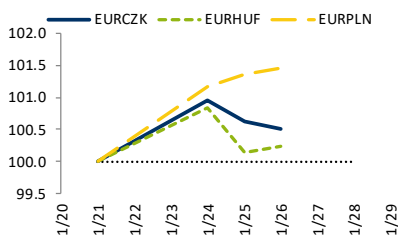




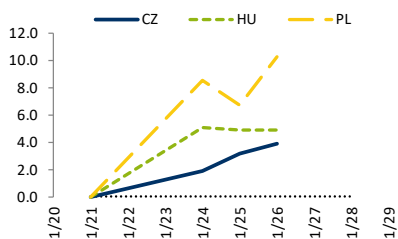
Wednesday, 26 January 2022

Forex markets (index)



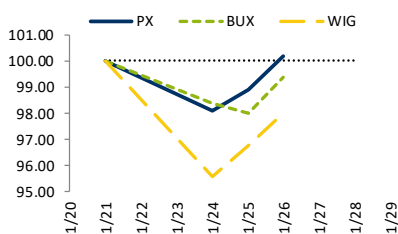
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.52	24.55	-0.12
EURHUF	359.6	359.2	0.09
EURPLN	4,590	4,586	0.09

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.158	3.151	0.7
HUGB 10Y	4.73	4.73	0.0
PLGB 10Y	3.92	3.89	0.9

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1420.6	1402.2	1.31
BUX	51843	51135	1.39
WIG	67901	67047	1.27

Our regional insights:

The NBH keeps hiking and fully stops bond buying

Yesterday, the National Bank of Hungary (NBH) increased the base rate by 50bps from 2.4% to 2.9%. The move was according our expectations but slightly exceeded market consensus, which forecasted 30bps. The overnight deposit and lending rate was increased by 50bps as well to 2.9% and 4.9% respectively.

The NBH statement highlighted that core inflation jumped more than expected in December. It reflects still-elevated inflationary pressures which are linked partly to internal factors, such as strong domestic consumption and a tight labor market. The Council stressed that headline inflation may have peaked. We will have a clearer picture after the January and February figure as it is important to see whether the November and December price increases are a reaction brought forward or more persistent behaviour. The statement emphasized that the inflationary risks are on the upside. Core inflation may even rise to around 7% YoY in the following months.

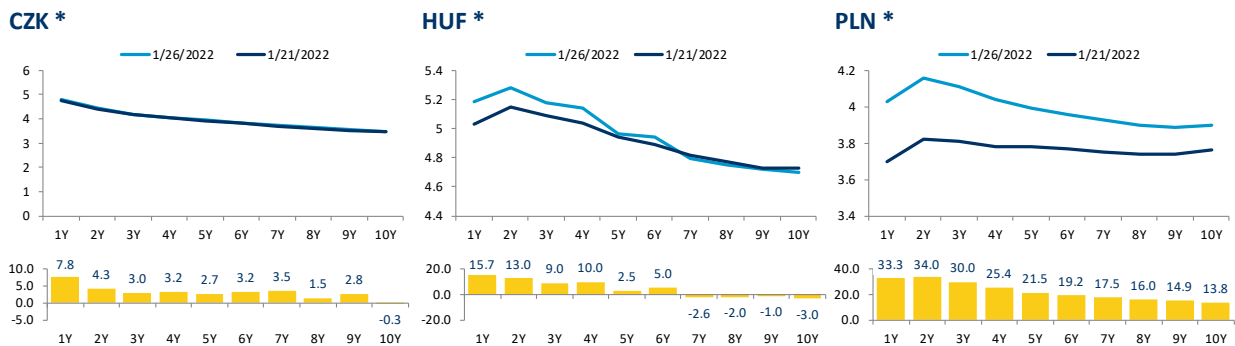
Related to economic growth the Council is optimistic despite the increasing interest rate, energy and commodity prices. The economy might grow by more than 6% YoY in 4Q21 and the may expand between 4-5% YoY in 2022. Growth is driven by new investment and capacities created in the last years by big corporates, boosting exports and improving the trade and current account balance in 2022.

The statement and the press conference were hawkish, suggesting that the base rate may be increased by 50bps in the coming months, while the one-week deposit rate may increase also but less than the base rate. **Our expectation is for a 30bps hike as the NBH would like to change the level of the one-week deposit rate only once a month, right after the rate setting meeting. The vice-governor, Mr. Virag said that the gap between the two instruments might be eliminated by the end of 1H22**, based on the current inflation outlook. This view fits into our expectations. We think that the peak of the rate hike cycle might be close to 5%. As we highlighted many times, it would create a positive real interest environment for Hungary during the autumn. The increasing real interest rate environment was emphasized by the NBH as well for this year. Mr. Virag repeated several times that the NBH is fighting against inflation and they will use all the instruments they can in order to push back inflation to target over the relevant 5-8 quarters time horizon.

The governor of NBH, Mr. Matolcsy wrote in a news article this week that the environment has changed and the years of cheap financing and big supportive monetary programs are over. The government has to find new revenues in order to maintain the stable budget balance. He mentioned that the fiscal gap could be around HUF1000bn compared to the best pre-Covid years, when the interest rates were extremely low and the central bank had big economic stimulus programs and earned profits. In the near future the government has to finance the expected loss of NBH (which could amount to a couple of hundred billion forint) and the higher interest expenditure of the government debt. This all suggests also that the NBH may keep interest rate at an elevated level in the quarters/years to come in order to stabilize inflation at target.

Finally, it is also important that the NBH stopped fully its government bond purchasing program. The Debt Management Agency (AKK) bought back HUF221bn 4-year bonds from the NBH (it was roughly 6.5% of the total stock). Mr. Virag highlighted that it was a one-off. The NBH will keep the bonds in their portfolio until expiry. Based on the AKK's buy-back strategy (focusing on the redemption in the next 3-4 years) there is roughly HUF360bn worth of bonds with an expiration before 2029 that might be purchased back by AKK in the next two to three years. Mr. Virag emphasized that the extra liquidity created by the NBH's crises management in the last two years (reaching more than 20% of GDP), will gradually run out and may be halved by end 2025.

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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	01/26	10:00	Unemployment rate	%	12/01/2021			5.4		5.4		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	%	12/01/2021					1.5	9.9	1.9	10.1
HU	01/27	9:00	Unemployment rate	%	12/01/2021					3.6		3.7	
HU	01/27	9:30	One week deposit rate	%	01/01/2022					4.30		4.00	
HU	01/31	9:00	PPI	%	12/01/2021							2.7	21.6
CZ	01/31	10:00	Money supply M2	%	12/01/2021								8.0

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		
Austin Hughes	+353 1 664 6889		Prague (Equities)		+420 2 6135 3535
Shawn Britton	+353 1 664 6892				+420 2 2142 4216
Prague Research (CSOB)			Bratislava		
Jan Čermák	+420 2 6135 3578				+421 2 5966 8820
Petr Dufek	+420 2 6135 3560				
Bratislava Research (CSOB)			Budapest		
Marek Gabris	+421 2 5966 8809				+36 1 328 99 85
Budapest Research					
David Nemeth	+36 1 328 9989				

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