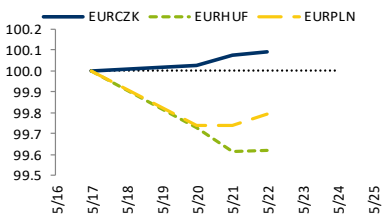


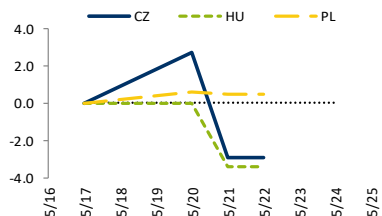
Wednesday, 22 May 2024

Forex markets (index)



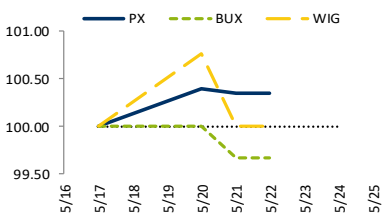
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.71	24.71	0.01
EURHUF	385.5	385.5	0.01
EURPLN	4.254	4.251	0.05

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.091	4.091	0.0
HUGB 10Y	6.67	6.67	0.0
PLGB 10Y	5.67	5.67	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1566.9	1566.9	0.00
BUX	67866	67866	0.00
WIG	88740	88740	0.00

Our regional insights:

NBH cuts as expected and stays forint-dependent

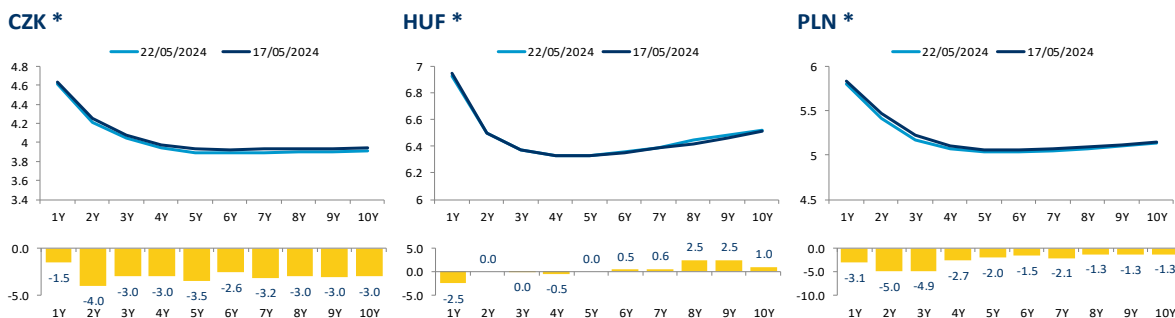
No surprise from the NBH: it cut the base rate yesterday by 50bps from 7.75% to 7.25%. The NBH statement remained as cautious and hawkish as last month. Incoming inflation figures (3.7% Y/Y in April) fit into the NBH forecast while consumer prices are expected to temporarily accelerate in the coming months mainly due to base effects and the backward-looking pricing of market services. Regarding GDP, the NBH expects a gradual further acceleration of economic growth thanks to the domestic consumption and FDI investments.

NBH's vice-governor, Mr. Virág, emphasized at the press conference that the current account surplus reached a new historic high in March partly thanks to the further improvement in the terms of trade due to lower energy prices. The NBH expects that the budget deficit may decline in 2024 and that the primary balance may almost reach equilibrium this year. We think it is quite an optimistic view based on the first 4 months' budget deficit figures. Without further fiscal adjustment we expect the budget deficit between 5% and 5.5% of GDP for this year. As the interest expenditure might be around 4.5% of GDP, it means that the primary deficit might be between 0.5% and 1% of GDP. Mr. Virág highlighted that in terms of the country's risk assessment, the credible achievement of the deficit targets and the external balance developments in 2024 are of particular importance.

Overall, we haven't got a clearer picture of the likely evolution of monetary policy actions. The statement was finished the same way as last month: *"risks surrounding global and domestic disinflation and volatility in international investor sentiment warrant a careful and patient approach to monetary policy. The Council will take decisions on any further reductions in the base rate in a cautious and data-driven manner."* Mr. Virág left the room open for a 25bps or a 50bps rate cut at the June meeting and gave no forward guidance about the further evolution of monetary policy for the second half of the year. He said the inflationary report will be important and repeated that a cautious approach is required.

We expect inflation to jump around 4.3% Y/Y in May and remaining around that level until July. The main question is whether we will see some moderation of market services inflation when the holiday season comes in, in an environment where domestic consumption is strengthening. Additionally, food prices may start to increase due to some cost shocks. This inflation orbit narrows the manoeuvring room of the NBH for the second half of the year. On the other hand, a possible fiscal adjustment during the summer could increase the manoeuvring room as the required risk premium could moderate in that case. With regard to the June decision, the international sentiment and the evolution of EUR/HUF could play an important role. In case EUR/HUF traded below 390, it definitely increases the chance of a 50bps cut, which is our current base case. In case of a return of volatility (EUR/HUF well above 390), it may lead to only a 25 bps rate cut. We maintain our view of 25-25bps cuts quarterly for the second half of the year, reaching a 6.25-6.5% base rate level at the end of the year, mainly because of the Fed's monetary policy and the expected inflation acceleration to close to 5.5% by 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). Source for all market data: Bloomberg

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	05/22	10:00	Wages	%	04/2024		-1.6	11.3	-0.5	12.5	5.4	12.0
PL	05/22	10:00	Industrial output	%	04/2024		-2.2	7.9	-2.9	5.1	3.6	-6.0
PL	05/22	10:00	PPI	%	04/2024		0.2	-8.6	0.2	-8.2	-0.1	-9.6
CZ	05/22	12:00	CZ bond auction 2023-2043, floating rate	CZK B	05/2024				1			
HU	05/23	8:30	Wages	%, y td.	03/2024					13.3		14.1
PL	05/23	10:00	Retail sales	%	04/2024					6.6	14.2	6.1
HU	05/24	8:30	Unemployment rate	%	04/2024				4.4		4.4	
PL	05/24	14:00	Money supply M3	%	04/2024					6.7	-0.3	6.6

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