) and next year (from 3.1% YoY to 3.4-3.8% YoY). The economic growth forecast was revised upward from 6.2% YoY to 6.5-7% YoY for 2021. The NBH uses range forecasts again in their outlook, because the 4th wave of pandemic increased the uncertainty. We should add here that the NBH's new inflation forecast is in line with our expectation for the next 15 months, but we see upward risk for 2023.

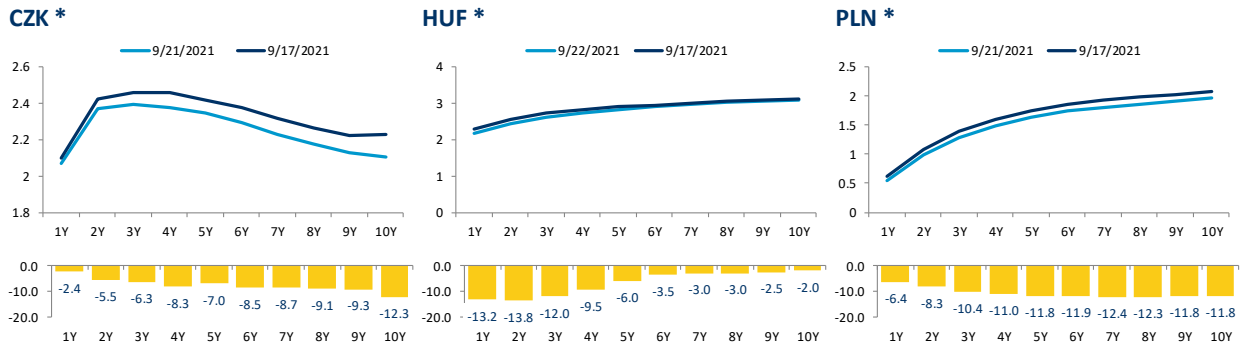
So, **the spreading of the Delta variant of Covid is the main reason behind why the Monetary Policy Council (MPC) slowed down the rate hike cycle.** The NBH vice-governor, Mr. Virag highlighted that there are still upward risks in case of inflation and the bank expects that inflation may return to the inflation target of 3% YoY only in 2H22. He emphasized that the tightening cycle will be continued until the outlook for inflation stabilizes around the central bank target in a sustainable manner and the inflation risks become evenly balanced on the horizon of monetary policy.

Meanwhile, the weekly purchase of government bonds will be moderated from HUF50bn to HUF40bn from next week and the next revision will be done on December's meeting. This step was expected by the NBH especially that NBH bought HUF47bn bonds from the market last week. Just like a month ago, the statement highlights that the purchase program will take a flexible approach to changing the quantity and structure of weekly purchases to the extent and for the time necessary. We think that the massive foreign currency denominated government bond issuance (delivered in September) makes room for further decrease of weekly bond purchases (from HUF40bn to HUF30bn) from the end of this year.

The NBH also continues phasing out its FX swap facility providing forint liquidity taking into account the developments in the swap market, which means that the roughly half of the existing FX swap (around HUF500-550bn) may expire till the end of the year.

We had already highlighted after the higher-than-expected August inflation figure that a chance of 30bps rate hike in September had increased and so there were rather upside risk to our year-end base rate forecast of 2.1%. **After yesterday's decision we expect that the NBH may continue the rate hike cycle with 15bps (rate-hike) monthly steps, so it is still in-line with our view that the base rate might be really at 2.1% at the end of 2021.**

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
CZ	09/22	12:00	CZ bond auction 2021-2032, 1.75%	CZK B 09/01/2021					2			
CZ	09/22	12:00	CZ bond auction 2021-2037, 1.95%	CZK B 09/01/2021					2			
CZ	09/22	12:00	CZ bond auction 2021-2031, floating rate	CZK B 09/01/2021					2			
PL	09/22	14:00	Money supply M3	% 08/01/2021					0.3	9.2	1.0	8.8
PL	09/23	10:00	Unemployment rate	% 08/01/2021					5.7		5.8	
HU	09/28	9:00	Unemployment rate	% 08/01/2021							3.9	
HU	09/29	9:00	Wages	%, ytd. 07/01/2021								3.5
CZ	09/30	9:00	GDP	% 2Q/2021 *F							1.0	8.2
HU	09/30	9:00	PPI	% 08/01/2021							3.5	14.8

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