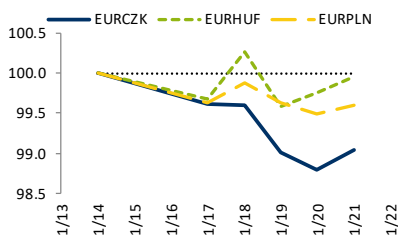




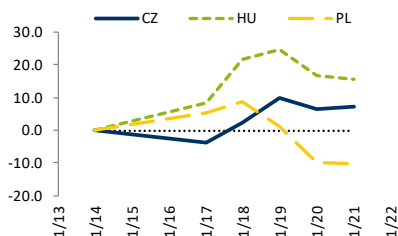
Friday, 21 January 2022

Forex markets (index)



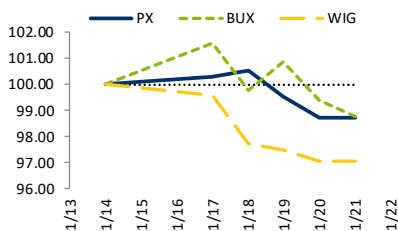
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.29	24.22	0.26
EURHUF	356.8	356.1	0.20
EURPLN	4.521	4.516	0.11

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.167	3.159	0.8
HUGB 10Y	4.78	4.80	-0.3
PLGB 10Y	3.89	3.90	-0.2

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1426.0	1426.0	0.00
BUX	52017	52350	-0.63
WIG	70420	70420	0.00

Regional insights

NBH's base rate to play catch-up with one-week deposit

The National Bank of Hungary will (NBH) have a rate setting meeting next Tuesday. During the last weeks, the NBH kept the one-week depo interest rate unchanged at 4%, so it looks like that they would like to return to the monthly monetary policy adjustment.

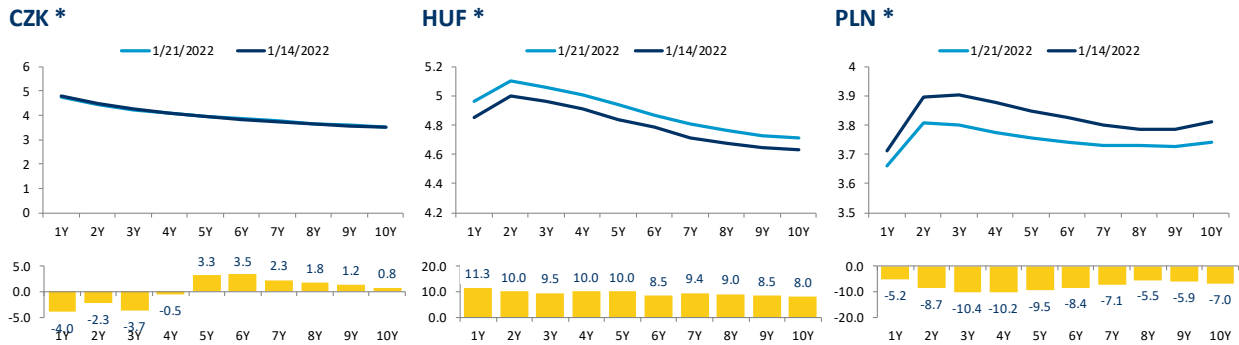
Inflation provided a negative surprise for December as it remained at 7.4% YoY. The NBH, just like the market consensus, forecasted some moderation of headline inflation. Moreover, core inflation jumped to 6.4% YoY. It means that price pressures are still there. The government introduced price controls for some basic foods (like milk, chicken breast and sugar etc.) starting February 1st for three months, but we expect that it may only have a marginal disinflationary effect. We might even see additional price increases in other food products in retail stores to compensate for the missed revenue. Additionally, the still elevated energy prices mean upward risks on inflation as well, so from an inflationary perspective the NBH may have to continue its tightening cycle.

The main question is the size of the interest rate hike. The base rate stays at 2.4% and the Council (always) increased it by 30bps in the last two months. **Although the one-week deposit rate (4.0%) is now the effective key rate in Hungary as the NBH accepts all the money the commercial banks would like to place into it, the market would be happy to see a bigger hike of the base rate as it would increase the confidence towards the central bank that they are fighting against the inflation and not only try to manage the exchange rate.** Additionally, the NBH also suggested several times that it will gradually close the gap between the base rate and the one-week deposit rate. So, we can imagine a bigger than 30bps (45bps or 60bps) base rate hike on Tuesday, which might be followed by a 30bps (at least) rate-hike of the one-week deposit rate on Thursday.

We think that the Monetary Council may remain hawkish, highlighting the still existing upward inflation risks, which are driven mainly by external factors. They may also emphasize that all the tools, which were introduced at the beginning of pandemic, have been stopped during the last months and the extra forint liquidity will decrease in the coming months thank to the expiring foreign currency swaps.

All in all, we maintain our view that the effective interest rate may be increased to around 5% by the end of March. This might be the end of the tightening cycle. The NBH base rate might be increased above 4% as well in the first half of the year and we don't expect any monetary loosening at least until the autumn, when inflation may move back to around 4% YoY - the upper level of the NBH (inflation) tolerance range.

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
PL	01/21	10:00	Industrial output	%			-2.9	16.7	-6.3	13.1	5.3	15.2
PL	01/21	10:00	Wages	%			10.3	11.2	8.2	9.3	1.8	9.8
PL	01/21	10:00	PPI	%			0.8	14.2	0.4	13.5	1.0	13.2
PL	01/24	10:00	Retail sales	%							-1.0	12.1
HU	01/25	14:00	NBH meeting	%								2.4
PL	01/26	10:00	Unemployment rate	%								5.4
CZ	01/26	12:00	CZ bond auction 2018-2029, 2.75%	CZK B	01/01/2022					4		
CZ	01/26	12:00	CZ bond auction 2021-2032, 1.75%	CZK B	01/01/2022					4		
CZ	01/26	12:00	CZ bond auction 2021-2037, 1.95%	CZK B	01/01/2022					2		
PL	01/26	14:00	Money supply M3	%							1.9	10.1
HU	01/27	9:00	Unemployment rate	%								3.7
HU	01/27	9:30	One week deposit rate	%								4.00
PL	01/28	10:00	GDP	%								-2.8

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
			France		+32 2 417 32 65
			London		+44 207 256 4848
			Singapore		+65 533 34 10
Dublin Research			Prague Research (CSOB)		
Austin Hughes	+353 1 664 6889		Prague		+420 2 6135 3535
			Prague (Equities)		+420 2 2142 4216
Bratislava Research (CSOB)			Budapest Research		
Marek Gabris	+421 2 5966 8809		Bratislava		+421 2 5966 8820
			Budapest		+36 1 328 99 85

DISCOVER MORE ECONOMIC INSIGHTS AT WWW.KBCECONOMICS.COM

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

