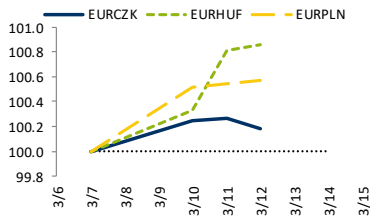


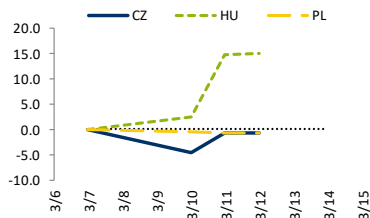
Wednesday, 12 March 2025

Forex markets (index)



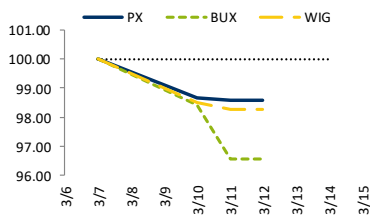
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.99	25.01	-0.08
EURHUF	401.7	401.6	0.05
EURPLN	4.203	4.202	0.03

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.333	4.333	0.0
HUGB 10Y	7.04	7.04	0.0
PLGB 10Y	5.96	5.96	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	2004.4	2004.4	0.00
BUX	85193	85193	0.00
WIG	91991	91991	0.00

Our regional insights:

Is a weak HUF to blame for Hungary's higher inflation?

Yesterday's release of Hungarian inflation showed that it accelerated further to 5.6% YoY in February from 5.5% YoY in January. The market expected some moderation to around 5.3% YoY due to base effects. Core inflation jumped more markedly from 5.8% YoY to 6.2% YoY.

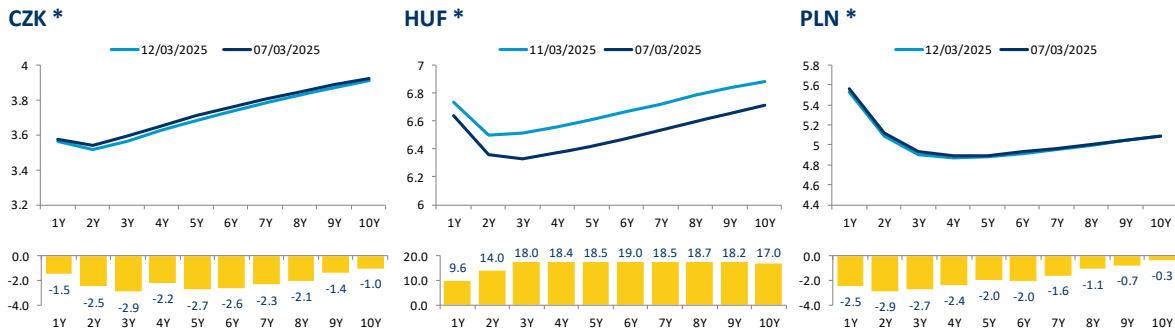
The main two drivers of the rise were food and services. Both increased by 1.2% MoM and so food inflation was 7.1% YoY, while services was 9.2% YoY in February. The increase of prices was wide based in both groups. The strengthening of the forint helped only to push down fuel prices, which decreased by 0.9% MoM, but in case of **durable goods the prices went up by 0.3% MoM, suggesting that forint weakening between 2024 October and 2025 January has been passed through to consumers and the last weeks of strengthening was not able to compensate.** Additionally, it shows that inflation might be more sensitive on HUF weakening than on strengthening. The base effect will be even bigger in March than it was in February, so it would be a huge surprise if inflation won't be able to moderate especially that fuel prices have dropped substantially during the last week, which might moderate inflation by 0.3%pt. Compared to the beginning to the year, it now looks like that CPI may not moderate into the tolerance range of NBH target in any month this year. The lowest reading might be in April, slightly below 4.5% YoY, but the uncertainty is high as the government has already said that a maximum profit rate will be implemented in case of 30 basic food products until May and longer if necessary. The experience from price caps is that it moderated inflation only for a limited time and in the end has the opposite effect, even accelerating food inflation. The government demand boosting programs also suggest that inflationary pressure may remain with us, so we see now average inflation slightly above 5% YoY in 2025, which is roughly 0.7-0.8%pt higher than we expected at the end of the year.

The NBH will publish its inflationary report in March and based on the recent developments it will have to increase its inflation staff forecast substantially. The **new governor, Mihaly Varga said at the beginning of the months that the NBH will remain cautious and there is no room for base rate cuts.** This statement and the February inflation figures confirm our view that there might be no rate change in the first half of the year and any rate move will highly depend on the Fed's decision during the autumn. Additionally, the probably more hawkish ECB may also limit the NBH's moves in the coming months. **We think that the NBH is still exchange rate sensitive, so it wants to avoid any substantial forint's weakening, and the Council might be happier with a EUR/HUF level between 390 and 400, which might bring some disinflationary process in the second half of the year.** So, all in all the next rate cut may come only in September based on the current outlook and one more in December to bring the NBH base rate at 6.0% at the end of the year.

The NBP on hold again

The Polish central bank meets today and, as usual, it is going to leave official interest rates unchanged at a 5.75% level. Polish inflation is still yet to peak this quarter, and it is quite likely that the MPC will not want to change monetary policy before the upcoming presidential elections held in May and early June.

Interest-rate Swap Curves



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	03/12	9:00	Industrial output	%	01/2025	-1.5	-0.6		-1.2		-3.0	
CZ	03/12	9:00	Construction output	%	01/2025			8.2			9.7	
CZ	03/12	12:00	CZ Bond auction 2023-2032, 4.50%	CZK B	03/2025				5			
CZ	03/12	12:00	CZ bond auction 2024-2033, 3.00%	CZK B	03/2025				5			
CZ	03/12	12:00	CZ bond auction 2021-2037, 1.95%	CZK B	03/2025				2			
HU	03/12	14:00	Minutes of the monetary policy meeting	NBH	03/2025							
PL	03/12	15:00	Policy rate	NBP	03/2025	5.75			5.75		5.75	

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