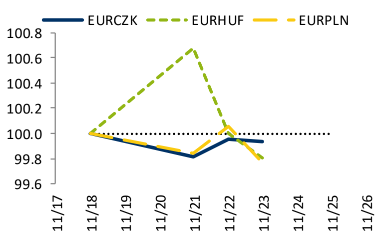
Written by ČSOB Prague and K&H Budapest

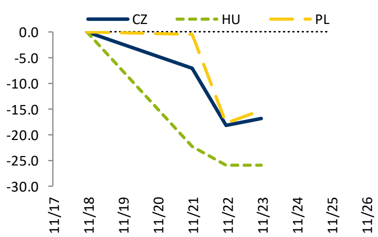
Wednesday, 23 November 2022

Forex markets (index)



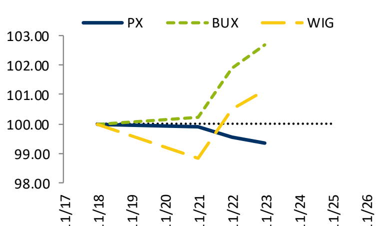
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.35	24.35	-0.02
EURHUF	405.7	406.6	-0.20
EURPLN	4.694	4.708	-0.29

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.802	4.788	1.4
HUGB 10Y	7.88	7.88	0.0
PLGB 10Y	6.86	6.84	0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1235.6	1238.1	-0.20
BUX	45686	45335	0.77
WIG	55519	55167	0.64

Our regional insights:

The NBH on hold as expected

The National Bank of Hungary left its base reference rate unchanged at 13% in line with the market expectation. The NBH statement remained hawkish and emphasized that the central bank is committed to achieving price stability. Vice governor, Mr. Virág highlighted that all transmission channels are needed – especially the exchange rate channel – to bring inflation into an acceptable range. It confirms our view that the NBH may maintain high interest rates even if EUR/HUF moves below 400. The NBH would like to stabilize EUR/HUF around or even below 390 for the coming quarters.

According the central bank, inflation is expected to moderate gradually from early 2023, thanks to base effects, global tendencies and decreasing domestic demand. A substantial fall in inflation is likely only in H2 2023. This inflation orbit fits into our expectations, we see inflation moderate below 10% YoY in next autumn before moving back into NBH's tolerance range of 3% +/-1ppt in the H2 2024.

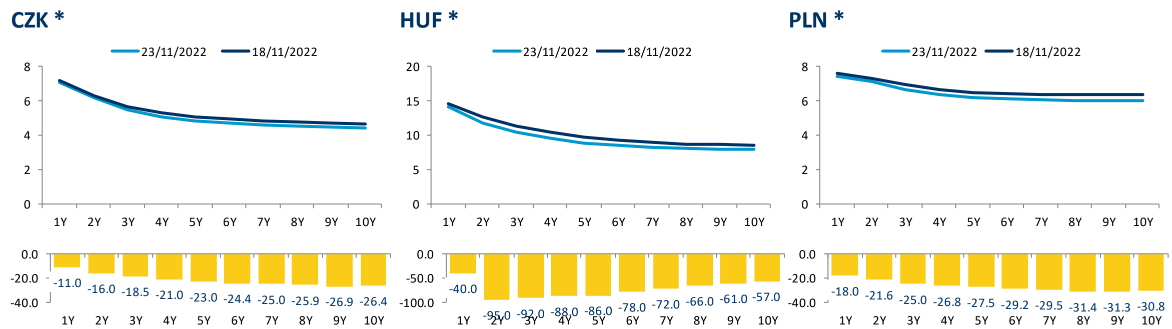
Regarding the current economic environment, Mr. Virag highlighted that risk appetite in the world has improved since the previous interest rate decision, but developments related to the war in Ukraine continue to pose a significant risk for the region. High-frequency data point to a further slowdown in domestic demand, while the industry producing for foreign trade still expanded in September. Together, the two bring an improvement in the current account balance. In the central bank's assessment, the pace of economic growth is expected to slow further in the coming months, which also points to a decline in domestic demand and a fall in energy consumption. Regarding the current account deficit, the NBH sees that Hungary past the worst period, and the CA balance started to improve thanks to the better performance of export, slowing domestic demand, smaller energy consumption and the falling energy prices.

For the NBH, maintaining market stability and strengthening transmission remain key. While maintaining the base rate, the tightening of liquidity will continue and the aim remains to improve the efficiency of monetary transmission. About a half of the liquidity is now held in long term deposits and the reserve account, while the other half is held in overnight deposits. With the NBH tenders to be announced in December, the NBH aims to further strengthen the transmission. With these instruments, the NBH will support liquidity absorption over the entire relevant time horizon.

Mr, Virag emphasized that they will apply the overnight deposit accelerator as long as it is essential and key to market stability. Only in the event of a sustained, gradual improvement in the financial market situation is it possible to gradually lower the key interest rate. Hence the central bank is monitoring six risk factors as a priority: 1) changes in the external environment, 2) Russian-Ukrainian war, 3) European energy crisis, 4) tightening cycle of major central banks, 5) current account developments, 6) agreement on EU resources.

So all in all a tight monetary policy could be expected from the NBH for the next months. The 18% interest rate of overnight depo tenders might be moderated only gradually once an EU agreement is achieved, the EUR/HUF stabilizes around or below 390 levels and the risk assessment of Hungary improves as well. Hence, we still believe the base rate could be started to moderate only from next June, once inflation starts to moderate at a faster pace.

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	11/23	10:00	Retail sales	%	10/01/2022			0.3	0.7	2.4	3.2	-2.8	4.1
HU	11/24	9:00	Wages	%, ytd.	09/01/2022						16.3		16.6
PL	11/24	14:00	Money supply M3	%	10/01/2022					0.9	7.5	0.9	7.7
HU	11/25	9:00	Unemployment rate	%	10/01/2022					3.9		3.8	
PL	11/25	10:00	Unemployment rate	%	10/01/2022					5.1		5.1	
HU	11/30	9:00	PPI	%	10/01/2022							1.8	42.7
PL	11/30	10:00	GDP	%	3Q/2022 *F							0.9	3.5
PL	11/30	10:00	CPI	%	11/2022 *P							1.8	17.9
CZ	11/30	11:00	Money supply M2	%	10/01/2022								5.5

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