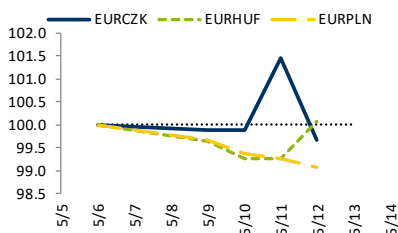




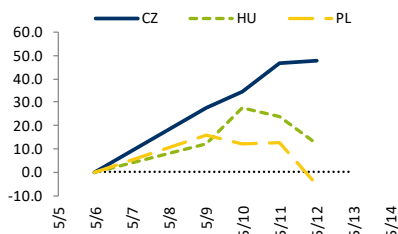
Friday, 13 May 2022

Forex markets (index)



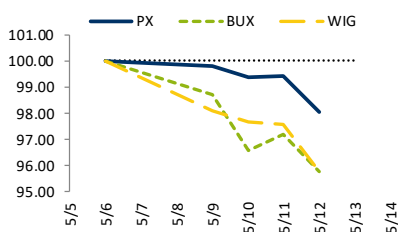
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.97	25.41	-1.74
EURHUF	382.7	379.6	0.82
EURPLN	4.669	4.678	-0.19

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	5.010	5.000	1.0
HUGB 10Y	7.38	7.50	-1.6
PLGB 10Y	6.74	6.92	-2.6

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1280.6	1298.7	-1.40
BUX	40328	40929	-1.47
WIG	52913	53900	-1.83

Regional insights

The NBH will continue to push rates up only gradually

Yesterday, the vice-governor of National Bank of Hungary, Mr. Virag said on a conference yesterday (12th May) that the era of proactive, aggressive interest rate hikes is over and now comes the period of gradual tightening. Although it may look like a new information, it fits into the previous communications of the NBH. The Monetary Council highlighted several times, that fighting against inflation is a long process and they will gradually adjust the monetary policy until they see that the inflation target is achievable on their relevant time horizon (6-8 quarters ahead).

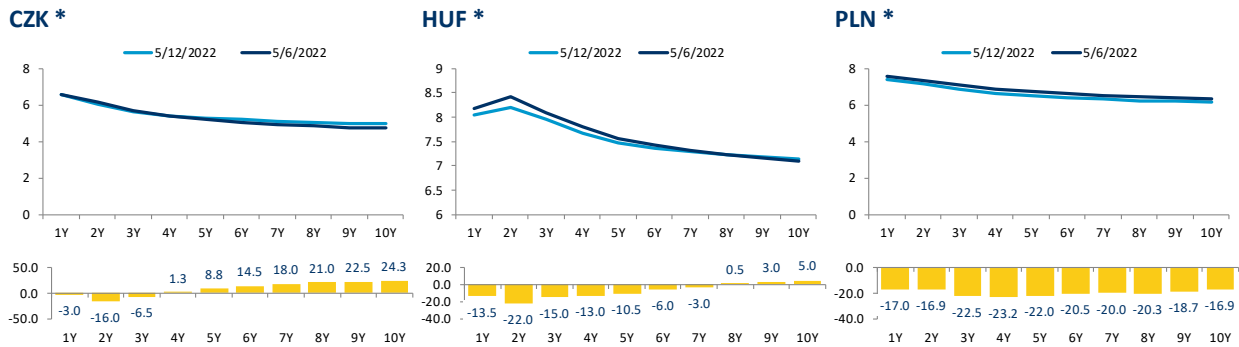
The timing of the statement of Mr. Virag might be slightly strange as the consumer price index this Tuesday jumped from 8.5% YoY in March to 9.5% YoY in April well above the market consensus. Core inflation accelerated from 9.1% YoY to 10.3% YoY respectively. On the back of surprisingly high inflation the market might have thought that the NBH may accelerate its tightening cycle, but the above mentioned statement probably dashed that hopes.

It is clear that inflation pressures are still there in Hungary, just like in most countries in EU. The booming food prices were the main driver of CPI increase in April, which went up by 3.4% MoM and by 15.6% YoY. Both the processed and unprocessed food prices were increasing substantially and price pressures may remain high in the coming months as well. Just like in the previous months, the tradable goods price increase remained elevated due to the high energy and material prices and the disruption of production chains. The inflation of this subgroup exceeds the market services' one, which is a new phenomenon in this year as previously the imported inflation (especially via the tradable goods prices) pulled back the domestic driven inflation of the market services. So, we maintain our view that NBH would prefer now a stronger forint exchange rate in order to slow down inflation (trading range between 360 and 370 would be better for NBH), but it looks like that the NBH is patient and would like to avoid sudden rate hikes.

Meanwhile inflation may accelerate further in the coming months to peak at the end of third quarter with a level around 10.5% YoY. Average inflation might be around 9.5% YoY in 2022. The forecast is surrounded with many uncertainties, for example the decisions of the government regarding the price caps.

Although we didn't change the peak of the interest rate hike cycle so far (the one-week deposit rate may be increased to around 7.5% in 3Q22), the risk on the upside increased, but it highly depends on the new government's economic policy actions (like fiscal tightening, agreement with the EU etc.), on other central banks' moves and on the development of EUR/HUF exchange rate. The first quarter GDP – which will be published on 17th May – is expected to reflect an extremely strong start of the economy partly thanks to the loose fiscal policy before the elections and the stable performance of industrial production and construction. GDP growth might be around 8% YoY in 1Q22 and the economy may grow close to 5% YoY in 2022, which gives room for the government to start fiscal tightening. We expect that the NBH may continue its gradual tightening cycle, increasing the base rate and the one-week deposit rate once a month and the gap between the one-week deposit rate and the base rate might be closed by the end of June. Although it looks like that Hungary may reach positive real interest rate slightly later than previously expected (most likely at the beginning of next year), the negative real interest rate (with its only -3% level) is already the best in the European Union.

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	05/13	10:00	CPI	% 04/2022 *F							2.0	12.3
CZ	05/13	10:00	Current account	CZK B 03/01/2022					-9.3		-5.84	
PL	05/13	14:00	Current account	EUR M 03/01/2022					-2800		-2871	
PL	05/13	14:00	Trade balance	EUR M 03/01/2022					-2088		-1741	
CZ	05/16	9:00	PPI	% 04/01/2022							4.2	24.7
PL	05/16	14:00	Core CPI	% 04/01/2022							1.0	6.9
HU	05/17	9:00	GDP	% 1Q/2022 *P							2.0	7.1
PL	05/17	10:00	GDP	% 1Q/2022 *P							1.7	7.3
CZ	05/18	12:00	CZ eurobond auction 2022-2024, 0.00%	EUR mil 05/01/2022					200			
HU	05/19	9:00	One week deposit rate	% 05/01/2022							6.45	
PL	05/20	10:00	Wages	% 04/01/2022							7.2	12.4
PL	05/20	10:00	Industrial output	% 04/01/2022							18.2	17.3
PL	05/20	10:00	PPI	% 04/01/2022							4.9	20.0
PL	05/23	10:00	Retail sales	% 04/01/2022							16.4	9.6
HU	05/24	9:00	Wages	%, y.td. 03/01/2022								31.7

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		+420 2 6135 3535
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Jan Bureš	+420 2 6135 3574				
Bratislava Research (CSOB)			Bratislava		+421 2 5966 8820
Marek Gabris	+421 2 5966 8809				
Budapest Research			Budapest		+36 1 328 99 85
David Nemeth	+36 1 328 9989				

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