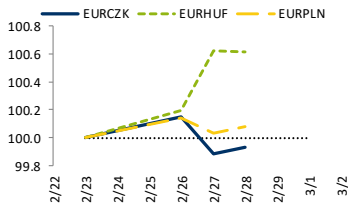


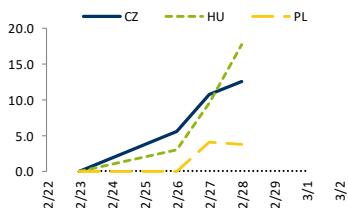
Wednesday, 28 February 2024

Forex markets (index)



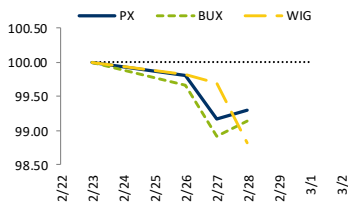
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.33	25.32	0.04
EURHUF	391.2	391.3	-0.01
EURPLN	4.310	4.308	0.04

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.835	3.817	1.8
HUGB 10Y	6.38	6.30	1.3
PLGB 10Y	5.36	5.36	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1482.1	1480.0	0.14
BUX	65696	65542	0.24
WIG	82290	83007	-0.86

Our regional insights:

The NBH cuts bravely by 100bps and it might repeat it

The National Bank of Hungary cut the base rate by 100 bps from 10% to 9% yesterday. While the market expectations were divided between 75 bps and 100 bps, the Council made its decision with an overwhelming majority.

Vice-governor Virág highlighted on the press conference that the acceleration of the rate cut is temporary, with the main reasons being the fast drop of inflation, the approval of Swedish NATO membership, the incoming EU funds money, the improvement of the current account balance in 2023 and the stable FX rate.

Based on his words, **the Council’s base case scenario might be a 100 bps cut for March as well with the next steps highly dependent on the new inflationary report with a new area of the easing cycle possibly arriving in 2Q24.** He added that despite the February bigger cut the NBH doesn’t modify its outlook regarding the end-June base rate level: the market’s pricing of reference rate between 6-7% seems reasonable.

Mr Virág put clearly more attention on positive news in his presentation, and the negative elements were only mentioned shortly – deterioration of current account balance in December, still elevated market services inflation, more hawkish leaning central banks etc. – or was left out fully –substantially higher budget deficit than the government’s latest forecast at the end of the last year.

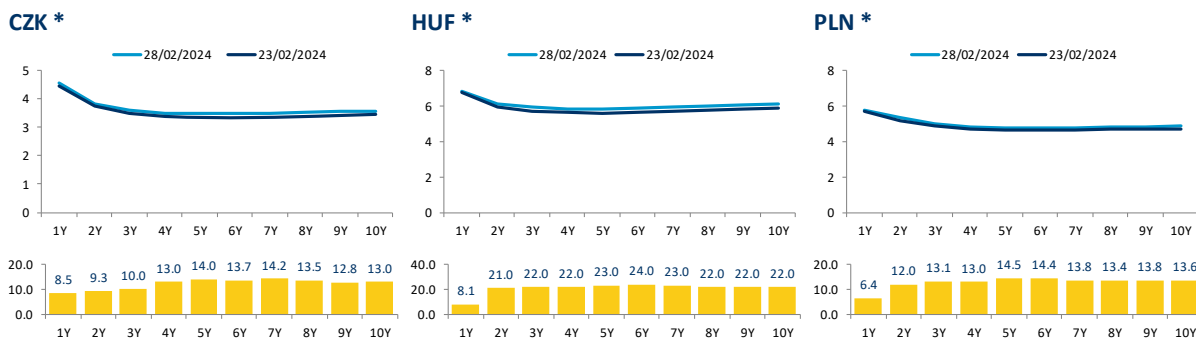
We thought that all these negative developments were enough reason for the NBH to remain cautious and continue its 75 bps rate cut cycle.

Based on the NBH’s recent communication we think that the next rate cuts are significantly less predictable and may remain an open question until the last minute. The NBH will have lots of new information in March: the ECB and Fed decision, February inflation figures, first retail and industrial production figures from this year and of course the new inflationary report. **Exchange rate moves will also play an important role in decision making: in our view the NBH doesn’t want to see a sudden and significant depreciation of the forint; it would like to maintain a relatively stable exchange rate with low volatility.**

After yesterday’s decision we have to modify our base rate expectations. Although we maintain our view that the NBH may slow its rate cut cycle to 50 bps steps from April, it now looks more likely that the base rate may be cut again by 100 bps in March, from 9% to 8%. So the base rate might be 6.5% by the end of June. We maintain our view that further steps will highly depend on ECB and Fed moves in the second half of the year. As we still see concerns about inflation sticking around 4.5% YoY or even accelerating above 5% YoY at the end of the year, it may also limit the easing cycle in 2H24. All in all, we maintain our base rate expectation for the end of the year at a level of around 6%.



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
CZ	02/28	9:00	PPI	% 01/2024		-0.5		2.5	-1.6	-0.5	1.4	
CZ	02/28	12:00	CZ Bond auction 2023-2032, 4.50%	CZK B 02/2024				4				
CZ	02/28	12:00	CZ bond auction 2022-2035, 2.50%	CZK B 02/2024				3				
CZ	02/28	12:00	CZ bond auction 2021-2037, 1.95%	CZK B 02/2024				2				
HU	02/29	8:30	PPI	% 01/2024						-0.7	-7.2	
CZ	02/29	10:00	Money supply M2	% 01/2024							8.3	
PL	02/29	10:00	GDP	% 4Q/2024 *F						0	1.0	

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