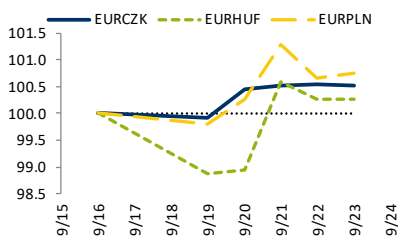




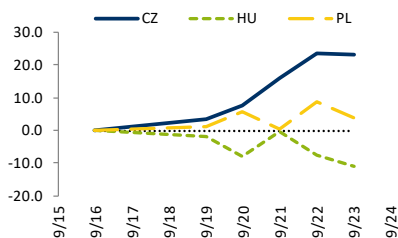
Friday, 23 September 2022

Forex markets (index)



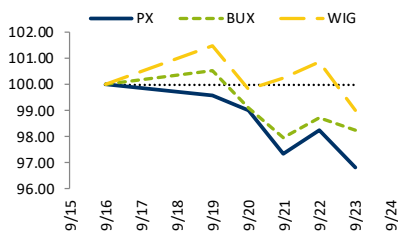
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.66	24.67	-0.03
EURHUF	405.6	405.7	-0.01
EURPLN	4.757	4.753	0.08

Gov. bonds 10 Y (bps change)



Bond	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.772	4.775	-0.3
HUGB 10Y	9.13	9.16	-0.4
PLGB 10Y	6.14	6.19	-0.8

Equity indices (index)



Index	LAST	PREVIOUS	CHANGE (%)
PX	1181.6	1198.7	-1.43
BUX	39358	39549	-0.48
WIG	48867	49765	-1.80

Regional insights

NBH meets next Tuesday – outcome is uncertain

The National Bank of Hungary will have an important rate setting meeting on September 27th (next Tuesday) as lots of things have changed during the last weeks. The NBH will publish its new quarterly inflationary report as well.

The inflation outlook deteriorated substantially since June, so the NBH will have to revise up its inflation forecast both for 2022 and 2023. Based on our calculation the new range of forecast could be around 13.5-14.5% YoY for 2022 (up from 11-12.6% YoY in June) and 12.5-15.5 YoY for 2023 (up from 6.8-9.2% YoY in June). The NBH may highlight that the consumer price index starts to moderate in 1Q23 and it may move back in the tolerance range of 3% YoY +/-1%pt in 2H24.

After the statements of vice-governor, Mr. Virág, it will be interesting to see how big a rate hike will be delivered this time, and at what level the rate hike cycle could end. Mr. Virág said that 50-75-100bps rate hike scenarios will be on the table and the Council will discuss the opportunity of the end of the rate hike cycle. It is also a scenario, that the September hike will be the last in this cycle, but there is also an option to phase out the interest rate increase cycle month by month.

We confirm our previous expectations that the cycle might be ended in November at a base rate level around 13.5%, which means a 100bps hike for September followed by a 50bps hike in October and ending with 25bps or 50bps hike in November.

The NBH statement may highlight that the central bank has already introduced tools in order to decrease the excessive forint liquidity on the market (the obligatory reserve ratio has been increased for minimum 5% level, a new NBH treasury bill has been introduced and there will be a new longer-term deposit as well) which means further tightening of the monetary policy.

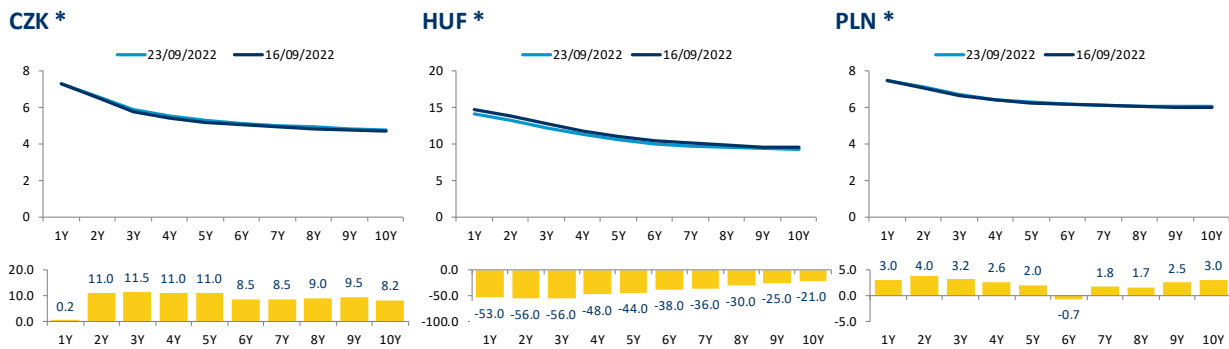
Additionally, Mr. Virág may emphasize again that the high interest rate may remain with us for an extended period and that the target is to maintain a positive real interest rate in order to fight against inflation. As the inflation orbit moved substantially upwards during the last months it looks like that positive real interest rate might be achieved only next summer, which also suggest that any rate cut cycle won't be started before next June.

We also stick to our view that the NBH would like to strengthen back and stabilize the forint around 380 levels in order to fight against the inflation as the exchange rate is now one of the most important channels due to the high imported inflation and the booming energy prices.

Finally, it will be also interesting how the NBH sees the economic outlook as it forecasted between 2-3% YoY growth for 2023 in June. We expect between 0-1% YoY growth for next year with a significant chance of a recession scenario. The main reason is the increasing energy and food prices (food price inflation is by far the fastest in Hungary within EU), which erodes households' consumption power. Additionally, there is more news that hospitals, restaurants, theatres, swimming pools may close for the winter because of the extreme high energy prices.

So, we still expect a 100bps hike for September with a hawkish statement, but the MNB may start to lay the groundwork of the rate hike cycle.

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	09/23	9:00	Wages	% ytd. 07/01/2022			15.3		16.0		15.4	
PL	09/23	10:00	Unemployment rate	% 08/01/2022			4.8		5		4.9	
HU	09/27	14:00	NBH meeting	% 09/01/2022							11.8	
HU	09/29	9:00	One week deposit rate	% 09/01/2022								
CZ	09/29	14:30	CNB meeting	% 09/01/2022							7	
CZ	09/30	9:00	GDP	% 2Q/2022 *F							0.5	3.7
HU	09/30	9:00	PPI	% 08/01/2022							5.70	37.9
PL	09/30	15:00	Budget balance	PLN M 08/01/2022							#####	

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