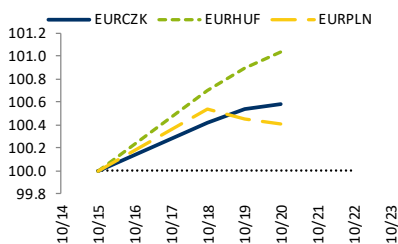




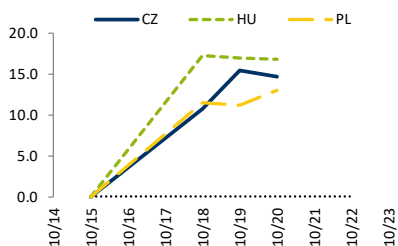
Wednesday, 20 October 2021

Forex markets (index)



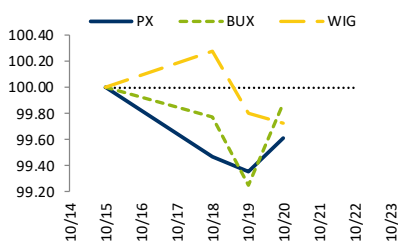
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.52	25.51	0.04
EURHUF	363.1	362.6	0.15
EURPLN	4,582	4,584	-0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.523	2.530	-0.7
HUGB 10Y	3.87	3.87	-0.1
PLGB 10Y	2.71	2.69	0.7

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1356.5	1353.0	0.26
BUX	54697	54357	0.63
WIG	74240	74299	-0.08

Our regional insights:

NBH delivers another 15bps hike. More to come

The National Bank of Hungary increased its base rate from 1.65% to 1.8% - in line with the analyst consensus. Importantly, the NBH statement remained hawkish and vice-governor, Mr. Virag said on a conference that monetary tightening will be continued in 2022 as well.

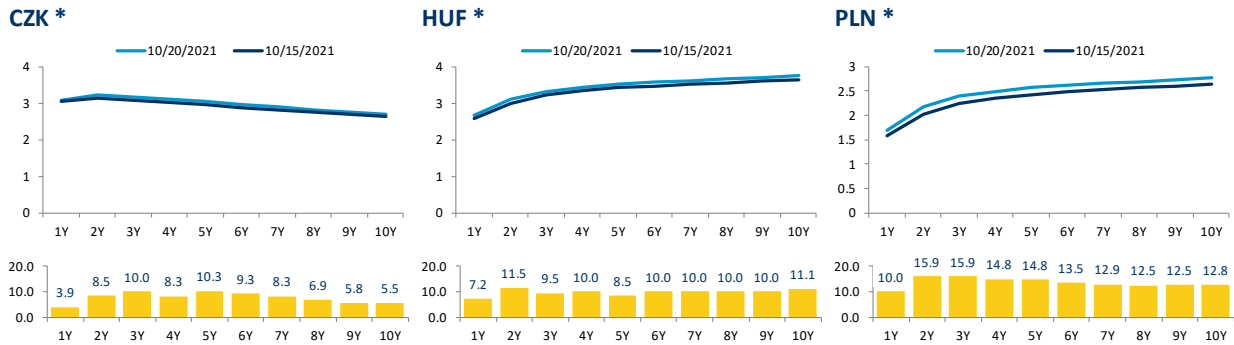
The statement highlighted that the inflation orbit might be higher than it was forecasted in the September Inflationary Report due to the fast increase of commodity and energy prices. The Monetary Council expects that core inflation may develop around 4% YoY in the coming months and they see inflation to move back into the tolerance range in 2Q22 and to the inflation target of 3% YoY in 2H22. The MPC emphasized that inflationary risks are to the upside because of elevated commodity, energy and transportation costs, which spill over into the consumer prices. Additionally, there is a lack of labor force in some sectors and the wage dynamic is high, which means upward pressure on inflation also. We see inflation jumping above 6% YoY in October and peak around 6.5% YoY in November before it starts to moderate in December.

Regarding the economic growth outlook - the Council remained positive despite of the fourth wave of pandemic. The GDP may grow by 5-6% YoY in 2022 thanks to ongoing investments.

The statement repeated last month's sentences regarding the NBH's focus on the swap market that the HUF liquidity will be decreased gradually, and that they will take further steps in order to provide stability on the swap market and to improve the effectiveness of monetary transmission. The government bond purchases will be continued by HUF40bn on weekly basis. A new target will be set on the December meeting. The NBH will keep the purchased bonds until expiry.

So, all in all the NBH messages remained the same: the monthly tightening cycle will be continued until inflationary risks become balanced. There was no suggestion towards the acceleration of the rate hike cycle, so it confirms our view that the NBH may increase the base rate by 15bp in November again. The base rate might be at least 2.1% at the end of the year and MPC may switch to a wait-and-see approach in 1Q22 when base rate reaches 2.5% level. The Council emphasized that the government bond purchasing program will be continued in a flexible way, which may reflect the risk that once the Fed starts tapering, it may affect the Hungarian bond market negatively and if necessary, the NBH will step into the market to stabilize it. As there is still no agreement with the European Commission about the EU fund money, the Debt Management Agency (AKK) may continue its dynamic issuance program (although government's saving is extremely high), especially that the government plans to spend lots of money to households (extra pension, PIT refund etc.) and plans to buy back Budapest Airport. We maintain our view that bond purchases may be cut back to HUF20bn only in case there is an agreement about the usage of EU funds money by the end of November. If not, weekly purchases might be moderated only to HUF30bn from the end of the year.

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	10/20	10:00	PPI	%	09/01/2021			0.7	10.2	0.6	10.0	0.6	9.5
PL	10/20	10:00	Industrial output	%	09/01/2021			11.0	8.8	10.2	8.0	-2.5	13.2
PL	10/21	10:00	Retail sales	%	09/01/2021					-2.5	5.5	-1.0	5.4
PL	10/22	14:00	Money supply M3	%	09/01/2021					0.7	8.6	0.4	9.1
PL	10/25	10:00	Unemployment rate	%	09/01/2021							5.8	
HU	10/28	9:00	Unemployment rate	%	09/01/2021							4.0	
CZ	10/29	9:00	GDP	%	3Q/2021 *A							1.0	8.1
HU	10/29	9:00	Wages	% ytd.	08/01/2021								7.9
PL	10/29	10:00	CPI	%	10/2021 *P							0.7	5.9

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