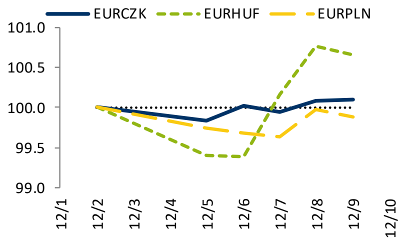
Written by ČSOB Prague and K&H Budapest

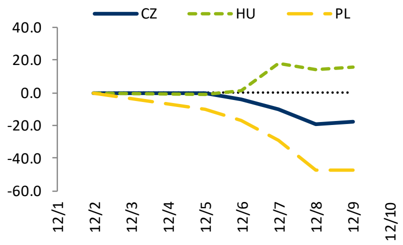

**Friday, 09 December 2022**

**Forex markets** (index)



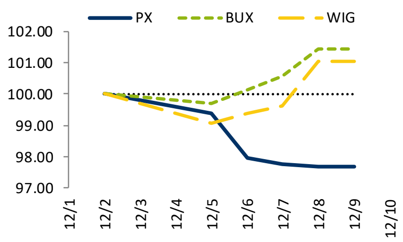

| | LAST | PREVIOUS | CHANGE (%) |
|---|---|---|---|
| **EURCZK** | 24.38 | 24.38 | 0.00 |
| **EURHUF** | 411.5 | 412.0 | -0.12 |
| **EURPLN** | 4.685 | 4.689 | -0.09 |

**Gov. bonds 10 Y** (bps change)




| | LAST | PREVIOUS | CHANGE (bps) |
|---|---|---|---|
| **CZGB 10Y** | 4.583 | 4.570 | 1.3 |
| **HUGB 10Y** | 8.27 | 8.26 | 0.2 |
| **PLGB 10Y** | 6.40 | 6.40 | 0.0 |

**Equity indices** (index)




| | LAST | PREVIOUS | CHANGE (%) |
|---|---|---|---|
| **PX** | 1214.3 | 1214.3 | 0.00 |
| **BUX** | 46368 | 46368 | 0.00 |
| **WIG** | 56868 | 56868 | 0.00 |

# Regional insights

## The forint versus a bag of negative news

Yesterday, there was a release of the November inflation in Hungary. Recall that the consumer price index jumped from 21.1% YoY in October to 22.5% YoY in November, which exceeded the 22% YoY market consensus expectation. The core inflation increased from 22.3% YoY to 24% YoY respectively.

The food prices were the main diver of the acceleration again. Unprocessed food prices went up by 3% MoM, while processed ones by 3.9% MoM. Tradable goods prices and market services prices went up by 1.5% MoM and 1.3% MoM respectively, so inflation is still there in all subgroups, but less in the latter segment, moreover we see sings for peak of inflation in these groups.

Looking ahead, the abolishment of fuel price cap increases petrol price by 33% and diesel price by 46%, which adds roughly 2%pt to the December and 0.5%pt to the January headline inflation figure. It means that Inflation would peak at 25% YoY level in January if no additional price accelerations comes in the coming months. Although the base effect starts to moderate headline inflation, we still expect some further pressure coming from food side, so we expect inflation to peak around 26% YoY at the beginning of the year, while core inflation may peak around 25% in December.

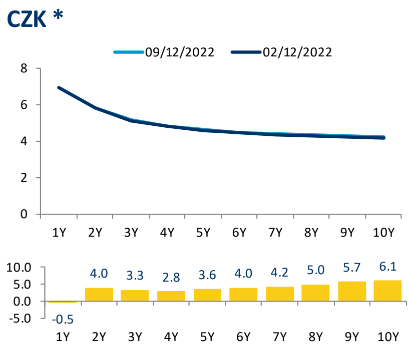
Regarding next year inflation outlook, we see the headline inflation to moderate below 20% YoY during the summer and below 10% YoY in November and so the average inflation might be close to 18% YoY in 2023. This forecast calculates with USD 75/barrel oil price, EUR 135/MWh gas price and with the average EUR/HUF rate at the 392 level. The main question will be how big disinflationary effect will come from the decreasing domestic demand. It looks like the minimum wage and guaranteed wage minimum may be increased by 15% YoY, which means that the net real wages might decrease by an average of 3% in 2023. Although we maintain our view that the economy may stagnate in next year, some soft indicators – like recent road transport – suggest that economy may suffer from recession. We focus on the development of labour market and in case unemployment rate start to rise it may confirm the view of a recession.

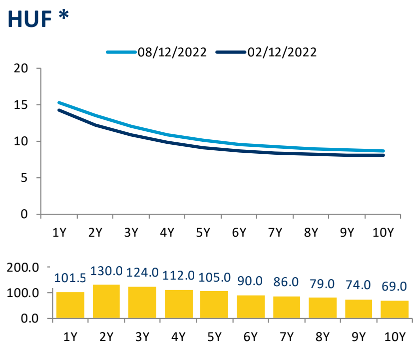
Meanwhile, the forint was hit by a series of negative news – still delay of EU agreement, EUR 1bn trade deficit in October, HUF 876bn budget deficit in November and the higher-than-expected inflation. All this pushed the EUR/HUF pair to 419 from 411. Nevertheless, we maintain our view that EU agreement will be done in this year and as Hungary delivers the required changes, EU funds money of recovery funds and 2021-2027 budgets will start to arrive in 2H23. In the meantime Hungary should receive the remaining part of EU funds from 2021-2020 budgetary period and the money linked to the agriculture.

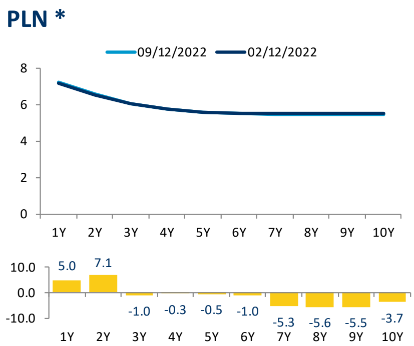
In this respect, it’s worth noting that the state budget situation is stretched now. Nevertheless, we expect that budget could be more or less balanced in December – partly thanks to the extra income coming from the extra tax levied on the energy market this week – which result that budget deficit could be around 5% of GDP in 2022. On the other hand, pushing the deficit below 4% of GDP next year will be difficult and it will depend on the economic performance, and on the energy market development, but we see a good chance to meet this target. And finally, the unfavourable trade balance figure was mainly due to the high energy bills Hungary had to pay after the August period, when gas price peaked above EUR300/MWh and Hungary had to fulfil its storage capacities. Since that time gas price halved and the energy consumption of the country started to drop, so we maintain our view that current account balance has already started to improve in 4Q22.

All in all, we maintain our view that the forint may start to appreciate in the coming quarters, we see the EUR/HUF to fall to around 380 during next year, although the high volatility may remain with us in the coming months.

## 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 | 12/09 | 14:00 | NBP minutes | NBP | 12/01/2022 | | | | | | | | |
| CZ | 12/12 | 9:00 | CPI | % | 11/01/2022 | | | | | | | -1.4 | 15.1 |
| CZ | 12/14 | 10:00 | Current account | CZK B | 10/01/2022 | | | | | | | -55.8 | |
| CZ | 12/14 | 12:00 | CZ bond auction 2022-2028, 5.50% | CZK B | 12/01/2022 | | | | | 3.0 | | | |
| CZ | 12/14 | 12:00 | CZ bond auction 2021-2032, 1.75% | CZK B | 12/01/2022 | | | | | 6.0 | | | |
| CZ | 12/14 | 12:00 | CZ bond auction 2021-2037, 1.95% | CZK B | 12/01/2022 | | | | | 1.0 | | | |
| PL | 12/14 | 14:00 | Current account | EUR M | 10/01/2022 | | | | | | | -1561 | |
| PL | 12/14 | 14:00 | Trade balance | EUR M | 10/01/2022 | | | | | | | -2054 | |
| PL | 12/15 | 10:00 | CPI | % | 11/2022 *F | | | | | | | 0.7 | 17.4 |
| CZ | 12/16 | 9:00 | PPI | % | 11/01/2022 | | | | | | | 0.6 | 24.1 |
| PL | 12/16 | 14:00 | Core CPI | % | 11/01/2022 | | | | | | | 1.0 | 11.0 |

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