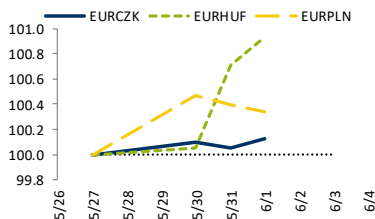




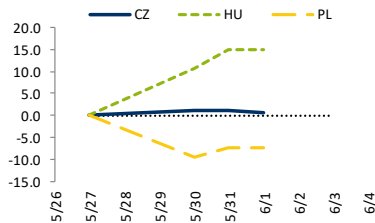
Wednesday, 01 June 2022

## Forex markets (index)



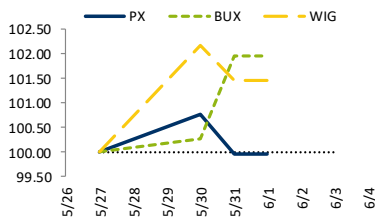
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.73	24.71	0.08
EURHUF	397.8	397.0	0.22
EURPLN	4.580	4.583	-0.06

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.625	4.629	-0.4
HUGB 10Y	7.20	7.20	0.0
PLGB 10Y	6.59	6.59	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1309.9	1309.9	0.00
BUX	39397	39397	0.00
WIG	57432	57432	0.00

## Our regional insights:

## The NBH will not fight the weak forint now

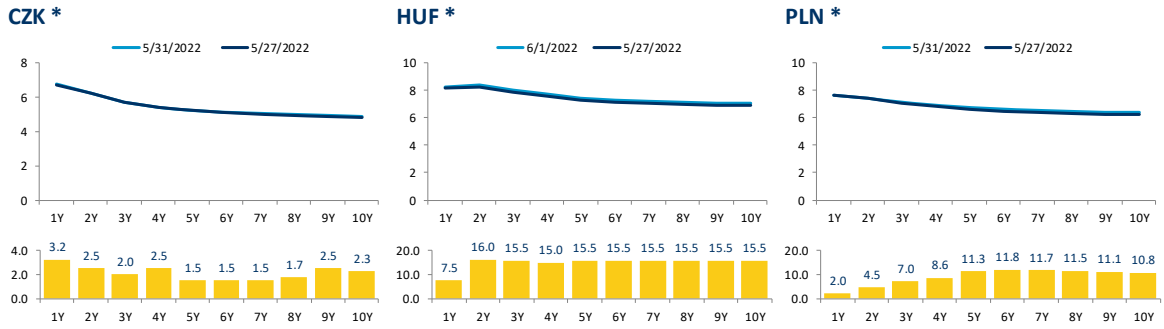
There was no surprise regarding the decision the National Bank of Hungary delivered on its last MPC meeting. The NBH base rate, the overnight deposit rate and the overnight lending rate were increased by 50 bps from 5.4% to 5.9% in case of the first two instruments and from 8.4% to 8.9% in case of the latter. Although the base rate increase has been slowed down (last two months it rose by 100 bps) it only has a marginal effect on the tightening cycle as the increase of the key reference rate (the one-week deposit rate) will likely continue at the same speed (30 bps per month) as in the last two months. So we expect that it will be increased from 6.45% to 6.75% on Thursday (June 2<sup>nd</sup>).

The statement of the Monetary Council was hawkish, as it highlighted that the interest rate hikes will be continued in the second half of the year and tightening will be maintained until the NBH thinks that the inflation target is achievable on a sustainable manner. The vice governor, Mr. Virag emphasized that inflation cannot be pushed back from one day to the other, so tight conditions will be maintained for an extended period. Inflation might move above 10% YoY probably already in May (the April figure was 9.5% YoY) and may peak at the end of third quarter around 11% YoY. This year's average inflation may be around 10% YoY. Despite that Hungary has the highest key interest rate in the region, the forint is clearly underperforming compared to its regional PEERs and is one of the worst performing currencies in emerging markets this year. Still, **we don't expect faster one-week deposit rate increases from the National Bank of Hungary. The likelihood nevertheless increases if EUR/HUF remains around 400 levels for several weeks.**

It is important to highlight that the government's announcement of fiscal adjustment (more than 3% of GDP for both 2022 and 2023, from which 60% is expenditure cut) may have a disinflationary effect as well. This means that Hungary now has parallel fiscal and monetary tightening in place. We maintain our view that inflation may moderate substantially in 2023 (between 5% and 6% YoY). The key reference rate might increase at least to around 8% by September and stay at that level for an extended period, implying a positive real interest rate environment in 2023. It looks like the gap between the base rate and the one-week deposit rate may close by the end of 3Q22 at levels close to 8%. However, there was an important remark from Mr. Virag who said that closing the gap doesn't automatically mean ending the tightening cycle. If necessary, the latter may be continued in the last quarter reaching even beyond 8.5% by the end of the year.

We maintain our view regarding the Recovery Fund money, and we expect that an agreement with the EU may come by the end of September, so there are more and more elements which are already and may soon turn supportive for the forint.

## Interest-rate Swap Curves



## 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	06/01	9:00	PMI manufacturing	05/01/2022			48.5		51.9		52.4	
HU	06/01	9:00	GDP	% 1Q/2022 *F			2.1	8.2	2.1	8.2	2.1	8.2
HU	06/01	9:00	PMI manufacturing	05/01/2022			51.5		55.0		58.9	
CZ	06/01	9:30	PMI manufacturing	05/01/2022			52.3		54.1		54.4	
CZ	06/01	12:00	CZ bond auction 2022-2026, 6.00%	CZK B 06/01/2022					7			
CZ	06/01	12:00	CZ bond auction 2021-2031, floating rate	CZK B 06/01/2022					3			
CZ	06/01	12:00	CZ bond auction 2022-2033, 2.00%	CZK B 06/01/2022					2			
CZ	06/01	14:00	Budget balance	CZK B 05/01/2022							-100.1	
HU	06/02	9:00	Trade balance	EUR M 03/2022 *F							-503	

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