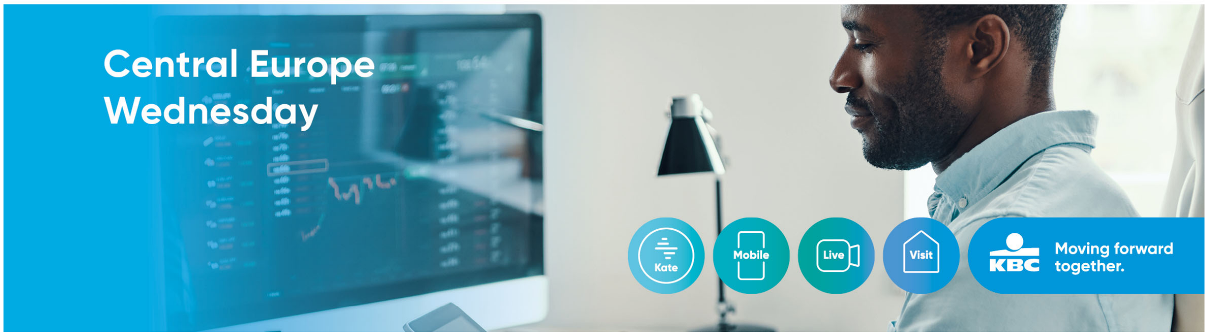
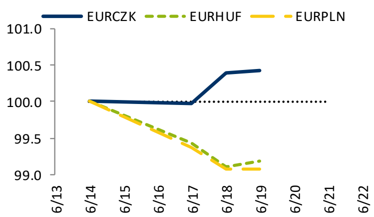


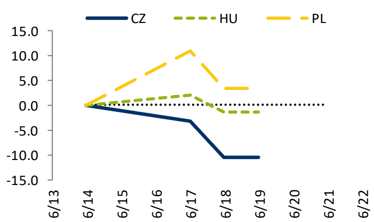
Wednesday, 19 June 2024

Forex markets (index)



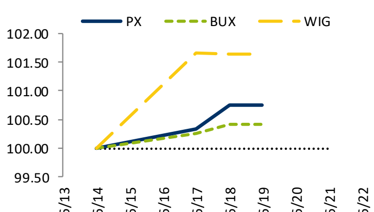
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.84	24.83	0.04
EURHUF	394.9	394.6	0.07
EURPLN	4.338	4.338	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.140	4.140	0.0
HUGB 10Y	6.87	6.87	0.0
PLGB 10Y	5.76	5.76	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1528.1	1528.1	0.00
BUX	69833	69833	0.00
WIG	85249	85249	0.00

Our regional insights:

The NBH cuts again, but could be set to pause

Yesterday, the National Bank of Hungary (NBH) moderated its base rate by 25bp from 7.25% to 7% in line with the expectations. The central bank has probably ended an era that started in May 2023. Since then the NBH cut the base rate every month (from the 18% level), but from now a pause seems to be an option as well.

The NBH also released a new Inflation report, but it contains only minor changes. The GDP forecast was kept unchanged – between 2-3% YoY for this year and 3.5-4.5% for 2025, while the inflation projection was revised downwards to average 3-4.5% for this year. It means a 0.5ppt lower range than in March report. For 2025 the forecasted inflation was left unchanged at 2.5-3.5% YoY.

The stance of the NBH statement and the following press conference was hawkish, despite of the improving inflation outlook. Three main topics explain it:

1) The lower inflation outlook for this year is mainly due to non-core elements. The unprocessed food and fuel prices have been lower in the previous months. The moderation of the core inflation may stop, and it is likely to accelerate to around 5% till the end of the year, which requires tight monetary policy conditions.

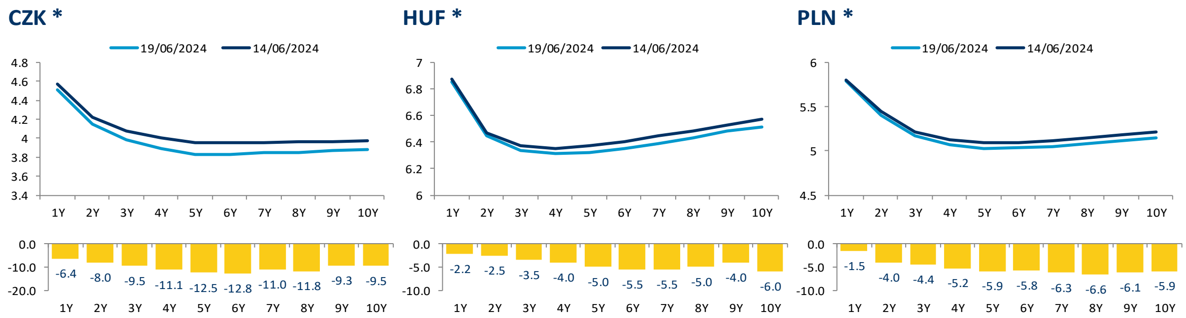
2) From the point of view of risk assessment, the achievement of the deficit targets in a targeted and disciplined manner is of key importance.

3) Global investor sentiment has deteriorated amidst significant turbulence, while volatility in European markets increased following the elections for the European Parliament. Based on market expectations, US interest rates may be higher for a prolonged period, reducing central banks' room for monetary policy manoeuvre in emerging markets.

The end of the Council's statement has been changed - the reduction of base rate has been left out while it speaks about the level of the base rate. The new phrase is: "The Council is constantly assessing incoming macroeconomic data, the outlook for inflation and developments in the risk environment, based on which it will take decisions on the level of the base rate in a cautious and data-driven manner." This sentence fits our expectations. We highlighted already before that the NBH may switch to (one) 25bps cut quarterly, meaning that two more 25-25bps rate cuts could come till the end of the year. Now, we see slightly higher chance for more than two cuts, as the inflation trajectory looks better than previously expected. Fiscal policy will be also a crucial point for further rate cuts. Not only the size of the fiscal adjustment, but also the structure of the fiscal adjustment will be important. May it have inflationary effect, will it be more expenditure-cut driven, will it be credible etc?

All in all, we expect a cautious NBH approach in the coming months, while risk premiums and the exchange rate evolution could play important roles too. Since we expect that headline inflation could moderate slightly in the summertime, it could create an extra cut opportunity for the NBH, especially if global market sentiment is supportive. We think that the NBH wouldn't like to see the EUR/HUF pair permanently above 400, rather it would like to see it in the range of 380-395 (base rate cuts are more likely below the 390 EUR/HUF level). Thus, we continue to expect the NBH base rate at 6.25% at the end of the year.

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
CZ	06/19	12:00	CZ bond auction 2023-2043, floating rate	CZK B	06/2024					1			
PL	06/20	10:00	Wages	%	05/2024							-1.6	11.3
PL	06/20	10:00	Industrial output	%	05/2024							-2.2	7.9
PL	06/20	10:00	PPI	%	05/2024							0.20	-8.6
HU	06/21	8:30	Wages	%, ytd.	04/2024								13.9
PL	06/24	10:00	Retail sales	%	05/2024							-1.8	4.1
PL	06/24	14:00	Money supply M3	%	05/2024							1.1	7.4
PL	06/25	10:00	Unemployment rate	%	05/2024							5.1	

Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias van der Jeugt	+32 2 417 51 94	**Brussels**	
Peter Wuyts	+32 2 417 32 35	Corporate Desk	+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95	Institutional Desk	+32 2 417 46 25
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
Prague Research (CSOB)		**Prague**	+420 2 6135 3535
Jan Čermák	+420 2 6135 3578	Prague (Equities)	+420 2 2142 4216
Jan Bureš	+420 2 6135 3574		
Bratislava Research (CSOB)			
Marek Gabris	+421 2 5966 8809	**Bratislava**	+421 2 5966 8820
Budapest Research			
David Nemeth	+36 1 328 9989	**Budapest**	+36 1 328 99 85