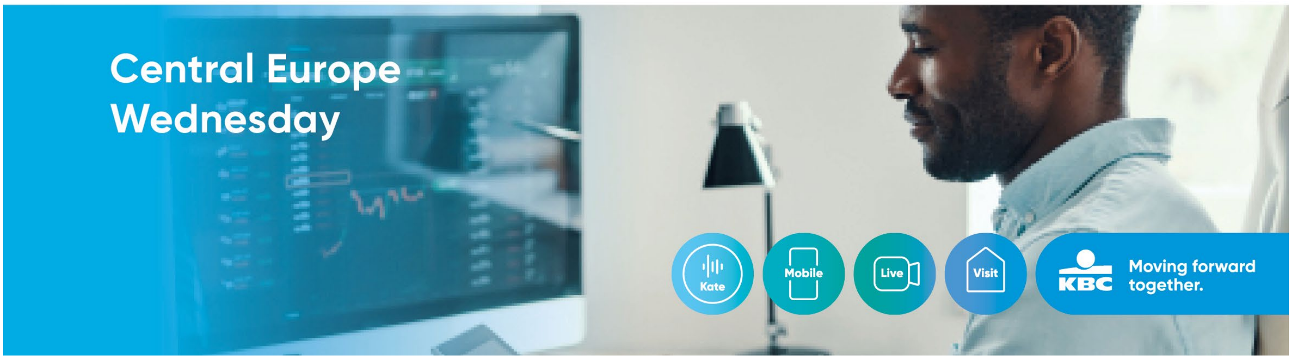
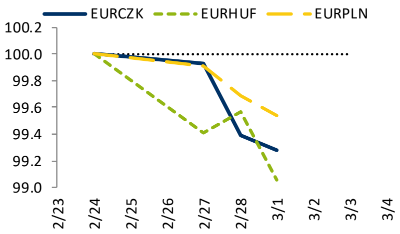
Written by CSOB Prague and K&H Budapest



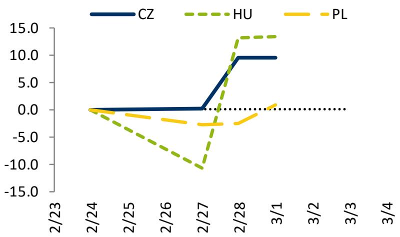
Wednesday, 01 March 2023

Forex markets (index)



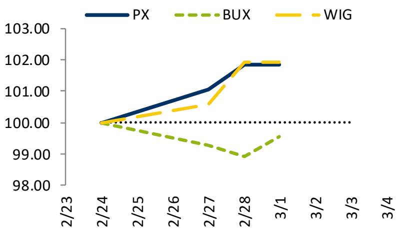
	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.47	23.50	-0.11
EURHUF	376.3	378.2	-0.51
EURPLN	4.697	4.704	-0.15

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.932	4.934	-0.2
HUGB 10Y	8.64	8.64	0.0
PLGB 10Y	6.57	6.53	0.5

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1413.7	1413.7	0.00
BUX	45072	44780	0.65
WIG	60181	60181	0.00

Our regional insights:

The NBH keeps cautious (hawkish) stance

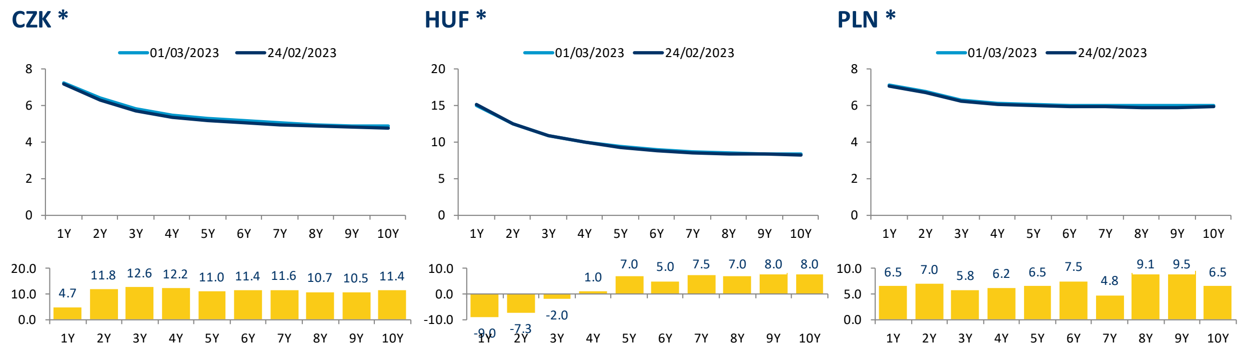
Yesterday, the National Bank of Hungary (NBH) left the reference rates unchanged (base rate at 13%, O/N deposit rate at 12.5% and O/N lending rate at 26%). At the same time vice-governor Virag highlighted that the O/N deposit tender rate and the one-week national bank bond rate will kept unchanged at 18% as well. A new (policy) element is that the interest rate that the NBH pays on the mandatory reserves will be changed. The Monetary Council has already made the decision in January that the mandatory reserve requirement level will be shift from the range of 5-10% to the range of 10-15% for 2Q23. The new element is that previously the NBH paid the base rate for all the money placed into the mandatory reserve while now it is going to pay no interest on the first 2.5% of the reserves, a base rate on the range between 2.5% and 10%, and the O/N deposit tender rate on money in the range of 10% and 15%. In practical terms, this means that **the NBH intends to draw down about HUF 4,000 billion of the HUF 12,000 billion of liquidity through the minimum reserve requirement, compared to the HUF 2,000 billion it had previously, and with this restructuring, the cost of sterilization in April is relatively small compared to March. In our view, the current fine-tuning of the mandatory reserve system does not represent a further tightening compared to the January announcements.**

Regarding the stance of the statement of the Monetary Council, it has remained quite hawkish, despite a substantially stronger forint. Although the NBH expects that the inflation has reached its peak level in January, there might be only a gradual and slow moderation in the coming months. Mr. Virag also emphasized the positive improvement of current account a balance, partly thanks to dropping energy prices and less energy consumption of households and corporates.

Meanwhile, the NBH highlighted that it wants to see the persistence of the recent improvement in risk perceptions when setting the conditions of overnight instruments introduced in mid-October. What means the persistence of the recent improvement? Although there were several questions about it at the press conference, it was not defined exactly. Hence, we can conclude with a high certainty that there may not be any interest change of O/N deposit tender and one-week national bank bond interest rate till the next MPC meeting which will be held on 28th of March. The new inflationary report will be published at that time as well, which could still have key importance in decision making. But March Fed and ECB decisions and messages will also play a key role. If Hungary's (country) risk assessment doesn't deteriorate substantially or even improves, it would be a strong argument for starting the moderation of the 18% interest rate. As the recent stance of the NBH's statements were quite hawkish, we now see less chance for a start of the cutting cycle by the end of March than a month ago. Still, we give it roughly 20% chance. On the other hand, we maintain our view that the differential between the base rate and the O/N deposit tender rate may be eliminated during 3Q23.

It looks like now that the NBH is more cautious than it was during the last year and it would like to avoid a too early start of monetary easing. It also means that the speed of the rate cuts could be slower, especially in case global big central banks (like Fed or ECB) maintain longer monetary tightening in place. We think that in addition to inflation developments, the country's net financing needs may play a key role in setting monetary policy. From that perspective, in a case there is promising cooperation between the Hungarian government and the EU (meaning more EU funds money inflow), and the energy prices may remain relatively stable and low around current levels, it could lead to less hawkish monetary policy. On the other hand, if there is not enough evidence about these positive developments the cautiousness of the Hungarian monetary policy may remain with us.

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	03/01	8:30	PPI	%	01/01/2023			0.8	35.0			-0.1	34.9
HU	03/01	9:00	PMI manufacturing		02/01/2023			56.5		53.3		55.0	
PL	03/01	9:00	PMI manufacturing		02/01/2023			48.5		48.0		47.5	
CZ	03/01	9:30	PMI manufacturing		02/01/2023			44.3		45.0		44.6	
CZ	03/01	14:00	Budget balance	CZK B	02/01/2023							-6.8	
HU	03/02	8:30	GDP	%	4Q/2022 *F					-0.4	0.4	-0.4	0.4
HU	03/03	8:30	Trade balance	EUR M	12/2022 *F							-154	
CZ	03/03	9:00	GDP	%	4Q/2022 *P					-0.3	0.4	-0.3	0.4
HU	03/06	8:30	Retail sales	%	01/01/2023								-3.9

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