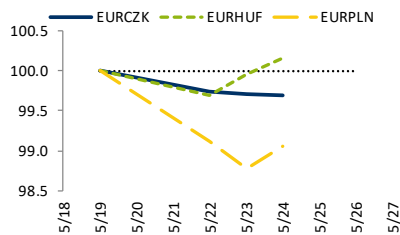
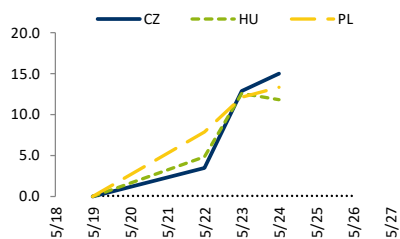


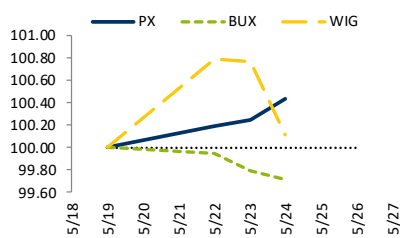
Wednesday, 24 May 2023

Forex markets (index)

	LAST	PREVIOUS	CHANGE (%)
EURCZK	23.69	23.70	-0.01
EURHUF	375.9	375.1	0.20
EURPLN	4.499	4.486	0.29

Gov. bonds 10 Y (bps change)

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.673	4.652	2.1
HUGB 10Y	7.88	7.89	-0.1
PLGB 10Y	6.09	6.08	0.2

Equity indices (index)

	LAST	PREVIOUS	CHANGE (%)
PX	1322.5	1320.0	0.19
BUX	46454	46490	-0.08
WIG	64995	65419	-0.65

Our regional insights:**The NBH has started a new rate-cutting cycle**

The rate cut cycle has been started by the National Bank of Hungary. The O/N deposit tender rate was moderated from 18% to 17% yesterday, the T/N FX swap tender rate was reduced from 17% to 16% and the upper level of interest rate corridor (O/N lending rate) from 20.5% to 19.5%. We highlighted several times that the cycle might have been decided already in May during the last weeks, only the size of the cut was uncertain. The relatively strong and stable level of the forint and the domestic money market, where more than 100bps cut was priced in last week, confirmed our previous view that NBH could start the cycle with a 100bps rate cut. Our focus was on the NBH statement and the press conference. This time the governor of the NBH, Mr Matolcsy took part.

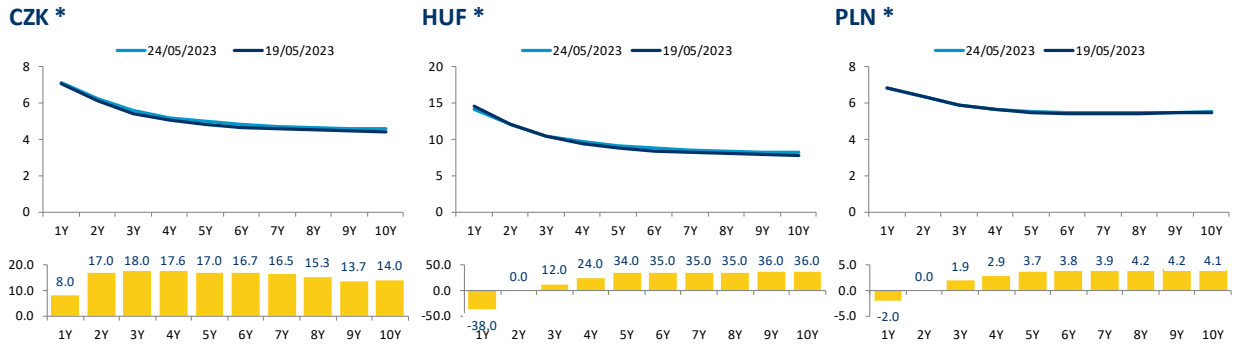
Just like in previous months the role of the base interest rate – which has been left unchanged at 13% - and the O/N deposit tender rate were separated from each other. Mr Matolcsy emphasized that the NBH started the fight against the inflation among the first of central banks and they made the best decision when they stopped hiking the base rate last September, as inflation was expected to peak and to moderate in a 4-8 quarter time horizon. The introduction of the O/N deposit tender was the best solution to manage the suddenly deteriorating international environment and the worsening risk perception of Hungary. Now that there is a fiscal policy change – government tightens its fiscal policy – and a substantial improvement of the current account balance the time has come for a moderation of reference rate in a cautious way.

Both governor Mr Matolcsy and vice-governor Mr Virag highlighted that the fight against the inflation hasn't finished yet. Inflation is still a common enemy, so the fiscal and monetary policies have to work together to push back inflation to its target as soon as possible. Mr Matolcsy emphasized that the remaining price caps have to be abolished, while he welcomed the new measure implemented by the Office of Economic Competition in order to strengthen price competition on the market. Mr Matolcsy urged to improve the productivity as in those countries where the productivity was higher, inflation was lower.

The cut of base rate (13%) is fully out the agenda recently and the cut of the O/N deposit tender rate isn't carved into stones either, it will depend on the incoming figures. So, all in all the statement of the NBH remained hawkish, despite of yesterday rate cut.

We maintain our view that the NBH may moderate the reference rate by 100bps month-by-month, which means that the gap between the base rate and the O/N deposit tender rate might be closed at the end of September. It was an important statement that the real interest rate will be positive at the end of the year and has to remain in positive territory in 2024 as well – Mr Virag referred on the 70s price shock as an important consequence the monetary policy has to conclude from that period. We expect that headline inflation may move close to 10% YoY level in November, which could allow the cut of base rate to the level around 11.5% till the end of the year. The decisions of the Monetary Council in the following months will mainly depend on the international sentiment, on the stability of the forint and bond market, development of energy prices, the improvement of current account balance and last but not least on the continuation of disinflation process.

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). Source for all market data: Bloomberg

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	05/24	8:30	Wages	% ytd. 03/01/2023								0.2
CZ	05/24	12:00	CZ bond auction 2022-2028, 5.50%	CZK B 05/01/2023					6			
CZ	05/24	12:00	CZ bond auction 2022-2030, 5.00%	CZK B 05/01/2023					5			
CZ	05/24	12:00	CZ bond auction 2023-2034, 4.90%	CZK B 05/01/2023					5			
PL	05/24	14:00	Money supply M3	% 04/01/2023					0.5	6.6	0.4	6.5
PL	05/25	10:00	Unemployment rate	% 04/01/2023					5.3			5.4
HU	05/26	8:30	Unemployment rate	% 04/01/2023					4.0			4.0
CZ	05/30	9:00	GDP	% 1Q/2023 *P								0.1 -0.2
HU	05/31	8:30	PPI	% 04/01/2023								-1.2 21.7

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