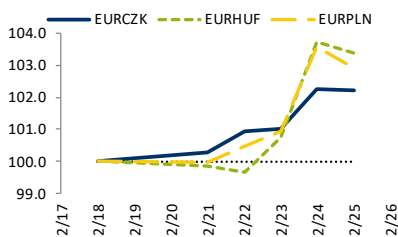




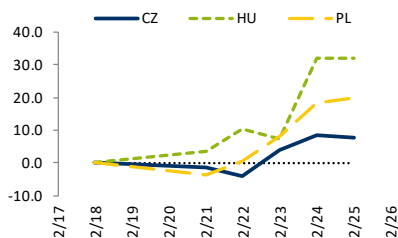
Friday, 25 February 2022

Forex markets (index)



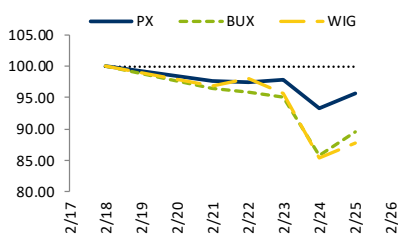
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.87	24.88	-0.04
EURHUF	369.1	370.4	-0.35
EURPLN	4.665	4.695	-0.62

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.014	3.023	-0.9
HUGB 10Y	5.11	5.11	0.0
PLGB 10Y	4.07	4.06	0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1372.5	1338.3	2.55
BUX	44953	43102	4.29
WIG	57702	56087	2.88

Regional insights

EUR/HUF above 370 might trigger earlier NBH rate hike

Although the National Bank of Hungary has delivered a clear message on Tuesday after its rate setting meeting, it was interesting to see how big the rate hike was on Thursday in light of the recent development on markets. It is rather interesting that the forint seems to be the most vulnerable regional currency to recent events in Ukraine.

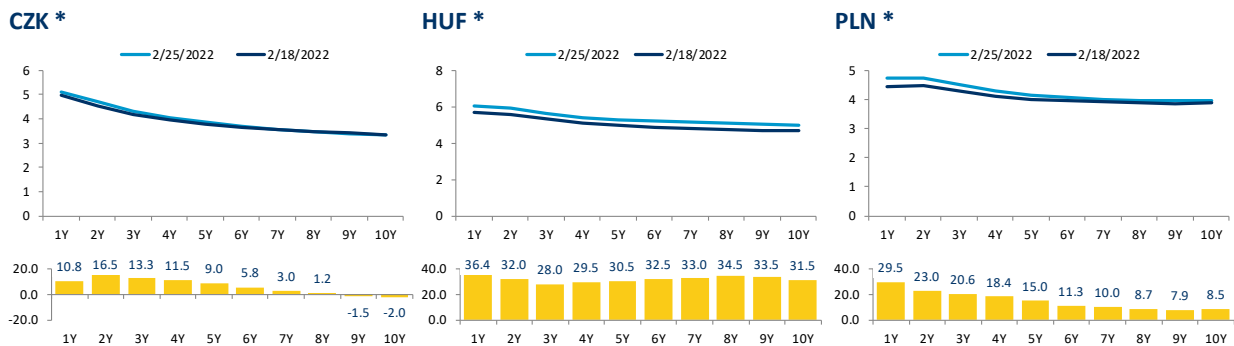
So, recall that the NBH increased the base rate, the overnight deposit and lending rate by 50bps (the former two from 2.9% to 3.4%, the latter from 4.9% to 5.4%), in line with expectations. The main message of the statement was that inflationary risks have remained elevated and inflation may move above 8% YoY in February despite the government actions (like a decrease of some basic food – like sugar or flour – prices or the extension of a fuel price cap). The repricing was much stronger this January than in the previous years, not only in case of the services but also in case of tradable goods. The latter reflects that producers are passing on their cost to the consumers. Additionally, inflation expectations were increasing during the last months, which increases the risk of second round effects, what the NBH would like to avoid.

Since the statement of the MPC the forint weakened substantially (from around 356 to 370 against the euro and from 314 to 330 against USD), which increases further the imported inflation pressures in short run. Previously the NBH highlighted that they may change the one-week deposit rate even on weekly basis if required by market circumstances. The rate was increased by 30 bps on Thursday from 4.3% to 4.6%. As the overnight lending rate stays at 5.4%, **there is room for the one-week deposit rate to increase in the next weeks in case the forint remains under substantial depreciating pressure. We expect such a move in case the EUR/HUF pair will trades mainly above 370 next week. In the other case we think that NBH may wait for its March inflationary report, which may support tighter than previously expected monetary policy.**

The average wage increase might be above 10% partly due to the 20% minimum wage increase, so the domestic demand may remain relatively strong, which also supports hawkish monetary policy. Of course, we have to highlight that in medium term the high energy price may deteriorate Hungary's economic outlook. Even though nor Ukraine neither Russia are among the top ten trading partners of Hungary, the dependence of imported energy is very high, so the development of the energy market may affect Hungary's economic outlook.

All in all we expect that the new wave of inflationary pressure may force the NBH to continue its rate hike cycle longer than previous expected and so the peak of the cycle might be between 5.5% and 6%. As the inflation outlook may be increased substantially for this and next year in the inflationary report, we cannot exclude that the NBH may accelerate the base rate hike slightly in March, for example from the current 50 bps to 60 bps hikes, but it also depends on the development of the current situation (in Ukraine) and on the FED's and ECB's communications and actions.

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	02/25	9:00	Unemployment rate	%	01/01/2022		4.2		3.7			
CZ	02/28	10:00	Money supply M2	%	01/01/2022						7.3	
PL	02/28	10:00	GDP	%	4Q/2022 *F						1.7	7.3
PL	02/28	15:00	Budget balance	PLN M	01/01/2022						-26328	
CZ	03/01	9:00	GDP	%	4Q/2021 *P						0.9	3.6
PL	03/01	9:00	PMI manufacturing		02/01/2022						54.5	
HU	03/01	9:00	PPI	%	01/01/2022						1.6	22.3
HU	03/01	9:00	PMI manufacturing		02/01/2022						50.7	
CZ	03/01	9:30	PMI manufacturing		02/01/2022						59.0	
CZ	03/01	14:00	Budget balance	CZK B	02/01/2022						3.9	
HU	03/02	9:00	GDP	%	4Q/2022 *F						2.1	7.2
HU	03/03	9:00	Retail sales	%	01/01/2022							6.2
HU	03/03	9:00	Trade balance	EUR M	12/2021 *F						187	
HU	03/04	9:00	Industrial output	%	01/01/2022						-0.1	3.6

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

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