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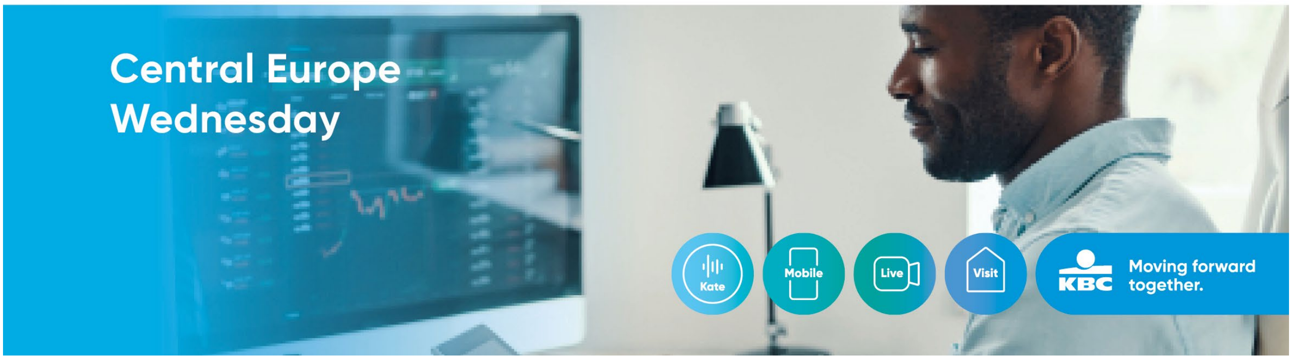

Wednesday, 26 April 2023

Our regional insights:

The NBH cuts O/N lending rate by 450bps

The National Bank of Hungary cut the O/N lending rate by 450 bps from 25% to 20.5%, which was widely expected by the markets after NBH vice-governor, Mr Virag said in an interview last week that the MPC may discuss the option of narrowing the interest rate corridor already on its next meeting (the new interest rate corridor is 12.5% O/N deposit rate and 20.5% O/N lending rate). The base rate and the O/N deposit tender rates were left unchanged at 13% and 18% respectively, in line with expectations.

The focus was on the statement and on the press conference for any hints regarding the timing and the size of the steps of the rate cut cycle. Monetary Council delivered a cautious message, leaving the door open for any kind of decisions. It is clear that the NBH doesn't want to manoeuvre itself into a one-way road, and so decisions will be data and market driven.

The most important figures and developments the NBH will take in account are: external balance development (current account, trade balance), market stability (exchange rate, bond market, auctions, swap market processes) and international environment (concerns about banking sector, leading central banks decisions, risk taking willingness). Although NBH always highlights that the level of the O/N deposit tender rate depends on the risk assessment of the country and the base rate is responsible for anchoring the inflation expectations, we think that incoming CPI figures may also play an important role in decision making when and with what size the O/N deposit tender's rate cuts could be started in the following months.

The NBH emphasized several times on the press conference that cautiousness, gradualness, market expectation and forward guidance will play important role in the adjustment of monetary policy. Of course NBH highlighted all the positive developments of the last months, like drop of energy prices, substantial improvement of current account balance, high gas level in storages, capital inflows to emerging markets, stable exchange rate market etc.

We think that NBH remained quite hawkish and a May cut depends on the April inflation figure, the ECB's and Fed's decision and statement and on the market pricing (level of exchange rate and the move on the very short end of the curve). We maintain our view that there is a good chance for the NBH to start the cut already in May, but probably not with 100 bps but only with 50 bps in order to test the market reaction (recently the market prices less than 100 bps cut for May). It is important to emphasize that we expect that the CPI may finally drop from 25.2% YoY in March to around 24% YoY in April, which could be one of the main catalysts of the rate cut, but in case inflation delivers again a negative surprise, a rate cut could be postponed to June, just like in case EUR/HUF moves above 385-390 territory in the following weeks. We also confirm our view that the O/N deposit tender rate might be moderated to the level of base rate (13%) by September, but a cut of the base rate may come in 4Q23 only in case inflation moderates below 15% in September and there are strong signals that CPI moves into single digit territory in December. So still lots of uncertainties, but NBH gets close to the start of rate cut cycle, which option is likely to be discussed already on the next meeting.

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
CZ	04/19	9:00	PPI	%	03/01/2023			-1.0	10.2	-0.1	11.3	-0.3	16.0
PL	04/21	10:00	Wages	%	03/01/2023					6.0	12.4	2.6	13.6
PL	04/24	10:00	PPI	%	03/01/2023							-0.4	18.4
PL	04/24	10:00	Industrial output	%	03/01/2023							0.4	-1.2
PL	04/24	10:00	Retail sales	%	03/01/2023							-3.6	-5.0
PL	04/25	14:00	Money supply M3	%	03/01/2023							1.7	7.4
HU	04/25	14:00	NBH meeting	%	04/01/2023							13.00	
HU	04/26	8:30	Wages	%, ytd.	02/01/2023								16.3
PL	04/26	10:00	Unemployment rate	%	03/01/2023							5.5	

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