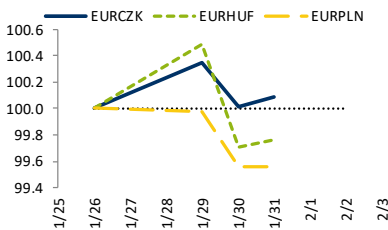


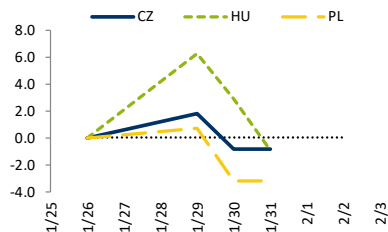
Wednesday, 31 January 2024

**Forex markets (index)**



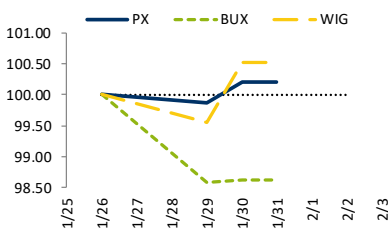
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.78	24.76	0.07
EURHUF	386.6	386.4	0.06
EURPLN	4.349	4.349	0.00

**Gov. bonds 10 Y (bps change)**



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.921	3.921	0.0
HUGB 10Y	6.22	6.25	-0.6
PLGB 10Y	5.37	5.37	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1450.5	1450.5	0.00
BUX	63214	63214	0.00
WIG	76072	76072	0.00

**Our regional insights:**

**The NBH cuts by just 75bps to keep the forint stable**

Yesterday, the National Bank of Hungary (NBH) cut the base rate by 75bps from 10.75% to 10%, surprising a market that expected a 100bps reduction.

The main reason of the smaller cut was clearly the turbulence on the HUF market taking place last week. **NBH vice governor Mr Virag highlighted on the press conference that the fundamentals have improved substantially which would allow a bigger cut, but they also focus on market stability and that required a more cautious approach. The Monetary Council discussed two options: a 75 bps and 100 bps cut.**

Regarding inflation, the NBH sees the disinflationary process continuing with consumer price inflation expected to moderate to around the NBH inflation target band by the summer. But Mr Virag highlighted that to secure price stability careful monetary policy was needed. He emphasized again the fast improvement of current account balance, monthly figures from the last quarter in 2023 suggests that C/A balance might be in surplus in 2023 vs the 8% deficit in 2022. Mr Virag also welcomed the successful foreign currency bond auctions in January. Both demand and pricing of these bonds were favourable and the AKK agency had already been able to issue a majority of its planned foreign currency needs for this year.

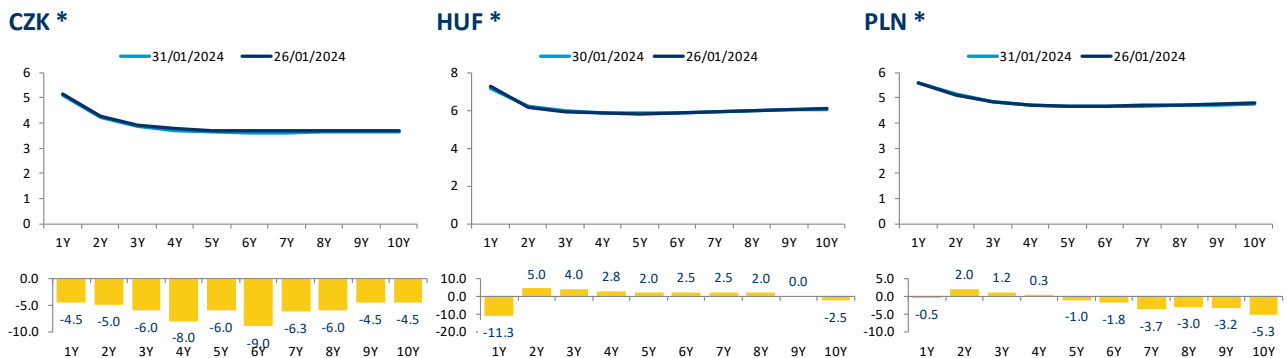
Looking ahead the NBH will remain data driven. Beside the macroeconomic fundamentals, like inflation, current account balance etc. they will monitor Hungary's relative position against interest rate developments in the region and the expectations of the domestic economic actors.

**We expect inflation to drop temporarily below 4% YoY during the spring. The C/A may remain slightly positive in 1H24, fully supporting a 100 bps cut on the February meeting.** But there are the risks, like a high budget deficit, ongoing confrontations with the EU, geopolitical risks and a possible later-than-recently expected start of the Fed and/or ECB easing cut cycle. All this means that the MPC's next decision might remain an open question until the last minute. The trend is clear however: the easing cycle may be continued through the summer as the NBH base rate can be moderated to the range of 6-7%. Whether it will be closer to 6% or closer to 7% depends on incoming data and global market sentiment.

One of these uncertainties may come to an end tomorrow (1st February): **will Hungary support the EU's EUR 50bn financing program for Ukraine or not?** Prime Minister, Mr Orban insists on an annual review, but the EU is sceptical as it opens the door for possible blackmail every year. There are plans that in case Hungary won't accept the financing program, a qualified majority of member states would take the Hungarian rotating presidency from 1 July and give it to Poland, which would follow us in the queue from January.

These political noises may maintain some volatility on the EUR/HUF forex market. Still, we maintain our view that the main trading range might remain between EUR/HUF 378 and 393 in the coming weeks. We see quite strong resistance levels between 380 and 383, which could be difficult to break through.

## 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	01/31	8:30	PPI	%	12/2023		-0.7	-7.2			-0.8	-6.6
CZ	01/31	10:00	Money supply M2	%	12/2023			8.3				7.9
PL	01/31	10:00	GDP	%	12/2023			0.2		0.5		5.1
PL	01/31	15:00	Budget balance	PLN M	12/2023							-42643
HU	02/01	8:30	Trade balance	EUR M	11/2023 *F							1718
HU	02/01	9:00	PMI manufacturing		01/2024							52.8
PL	02/01	9:00	PMI manufacturing		01/2024				48.1			47.40
CZ	02/01	9:30	PMI manufacturing		01/2024	45.0				43.2		41.8
CZ	02/01	14:00	Budget balance	CZK B	01/2024							-288.5

## Contacts

Brussels Research (KBC)		Global Sales Force	
Mathias van der Jeugt	+32 2 417 51 94	<b>Brussels</b>	
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
<b>Prague Research (CSOB)</b>		<b>Prague</b>	+420 2 6135 3535
Jan Čermák	+420 2 6135 3578	Prague (Equities)	+420 2 2142 4216
Jan Bureš	+420 2 6135 3574		
<b>Bratislava Research (CSOB)</b>		<b>Bratislava</b>	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
<b>Budapest Research</b>		<b>Budapest</b>	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

DISCOVER MORE ECONOMIC INSIGHTS AT [WWW.KBCECONOMICS.COM](http://WWW.KBCECONOMICS.COM)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

