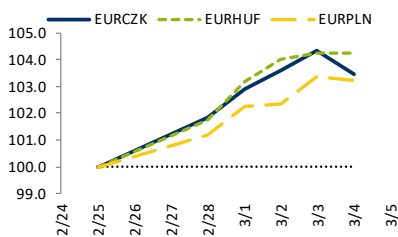




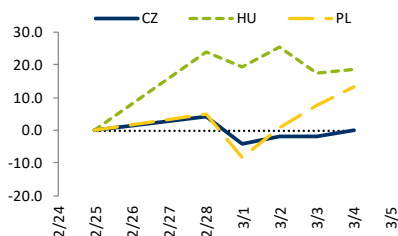
Friday, 04 March 2022

## Forex markets (index)



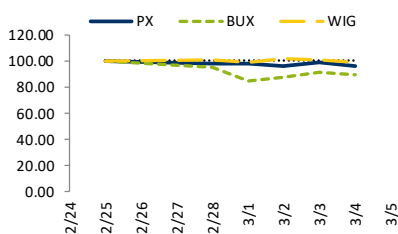
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.57	25.79	-0.84
EURHUF	381.3	381.1	0.03
EURPLN	4.797	4.804	-0.14

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.020	3.000	2.0
HUGB 10Y	5.30	5.29	0.2
PLGB 10Y	4.16	4.10	1.4

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1330.7	1364.3	-2.46
BUX	40848	41651	-1.93
WIG	59905	61010	-1.81

## Regional insights

## The NBH will use hikes primarily to defend the forint

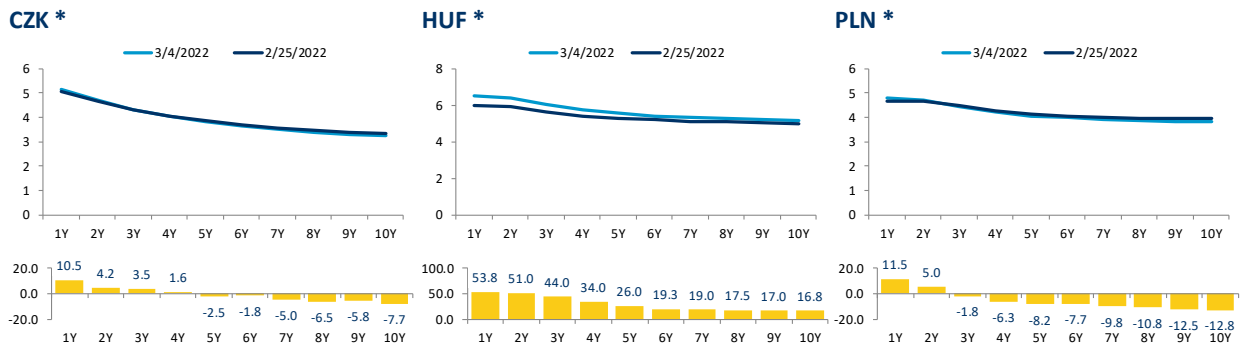
The Hungarian forint just like other currencies in the region (the zloty and the koruna) was under pressure in the previous days. The Hungarian Central Bank highlighted several times that they will use the opportunity of flexible monetary policy changes if required by market circumstances. As the EUR/HUF pair moved to new all-time highs it was widely expected that NBH would increase the one-week deposit rate on Thursday.

The market consensus was 50bps hike, but the NBH delivered a surprise 75bps increase from 4.6% to 5.35%. The upper level of the interest rate corridor (the overnight lending rate) stays at 5.4%, so this was the maximum manoeuvring room for the NBH at the moment. The Monetary Council will have non-rate setting meeting on next Tuesday (8th March) and we expect that the level of the overnight lending rate might be increased at least by 60bps to 6%, to provide further room for a possible rate hike until the official rate setting meeting, which will be held on 22nd of March. The NBH will publish its new inflationary report at that time as well. In the last report (December) the inflation prognosis was 4.7-5.1% for 2022 and 2.5-3.5% for 2023. Since that time the outlook worsened substantially, which was highlighted by the central bank as well, so they have to adjust upwardly.

The Monetary Council emphasized also that the exchange rate channel is quite important in the current situation – with elements like energy or basic materials prices skyrocketing, which Hungary has to import – in the fight against the inflation. So, we maintain our view that the NBH would like to see the EUR/HUF close to 350 in the upcoming period. **The central bank's foreign currency reserve stood at EUR35.5bn at the end of January, while it was around EUR 30bn in last June, so we think that NBH could easily intervene roughly EUR 5-6bn on the market in order to defend the currency if it necessary, but we think that the main tool to strengthen the currency is the ongoing rate hike cycle.**

The Hungarian economy is still strong fundamentally, we see no financing problems and Ukraine nor Russia is among the top ten export partners. Less than 4% of the export is linked to these countries. The Hungarian financial system is strong, with limited and manageable exposure to these markets, so we think that the current weakening of the forint is only temporary. We expect that the NBH may continue the rate hike cycle and the peak of the tightening might be around 6%, which might be reached already in March and may be maintained at that level at least until the last quarter of this year. Risks are rather to the upside. It is also important to emphasize that not only the central bank, but also the government is fighting against inflation as it put a cap of fuel and some food products and also the energy prices are fixed for households.

## 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	03/04	9:00	Industrial output	%	01/01/2022		1.4	7.1	0.3	5.8	-0.1	3.6	
CZ	03/07	9:00	Real wages	%	4Q/2021							1.5	
CZ	03/08	10:00	FX reserves of the CNB	EUR B	02/01/2022							157.0	
CZ	03/08	10:00	Unemployment rate 15-64	%	02/01/2022							3.6	
HU	03/08	11:00	Budget balance	HUF B	02/01/2022							151.3	
PL	03/08	14:00	NBP meeting	%	03/01/2022							2.75	
HU	03/09	9:00	CPI	%	02/01/2022							1.4	7.9
CZ	03/09	12:00	CZ bond auction 2021-2031, floating rate	CZK B	03/01/2022				4				
CZ	03/09	12:00	CZ bond auction 2022-2035, 2.50%	CZK B	03/01/2022				8				
CZ	03/09	12:00	CZ bond auction 2020-2040, 1.50%	CZK B	03/01/2022				2				
HU	03/09	14:00	NBH minutes		03/01/2022								
CZ	03/10	9:00	CPI	%	02/01/2022							4.4	9.9
HU	03/10	9:30	One week deposit rate	%	03/01/2022							5.35	
PL	03/10	14:00	NBP minutes	NBP	03/01/2022								
CZ	03/11	9:00	Trade balance (national)	CZK B	01/01/2022							-15.0	

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