Regional insights

The maneuvering room for the NBH increased

As yesterday’s release showed the Hungarian headline inflation moderated substantially to 3.4% YoY in September from 3.9% YoY in August, which means a huge surprise as the market and also the National Bank of Hungary (NBH) expected more or less no change of the figure. The core inflation dropped even more, from 4.7% YoY in August to 4% YoY in September.

The main drivers of the decreasing inflation were processed foods and market services. Among the processed food almost all the published subgroups showed decline of prices from meat and milk products to sugar, fruits and vegetable products. Among the market services the picture is more mixed. One of the biggest drop was registered in the domestic recreation’s prices. School book prices fell by 97% MoM (it was the last part of a government program related to the extension of free books for all class years), which on its own pushed down the inflation by 0.1%pt.

This figure changed substantially the outlook in terms of the level of the inflation in next year, as well as in terms of the orbit for next autumn. It looks like now that the inflation may moderate close to 3% YoY till the end of this year, bottoming between 2.5% YoY and 3% YoY in 1Q21, followed by a massive jump close to 4% YoY in 2Q21, then a drop again slightly below 3% YoY in 3Q21 and finishing the year around 3% YoY. So we might face with a very volatile year in the inflation developments. The average level of consumer price index might be around 3.4% YoY this year and slightly above 3% YoY in 2021.

The latest development of inflation expectations are also positive for the NBH. They are still asymmetric to the upside, but moderated substantially and the range is now between 2% YoY and 5% YoY.

All these information suggests that the inflation pressure might moderate slightly, which means that the NBH may get closer to achieve its inflation target in 2021. It also means that the maneuvering room for the Council increased, but we don’t expect any change now in its monetary policy, although a chance for easing policy increased for the next months. A first step might be the cut of the one-week deposit rate back to the level of base rate (0.6%). If the market remains calm for a longer period and the EUR/HUF stabilizes around 350 against euro, we cannot exclude even a 15bp rate cut around the end of this year or beginning of next 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

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