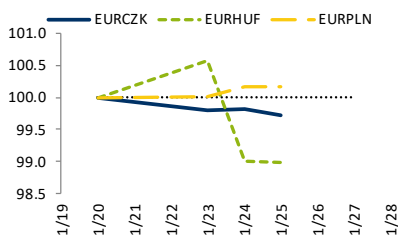




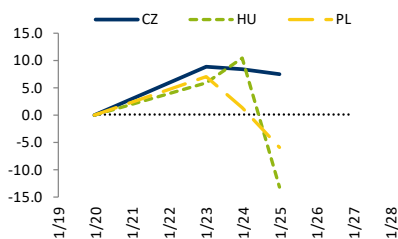
Wednesday, 25 January 2023

Forex markets (index)



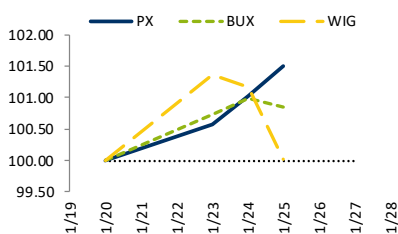
	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.84	23.87	-0.11
EURHUF	389.3	389.3	-0.02
EURPLN	4.714	4.714	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.351	4.359	-0.8
HUGB 10Y	7.32	7.56	-3.1
PLGB 10Y	5.90	5.97	-1.2

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1299.7	1293.7	0.46
BUX	46832	46902	-0.15
WIG	60803	61501	-1.13

Our regional insights:

The hawkish NBH pleased forint's bulls

Yesterday, the National Bank of Hungary left the base rate unchanged at 13% in line with expectations, but **the required minimum reserve will be increased from 5% to 10% from April 1st**. The NBH will continue to use one-day deposit quick tenders and FX swap transactions to ensure financial market stability, and it will continue to meet foreign currency liquidity needs in the coming months to reach market balance related to the energy account. The main question before the meeting was what the forward guidance related to the 18% O/N deposit tender would be. How hawkish would the Monetary Council remain following the better read of December inflation (24.5% YoY vs 25.8% YoY expectations) and the more favourable international sentiment (falling gas price, weakening USD and strengthening HUF). **We can state that the NBH remained quite hawkish**, highlighting that the Council would like to see a trend in the improvement in risk perceptions before the O/N deposit tender rate will be moderated from the current 18% level. Regarding the inflation outlook, the central bank expects that it may still rise in January to a lesser extent, as the elimination of the fuel price cap will have a carry-over effect. But in the coming months, disinflationary effects will increasingly prevail in Hungary as well.

Vice governor Mr. Virag said that a turnaround was taking shape in the food market, with more and more segments seeing prices starting to fall. This will cause a turnaround in food prices in the spring. In addition, the demand contraction that started in the autumn could also be reflected in pricing decisions.

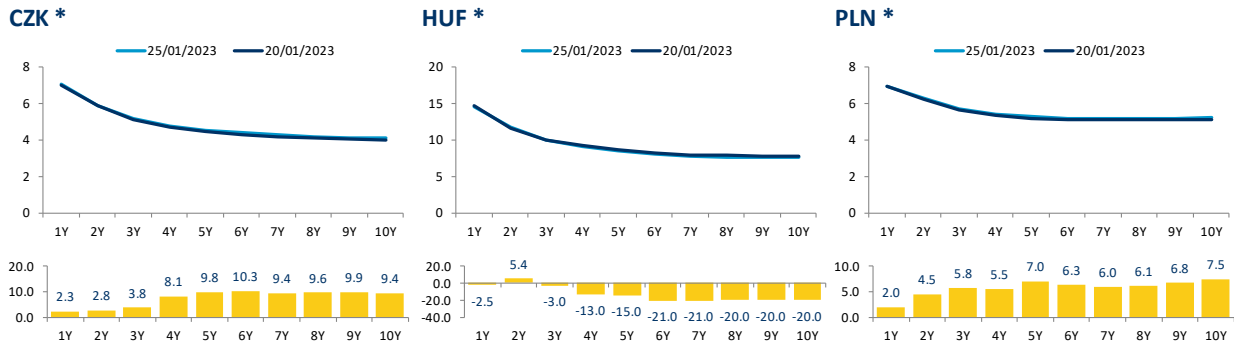
In case of the current account balance Mr. Virag said that the deficit was past its peak and a steady improvement might start. November's external trade figure was less favourable than expected, but its structure shows that the improving trend for energy commodities has started. At the same time, the November figure may have reflected one-offs related to large domestic investments, such as restocking.

Finally reflecting on the debates with the European Union, the December agreement on EU funding has been a positive sign, but negotiations are ongoing. Key for the risk assessment in the view of the NBH will be the actual inflow and absorption of EU funds.

This statement of the Monetary Council confirms our view that the most likely scenario is that the NBH starts moderating the O/N tender interest rate from 18% in March, after the new inflationary report will be published. Additionally, the government promised previously that the necessary changes regarding the juridical law will be approved by Parliament by the end of 1Q23, which would also be a booster for the start of rate cutting cycle. It is an important change that the NBH provides one-month deposit tender for the market today, while it provided two-month deposit at the beginning of December. It could have a message that in case international environment improves further substantially, forint strengthens to or even below 380 against euro and the inflation at the beginning of the year delivers a positive surprise again, the start of the rate cut cycle could happen already in February. Of course, the messages of leading central banks (ECB, Fed) and its effect of global risk-taking willingness may play a key role in NBH's decision.

We maintain our view **that the headline inflation may peak in January-February slightly above 25% followed by a gradual moderation in 1H23. A faster decrease may come in 2H23. It suggests that the NBH could close the gap between the O/N deposit tender rate and the base rate around June-July**. As we expect that the headline inflation could moderate to around 7% at the end of the year, we see chance for cutting the base rate to around 8.5% by the end of December.

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	01/25	9:00	Wages	% , ytd.				16.8		17.4		18.4
PL	01/25	10:00	Unemployment rate	%			5.2		5.2		5.1	
CZ	01/25	12:00	CZ bond auction 2017-2027, 0.25%	CZK B	01/01/2023					3		
CZ	01/25	12:00	CZ bond auction 2022-2030, 5.00%	CZK B	01/01/2023					7		
CZ	01/25	12:00	CZ bond auction 2020-2040, 1.50%	CZK B	01/01/2023					4		
HU	01/27	8:30	Unemployment rate	%						4.0		3.8
HU	01/31	8:30	PPI	%							-0.8	37.0
CZ	01/31	9:00	GDP	%							-0.2	1.5
CZ	01/31	10:00	Money supply M2	%								5.9

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