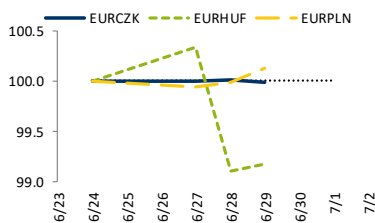




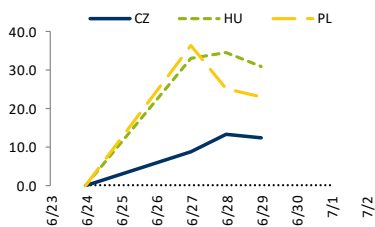
Wednesday, 29 June 2022

Forex markets (index)



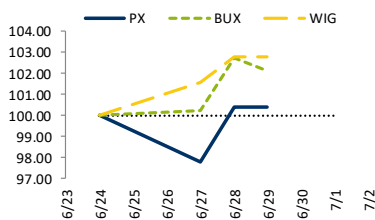
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.72	24.73	-0.03
EURHUF	397.6	397.3	0.07
EURPLN	4.694	4.687	0.14

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	5.097	5.107	-1.0
HUGB 10Y	8.28	8.31	-0.4
PLGB 10Y	7.22	7.24	-0.3

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1293.1	1293.1	0.00
BUX	40245	40482	-0.58
WIG	54493	54493	0.00

Our regional insights:

The NBH turns hawkish and the forint likes it

The National Bank of Hungary surprised the market with a large 185bp rate hike from 5.9% to 7.75%. The overnight deposit rate was increased from 5.9% to 7.25%, while the overnight lending rate was modified from 8.9% to 10.25%.

Moreover, the statement of the Monetary Council was hawkish, highlighting that the tightening cycle will be continued until the inflation turning point. The NBH released its new inflation and economic forecasts. The inflation outlook was revised on the upside compared to March from the range of 7.5-9.8% YoY to 11-12.6% YoY for 2022 and from 3.3-5% YoY to 6.8-9.2% YoY for 2023. The NBH expects inflation to return to its target level of 3% YoY only in 2024. The GDP forecast was revised on the upside from the range of 2.5-4.5% YoY to 4.5-5.5% YoY for 2022, while on the downside from 4-5% YoY to 2-3% YoY for 2023. These changes more or less fits into our expectations as we see average inflation around 11% YoY for this year and around 7.4% YoY for next year, while our GDP forecasts are 5.2% YoY and 2.5% YoY respectively. Our forecasts are surrounded by upside inflation and downside growth risks. The main surprise for us regarding the NBH's inflation outlook is that it expects inflation to peak around 14% YoY, but with a possible level of 16% YoY during the autumn, while our forecast shows a 13% YoY peak.

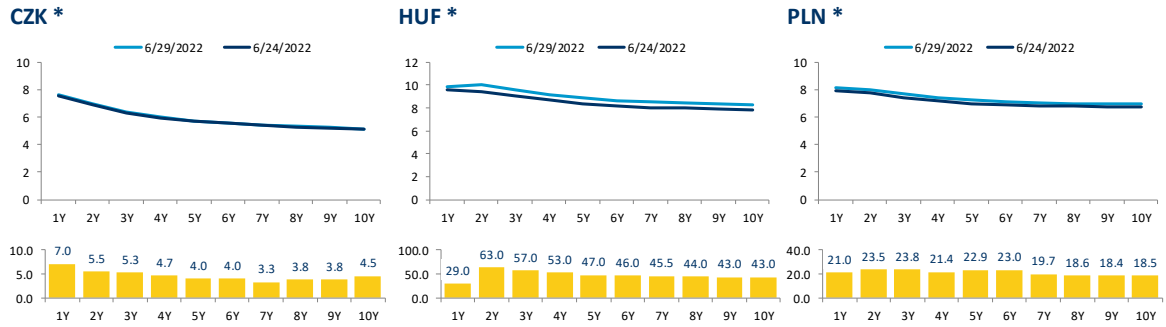
The bigger than expected base rate hike means that the NBH finally finished its dual interest rate policy, so from Thursday the base rate and the one-week deposit will be the same at 7.75% (it requires 50 bps hike of one-week deposit rate). The main question is how long and with what size the central bank will continue its tightening policy. Although the NBH left open the room for one-week deposit rate hikes during the month if market circumstances requires it, the Council will adjust the base rate to the actual level of one-week deposit rate on its first upcoming meeting.

The monthly interest rate hike will highly depend on the actions made by FED, ECB and other central banks in the region. **Since we now see the inflation peak in September, we expect that the rate hike cycle may be continued till end of November.** The CPI figure for November will be published at the beginning of December, so the NBH can conclude in its December Inflationary Report that inflation has peaked or not and, so December could be a good opportunity to end the tightening cycle. At that time the base rate could be between 9.25% and 10.25% depending on whether the MPC raises rates by 30bps or 50bps monthly. Before yesterday's meeting we expected 9.25% for the end of the rate hike cycle, but we see now upside risks, so we revised our forecast to 10%.

It is also important to emphasize that the NBH will extend the use of the foreign exchange liquidity providing swap facility from July 2022 and will stand ready to use it within the quarter as well. The step is aimed at ensuring that short-term rates in every sub-market, particularly in the swap market, and at all times, develop consistently with the level of short-term rates deemed optimal by the Monetary Council. By maintaining an active presence in the market, the NBH enhances the effectiveness of its monetary policy transmission, thereby supporting the achievement and maintenance of price stability. The NBH wants to decrease the excessive forint liquidity on the market.

All these decisions and measures confirm our view that the NBH would like to stabilize the forint and would like to see the EUR/HUF around 375, as it would help them to moderate the inflationary pressure, so **we do not expect any change of the (hawkish) stance of the NBH before inflation pressure ease and/or as long as EUR/HUF trades above 380.**

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
CZ	06/30	9:00	GDP	%	1Q/2022 *F						0.9	4.8
HU	06/30	9:00	PPI	%	05/01/2022						2.9	28.8
HU	06/30	9:00	One week deposit rate	%	06/01/2022				7.55		7.25	
CZ	06/30	10:00	Money supply M2	%	05/01/2022							5.6
PL	06/30	15:00	Budget balance	PLN M	05/01/2022							9207
PL	07/01	9:00	PMI manufacturing		06/01/2022							48.5
HU	07/01	9:00	Trade balance	EUR M	04/2022 *F							-475
HU	07/01	9:00	PMI manufacturing		06/01/2022							51.5
CZ	07/01	9:00	CNB minutes		06/01/2022							

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