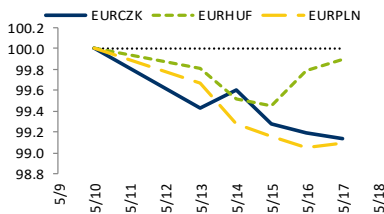


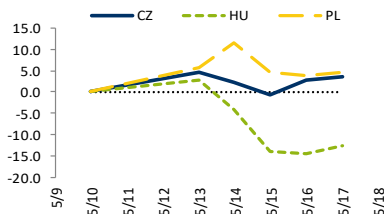
Friday, 17 May 2024

Forex markets (index)



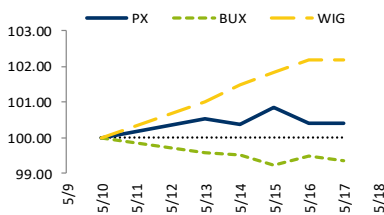
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.70	24.71	-0.05
EURHUF	387.2	386.8	0.11
EURPLN	4.260	4.258	0.04

Gov. bonds 10Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.092	4.084	0.8
HUGB 10Y	6.66	6.64	0.3
PLGB 10Y	5.64	5.63	0.1

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1556.7	1556.7	0.00
BUX	68756	68855	-0.14
WIG	88385	88385	0.00

Regional insights

NBH's meeting preview: another 50bps cut

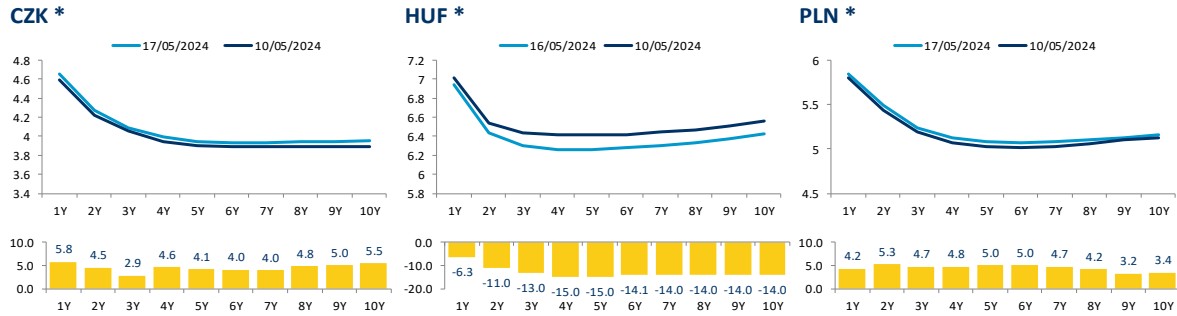
The National Bank of Hungary holds its next rate-setting meeting on May 21st (next Tuesday). Recall that last time Monetary Council cut the base rate by 50bps from 8.25% to 7.75%, which was in line with the market expectation and fit into the message what it delivered before: the rate cut cycle would be slowed down and the base rate might be in the range of 6.5-7% at the end of June. At the same time the NBH gave less forward guidance. It emphasized that a careful and patient approach of monetary policy required in the coming months, and decision will be influenced by the new incoming data and the global risk-taking environment. During the last months, macro figures were more or less in line with expectations. Inflation slightly increased from 3.6% YoY in March to 3.7% YoY in April. The market services prices increase still close to 10% YoY, while food and tradable goods prices slow. Inflation is expected to jump around 4.3% YoY in May, followed by some moderation back to below 4% YoY in August, but it may accelerate close to 5.5% YoY by the end of the year during 4Q24. Economic growth was slightly better than expected in 1Q24 (0.8% QoQ expansion vs. 0.5% QoQ forecast), which confirms the view that the Hungarian economy left behind the recession period, and we may see a gradual acceleration of the GDP growth during the year. It also suggests that the labour market may remain relatively tight resulting a net real wage growth of around 8-10% YoY in 2024. It may bring a gradual acceleration of domestic demand, which maintain some inflationary pressure.

From the side of external environment and risk-taking willingness, the circumstances were rather positive for Hungary. EUR/HUF fell below 390 against euro (so to HUF's strongest level since February) and below 360 against the USD. The yield curve dropped by roughly 60bps along the curve and the market has priced in 50bps cut for May.

The fiscal situation is still the weakest point of the macro fundamentals. Although the government announced that they postpone some public spending, the deficit might remain above 5% of GDP in 2024 (down from 6.7% of GDP in 2023). The government may come with further fiscal policy adjustment after the European parliamentary and local municipality election (hold on 9th June), which would be monitored by the rating agencies as well. S&P left Hungarian rating at BBB-, with stable outlook, and they forecast 5.3% of GDP deficit for 2024, which could moderate to 4.2% of GDP in 2025, but in case fiscal situation will be worse, they may downgrade Hungary's rating.

All in all, we maintain our view that the NBH may cut the base rate by 50bps in May from 7.75% to 7.25%, but the (next) June meeting is more questionable. One reason is that CPI may jump substantially. Another that the NBH comes out with its new inflationary report, which could deliver strong arguments towards slowing the rate cut cycle further. Additionally, Hungary's risk premium is also shrinking compared to ECB, Fed and Polish base rate. In case forint remains relatively strong in the range of 380 and 390, additionally yield remain around its current levels, it increases the probability for a final 50bps rate cut for June. We maintain our view that the NBH may cut base rate by 25-25bps quarterly in 2H24 due to the increasing inflation towards the end of the year and because of the cautious approach due to the uncertain global sentiment. A structural adjustment of fiscal policy or a less hawkish Fed could be the two main drivers of more rate cuts in 2H24. Right now we expect the NBH base rate at around 6.5% 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	Unit	Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	05/20	9:00	PPI	%	04/2024							-0.1	0.0
HU	05/21	14:00	Policy rate	NBH	05/2024	7.25				7.25		7.75	
PL	05/22	10:00	Wages	%	04/2024							5.4	12.0
PL	05/22	10:00	Industrial output	%	04/2024							3.6	-6.0
PL	05/22	10:00	PPI	%	04/2024							-0.1	-9.6
CZ	05/22	12:00	CZ bond auction 2023-2043, floating rate	CZK B	05/2024					1			
HU	05/23	8:30	Wages	%, ytd.	03/2024								14.1
PL	05/23	10:00	Retail sales	%	04/2024							14.20	6.1
HU	05/24	8:30	Unemployment rate	%	04/2024							4.4	
PL	05/24	14:00	Money supply M3	%	04/2024							-0.3	6.6

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		
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Jan Bureš	+420 2 6135 3574				
Bratislava Research (CSOB)			Bratislava		
Marek Gabris	+421 2 5966 8809				+421 2 5966 8820
Budapest Research			Budapest		
David Nemeth	+36 1 328 9989				+36 1 328 99 85

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