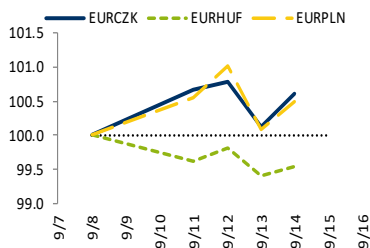


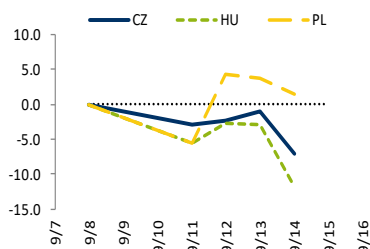
Friday, 15 September 2023

Forex markets (index)



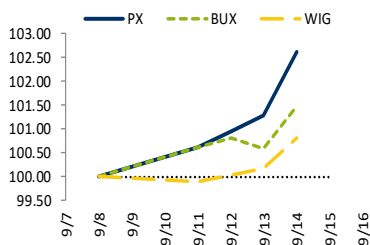
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.52	24.40	0.49
EURHUF	383.9	383.4	0.13
EURPLN	4.637	4.618	0.41

Gov. bonds 10Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.429	4.489	-6.0
HUGB 10Y	6.89	6.98	-1.3
PLGB 10Y	5.59	5.61	-0.4

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1356.2	1338.7	1.31
BUX	57689	57191	0.87
WIG	67084	66664	0.63

Regional insights

The NBH will not follow the NBP, so the HUF should be OK

The **National Bank of Poland** surprised the market with a bigger than expected rate cut last week. It might raise the question whether that would have any influence on the decision of the National Bank of Hungary or not?

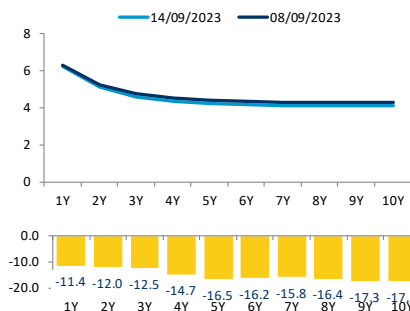
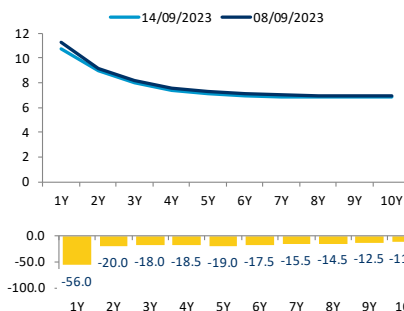
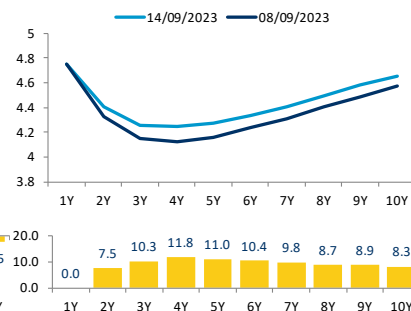
From a fundamental side not too many things have changed in Hungary. Inflation has moderated from 17.6% YoY in July to 16.4% YoY in August, which was only slightly higher than the market consensus. **Core inflation** is also on a downtrend, mainly driven by a moderation in price rises of processed food products and tradable goods. Finally there was also a somewhat slower price increase in market services. These developments confirm our view that the consumer price index may moderate to around 7% YoY at the end of the year, but concerns are remaining about the further drop of inflation next year. We maintain our view that **there is still a high risk that inflation may stuck around 5-6% YoY in 2024**, due to wage increases, excise duty hikes, probably a less favorable harvest than this year and a rebound in domestic demand.

Other key fundamental elements for the NBH are the stability and evolution of required risk premia from Hungary. The **Hungarian current account balance improves substantially faster than was expected at the beginning of the year**. The deficit of 8.2% of GDP in 2022 may moderate below 1% of GDP in 2023. Rating agencies confirmed Hungarian investment grade level with a stable outlook. Moreover, Moody's delivered quite a positive message about the developments of the Hungarian economy. One of the main risks are the ongoing debates with the EU and the need of fiscal adjustment for 2024.

Our feeling about the NBH is that **stability of the forint is important for the central bank as the spill-over effect of the exchange rate channel into inflation has jumped in the last two years. The experience of a faster than market expected rate cut in Poland underpins the view that a cautious and prudent monetary policy is warranted.** We maintain our view that NBH may cut the O/N deposit rate by 100bp to 13% in September. The chance of continuing the rate cutting cycle with the same speed has slightly increased although our base case remains that NBH may slow the cycle. We still prefer 50-50 bps cuts in October and November. In case inflation moderates below 10% YoY in November in line with our current expectation than the NBH may cut the base rate by 100bp in December. This would bring the year-end base rate at 11%.

How may it affect the exchange rate? We think that the main trading range for EUR/HUF may remain between 378-395 in the coming months. The more dovish Polish policy stance may help the forint to remain on the strong side of this range especially in case leading central banks' statements remain neutral. In case the forint starts to test levels around 375 against euro, it may support the view that the NBH may cut the base rate by 100bp in October as well, but in general we expect a cautious approach from NBH at least until the first single digit inflation has been published by the statistical office.

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		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
PL	09/15	10:00	CPI	%	08/2023 *F							0.0	10.1
CZ	09/18	9:00	PPI	%	08/01/2023							0	1.4
PL	09/18	14:00	Core CPI	%	08/01/2023							0	10.6
PL	09/20	10:00	PPI	%	08/01/2023							-1	-1.7
PL	09/20	10:00	Industrial output	%	08/01/2023							-8.5	-2.7
PL	09/20	10:00	Wages	%	08/01/2023							2	10.4
CZ	09/20	12:00	CZ bond auction 2022-2030, 5.00%	CZK B	09/01/2023					5			
CZ	09/20	12:00	CZ Bond auction 2023-2032, 4.50%	CZK B	09/01/2023					5.00			
CZ	09/20	12:00	CZ bond auction 2023-2034, 4.90%	CZK B	09/01/2023					3.0			
PL	09/21	10:00	Retail sales	%	08/01/2023							1.9	-4.0
PL	09/22	14:00	Money supply M3	%	08/01/2023								

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