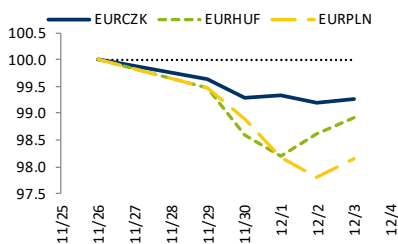




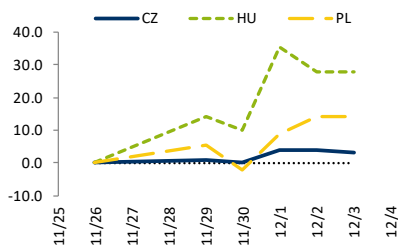
Friday, 03 December 2021

Forex markets (index)



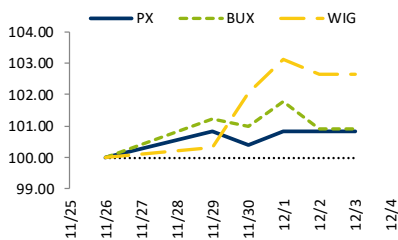
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.48	25.46	0.09
EURHUF	365.6	364.5	0.31
EURPLN	4.619	4.602	0.37

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.503	2.512	-0.9
HUGB 10Y	4.55	4.55	0.0
PLGB 10Y	3.25	3.25	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1363.2	1363.2	0.00
BUX	51421	51421	0.00
WIG	68204	68204	0.00

Regional insights

The NBH hikes again, setting one-week depo at 3.1%

Yesterday, the National Bank of Hungary (NBH) continued its tightening cycle and increased the one-week deposit rate by 20bps from 2.9% to 3.1%. It means that the NBH altogether delivered a 130bps rate hike during the last three weeks. Earlier this week, the central bank modified the interest rate corridor upwardly – the overnight deposit rate was increased by 45bps from 1.15% to 1.6%, the overnight lending rate by 105bps from 3.05% to 4.1% – in order to create appropriate monetary policy room for manoeuvre in the current fast changing international environment.

The governor of the NBH said in Parliament that the average inflation may remain elevated (between 4.7% and 5.1% YoY) in 2022 as well and it is important to push inflation back into the tolerance range of 3% +/-1%pt as soon as possible, meaning the NBH would continue its tightening cycle in 2022 as well.

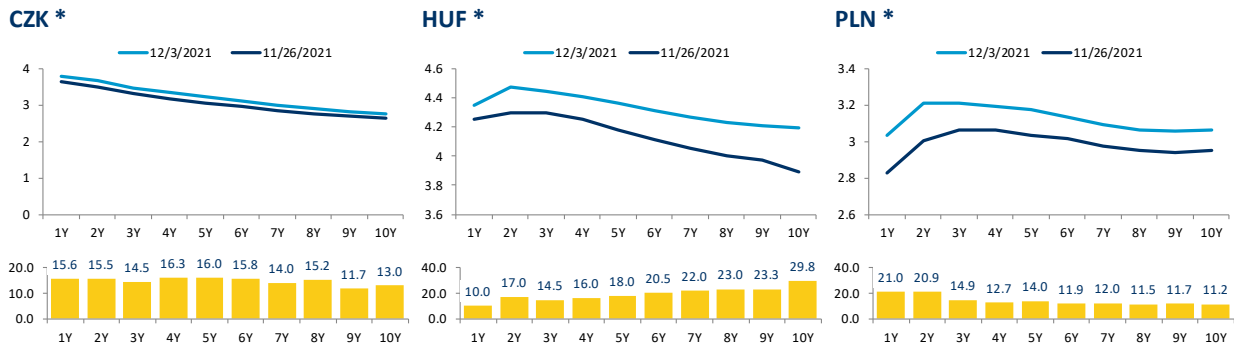
The central bank will publish the new quarterly inflationary report in two weeks, so this statement suggests that inflation forecasts will be revised upwardly substantially – from 4.6%-4.7% to 5% for 2021 and from 3.4%-3.8% to 4.7%-5.1% for 2022 – which also fits our expectations of 4.7% inflation for next year.

In upcoming months, we expect on the one hand that the government bond purchases will be cut back substantially. The central bank bought only HUF29bn paper during the last week vs. the weekly limit of HUF40bn and it might be even less this week as NBH bought only HUF10bn on the auction vs. HUF15bn a week ago. We expect that the new limit will be set to HUF20bn and the program may be finished by the end of March.

On the other hand, we expect that the Monetary Council may increase the base rate by 30bps every month. The base rate might be at 3% at the end of February, while the one-week deposit rate – which is now the effective key rate – may be increased to 4%. Although the NBH has no exchange rate target, it is quite clear that the Council would like to see EUR/HUF at a stronger level – we think around 350 – in order to slightly moderate the supply shock driven inflation pressures. The exchange rate plays an important role in the development of inflation in these days. Energy, basic materials and component prices are going up and the economy is highly dependent on these imported products. We maintain our view that CPI may peak in November around 7.2% YoY (figure will be published next Wednesday, December 8th) followed by a gradual moderation from December on. We think that the interest rate differential between the base rate and the one-week deposit rate will be maintained at least until March. In case inflation will be in line with our current forecast, the NBH may cut back the one-week deposit rate to 3.5% in 2H22 (when inflation moves below 4%) until the end of the year. It also means that we might have already seen the highest negative real interest rate in October, and we might see positive real interest rate during next autumn.

The hawkish approach of the NBH suggests that the forint may gradually appreciate. We expect that EUR/HUF may move back to around 350 in the coming months and we maintain our view that the government may come to an agreement with the European Commission (even at the cost of change of some legislation after the Parliamentary election, which will be held on next April). Therefore, Hungary will receive all the EU funds money, which was also suggested by the Prime Minister, Mr. Orban in a radio interview.

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
HU	12/03	9:00	Retail sales	% 10/01/2021				5.7	4.7			5.8
CZ	12/06	9:00	Real wages	% 3Q/2021		0.9						8.2
CZ	12/06	9:00	Retail sales ex autos	% 10/01/2021		4.0						3.6
CZ	12/07	9:00	Trade balance (national)	CZK B 10/01/2021		-13.0						-13.3
CZ	12/07	9:00	Industrial output	% 10/01/2021		-8.0						-4.0
CZ	12/07	9:00	Construction output	% 10/01/2021								2.2
HU	12/07	9:00	Industrial output	% 10/01/2021								-0.3 -1.7
HU	12/08	9:00	CPI	% 11/01/2021								1.1 6.5
CZ	12/08	9:00	Unemployment rate 15-64	% 11/01/2021		3.3						3.4
CZ	12/08	10:00	FX reserves of the CNB	EUR B 11/01/2021								147.4
HU	12/08	11:00	Budget balance	HUF B 11/01/2021								-2922
PL	12/08	14:00	NBP meeting	% 12/01/2021								1.25
HU	12/09	9:00	Trade balance	EUR M 10/2021 *P								-128
HU	12/09	9:30	One week deposit rate	% 12/01/2021								3.10
CZ	12/10	9:00	CPI	% 11/01/2021		-0.5 5.3						1.0 5.8

Contacts

Brussels Research (KBC)			Global Sales Force		
Mathias van der Jeugt	+32 2 417 51 94		Brussels		
Peter Wuyts	+32 2 417 32 35		Corporate Desk		+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95		Institutional Desk		+32 2 417 46 25
Dublin Research			France		+32 2 417 32 65
Austin Hughes	+353 1 664 6889		London		+44 207 256 4848
Shawn Britton	+353 1 664 6892		Singapore		+65 533 34 10
Prague Research (CSOB)			Prague		
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 6135 3535
Petr Dufek	+420 2 6135 3560				+420 2 2142 4216
Bratislava Research (CSOB)			Bratislava		
Marek Gabris	+421 2 5966 8809				+421 2 5966 8820
Budapest Research			Budapest		
David Nemeth	+36 1 328 9989				+36 1 328 99 85

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