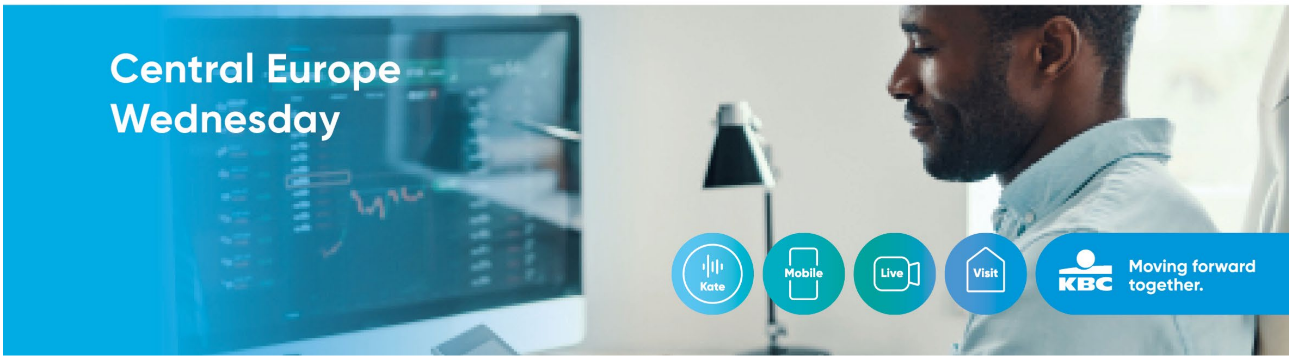
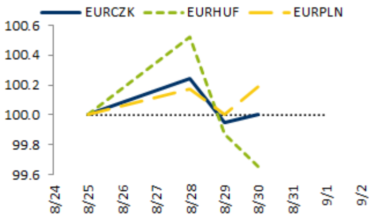
Written by CSOB Prague and K&H Budapest



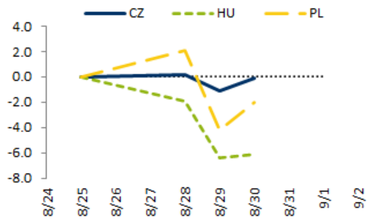
Wednesday, 30 August 2023

Forex markets (index)



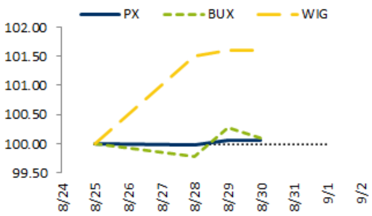
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.10	24.09	0.05
EURHUF	380.4	381.2	-0.22
EURPLN	4.474	4.465	0.19

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.394	4.384	1.0
HUGB 10Y	7.24	7.23	0.0
PLGB 10Y	5.68	5.66	0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1351.7	1351.7	0.00
BUX	56975	57070	-0.17
WIG	68795	68795	0.00

Our regional insights:

NBH's easing cycle continues as expected

The National Bank of Hungary continued its gradual easing cycle and cut the O/N deposit tender rate from 15% to 14% in line with expectations. The NBH moderated other monetary policy tools (O/N lending, T/N swap, one-week bond and one-month depo rates) also by 100bps just like in the previous months.

The focus was on the MPC's statement and on the press conference followed by the rate decision. The NBH highlighted that fundamentals are improving which creates room for a cautious monetary easing cycle.

Regarding the inflation vice-governor, Mr Virag highlighted the strong disinflationary process in food and industrial products while in market services this process is substantially slower. He added that although the headline inflation is still the highest in the EU, the year-to-date inflation in the first seven months fits in with the regional trends. Although new forecasts will be published in September, he confirmed again that they see further moderation of food prices for August and year-on-year CPI is expected to be well below 10% at the end of the year. Moreover it may be at the same level as in other countries in the region based on the first seven months developments.

In case of the current account balance he highlighted that it may be substantially better than what the NBH forecasted in June (-2% of GDP) and on a question whether the NBH plans to provide foreign currency from its reserves for energy purchase like last year he said no since circumstances improved substantially (while Hungary had -8.1% of GDP current account deficit in 2022, it may be around zero or even surplus in this year).

The most interesting part of the press release was the forward guidance - what the NBH plans to do in the coming months. **The 100bps cut for September looks a done deal so the base rate and the O/N deposit tender rate is expected to be the same (13%) after the next rate setting meeting**, which raises the question that what kind of monetary policy tools may remain with us, and how the easing cycle will be changed.

Regarding the monetary policy tools, Mr Virag highlighted that the NBH plans to simplify it. What we know is that they plan to keep the swap and one-week bond facility, which suggests that the O/N deposit tender will be abolished. We think that it might be a gradual change (for example put a cap on the amount banks can place into it, which may be decreased month-by-month) as there is more than HUF8000bn placed into that instrument. It is also quite likely that the NBH changes the tenor of the one-month deposit to a shorter one (for example to one or two week depo), in order to channel the money which is placed recently into O/N deposit tender there.

In case of a cutting cycle Mr. Virag said that there is no auto pilot decision. Monetary policy will be data driven, the aim is to reach inflation target on a sustainable manner, and he thinks that the market prices a too aggressive cutting cycle. But he avoided to hint about that what is the base line scenario, how big cut can be delivered from September. He only emphasized that there will a sizable positive real interest rate at the end of the year. As inflation is expected to moderate to around 7% YoY in December it doesn't provide relevant information. He emphasized several times that the current global environment is very uncertain, so cautiousness is required.

Based on the statement we maintain our view that the NBH may slow the rate cuts from 100bps to 50bps in October and November and if the exchange rate remains stable, inflation drops in line with the expectations and the Fed and regional central banks keep alive bets for an easing cycle in the first half of 2024, the NBH may cut 100bps in December. For next year we expect 50bps steps, but as we see upside risks for inflation (a risk of sticking inflation around 6%), the NBH could switch to a more hawkish tone in 2Q24.

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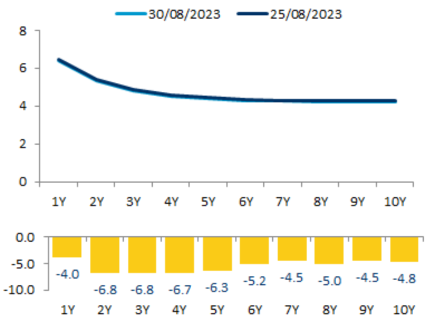
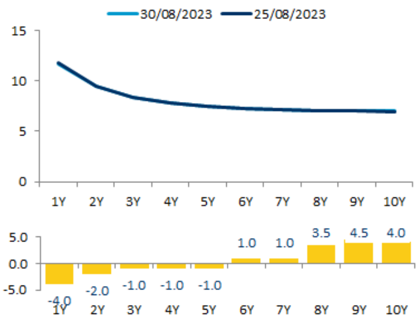
Interest-rate Swap Curves

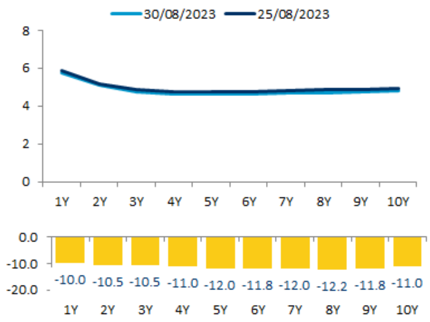
CZK *



HUF *



PLN *



* 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 m/m	Forecast y/y	Actual m/m	Actual y/y	Consensus m/m	Consensus y/y	Previous m/m	Previous y/y
HU	08/31	8:30	PPI	%	07/01/2023							-1.3	6.4
PL	08/31	10:00	CPI	%	08/2023 *P						10.0	-0.2	10.8
CZ	08/31	10:00	Money supply M2	%	07/01/2023								8.1
PL	08/31	10:00	GDP	%	2Q/2023 *F							-3.7	-0.5
PL	08/31	15:00	Budget balance	PLN M	07/01/2023							-12682	
HU	09/01	8:30	GDP	%	2Q/2023 *F					-0.3	-2.4	-0.3	-2.4
HU	09/01	8:30	Trade balance	EUR M	06/2023 *F							1481	
HU	09/01	9:00	PMI manufacturing		08/01/2023							45.7	
PL	09/01	9:00	PMI manufacturing		08/01/2023					44.4		43.5	
CZ	09/01	9:30	PMI manufacturing		08/01/2023					41.9		41.4	
CZ	09/01	14:00	Budget balance	CZK B	08/01/2023							-214.1	

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