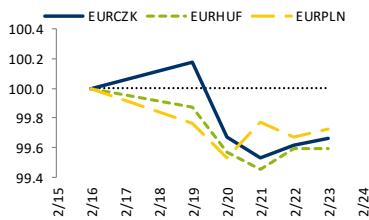


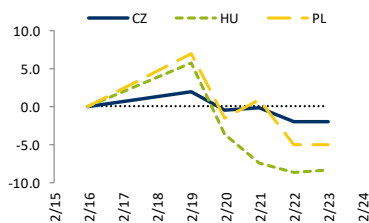
Friday, 23 February 2024

Forex markets (index)



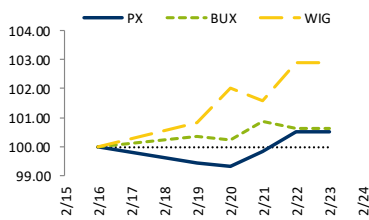
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.36	25.35	0.04
EURHUF	387.8	387.8	0.00
EURPLN	4.326	4.324	0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.678	3.678	0.0
HUGB 10Y	6.22	6.22	0.0
PLGB 10Y	5.38	5.38	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1497.1	1497.1	0.00
BUX	66185	66185	0.00
WIG	82465	82465	0.00

Regional insights

Another big Tuesday for the NBH and the forint

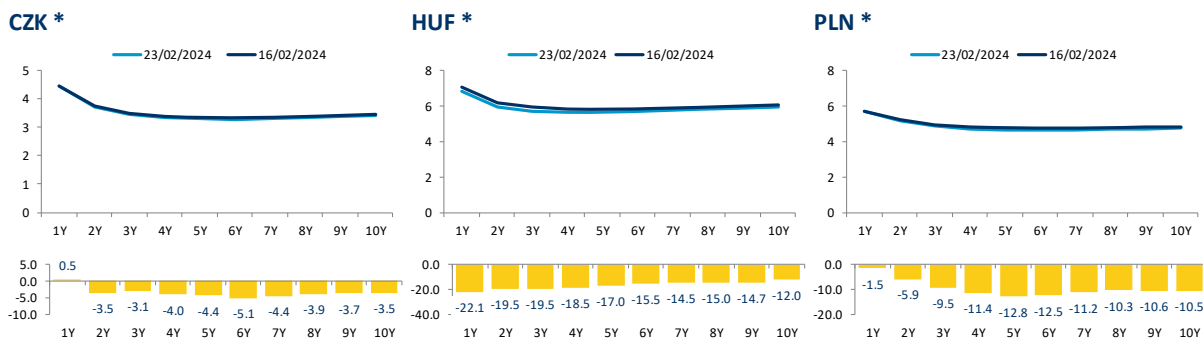
There's another interesting meeting from the National Bank of Hungary on Tuesday (Feb 27th). Last time, the Monetary Council discussed 75bps and 100bps rate cut options with the final decision being a 75bps rate cut from 10.75% to 10%. This time the market started to price in again a 100bps rate cut, but will the NBH deliver?

Vice governor Virag mentioned in an interview that the two options (75bps and 100bps cut) remain on the table and that the Council has to walk through all the positive and negative developments of the last weeks. Clearly the biggest positive development was the fast drop of headline inflation at the beginning of the year, from 5.5% YoY in December to 3.8% YoY in January. Core inflation dropped as well, but it remained above 6% YoY. Additionally the 3-month rolling core inflation started to accelerating in the last months. From a political perspective, the approval of Swedish NATO membership (which is expected for Monday, Feb 26th), could be support on forint. On the negative side there is the much higher than expected budget deficit figure, which might be around 6.5% of GDP in 2023, up from 6.2% of GDP in 2022 and is well above even the last official forecast of the government which was 5.9% of GDP (the original first target in summer 2022 was 3.5% of GDP). It implies that public debt has moderated only marginally from 73.9% of GDP in 2022 to 73.5% of GDP in 2023. The high deficit raises concerns about that to what level the government will moderate the deficit in 2024 (we expect around 4.9% of GDP deficit) and to what level the public debt could moderate (we expect marginal improvement). The trade balance recorded a negative figure for December, which suggests that the improvement of the trade balance might have stopped and so the current account balance might stabilize around zero. From the side of international environment, the situation has become less supportive as well. Both Fed and ECB easing cycles might markets hoped for in January. The Czech Crown depreciation after the Czech National Bank decision calls for a cautious approach from Hungary as well, if NBH would like to maintain a relatively stable exchange rate for the coming months.

All in all, we see substantially more reasons for keeping the 75bps rate cut pace for February and March. Additionally, Mr. Virag highlighted in the interview that investment was sluggish not because of the interest rate environment. Business surveys show that the main barriers to investment decisions are uncertainty about demand prospects and fears of inflation. The issue of the cost of financing is not amongst the 5 most frequently cited factors. Hungarian companies have more bank deposits than loans. That is why a sustained disinflation is key.

We maintain our view that the NBH may stick with a cautious approach by cutting the base rate by 75bps in both February and March. Afterwards, it might be moderated to 50bps steps in the period of April-June, bringing the base rate at 7% at the end of June. From that point, the NBH may switch to 25bps steps and cut the reference rate to around 6% by the end of the year. This level will highly dependent on the actions taken by Fed and ECB as well though and not only on the evolution of Hungarian inflation.

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
HU	02/23	8:30	Unemployment rate	%	01/2024		4.5		4.3		4.2	
PL	02/23	10:00	Unemployment rate	%	01/2024		5.4		5.4		5.1	
HU	02/27	14:00	NBH meeting	NBH	02/2024				9.0		10.00	
CZ	02/28	9:00	PPI	%	01/2024						-0.5	1.4
CZ	02/28	12:00	CZ Bond auction 2023-2032, 4.50%	CZK B	02/2024				4.0			
CZ	02/28	12:00	CZ bond auction 2022-2035, 2.50%	CZK B	02/2024				3.0			
CZ	02/28	12:00	CZ bond auction 2021-2037, 1.95%	CZK B	02/2024				2.0			
HU	02/29	8:30	PPI	%	01/2024						-0.7	-7.2
CZ	02/29	10:00	Money supply M2	%	01/2024							8.3
PL	02/29	10:00	GDP	%	4Q/2024 *F						0.0	1.0
PL	02/29	15:00	Budget balance	PLN M	01/2024						-85566	

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