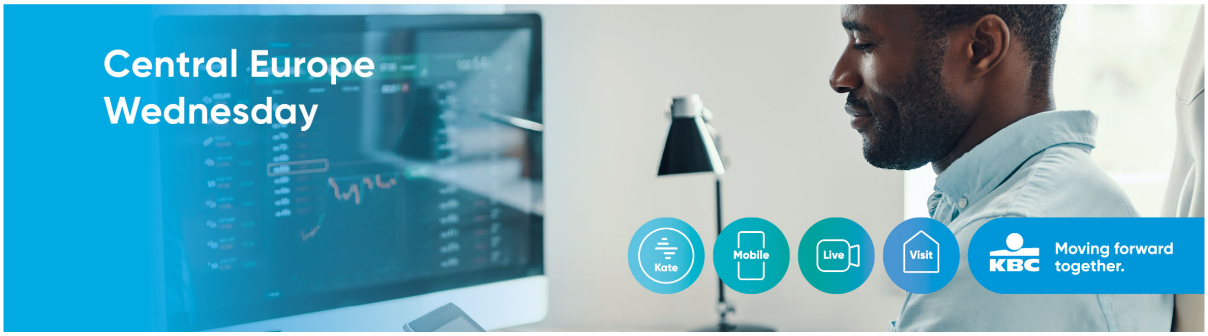
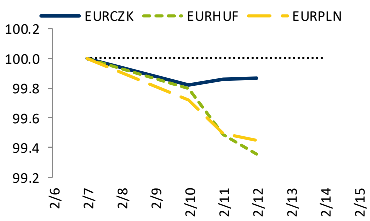


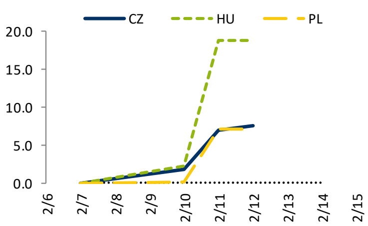
Wednesday, 12 February 2025

Forex markets (index)



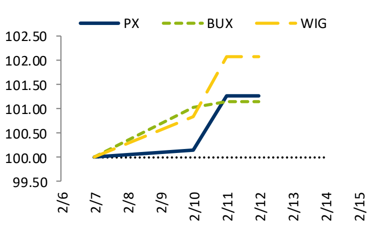
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.09	25.09	0.00
EURHUF	402.8	403.3	-0.13
EURPLN	4.172	4.174	-0.05

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.975	3.969	0.6
HUGB 10Y	6.74	6.74	0.0
PLGB 10Y	5.88	5.88	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1940.4	1940.4	0.00
BUX	87714	87714	0.00
WIG	90993	90993	0.00

Our regional insights:

Upside surprise on inflation forces NBH to be hawkish

Yesterday, the Hungarian Statistical Office released inflation figure for January, which was a big surprise. It reached 5.5% YoY (up from 4.6% YoY in December and well exceeding 4.9% YoY consensus expectation). In particular the core inflation figure of 5.8% YoY (up from 4.7% YoY in December), brought back expectations that inflation in Hungary would be sticky. In the second wave we could see it well above 4% in 2025. In particular, market services prices were shocking, with the highest monthly price increase dynamics in recent years (2.4% according to NBH calculations). That was partly due to the fading of the autumn promotions in the telecoms sector, but a number of services have become significantly more expensive since the beginning of the year, including restaurants, canteens, school canteens, newspaper and magazine subscriptions, rents, renovation and cleaning costs and health services. Another important factor is the new minimum wage and guaranteed minimum wage agreement, which was approved already at the beginning of December 2024, which could pass on consumers earlier. It will be particularly interesting to see whether the price hike in January will be followed by a more modest one in February and March especially since there are some promotions at the beginning of the year in telecom sector which could then curb the monthly increase in prices.

For food, where price changes are most felt by consumers on daily basis, there has been a rise in prices (2.2% MoM) this year above the average monthly increase in January over the past 10 years (1.5% MoM), which may be somewhat mitigated by the strengthening of the forint in recent weeks. On the other hand, industrial goods could still provide an upside surprise, as old inventories (from autumn in last year) run out and new ones coming in at a higher EUR/HUF exchange rate, which could still push prices up in February-March.

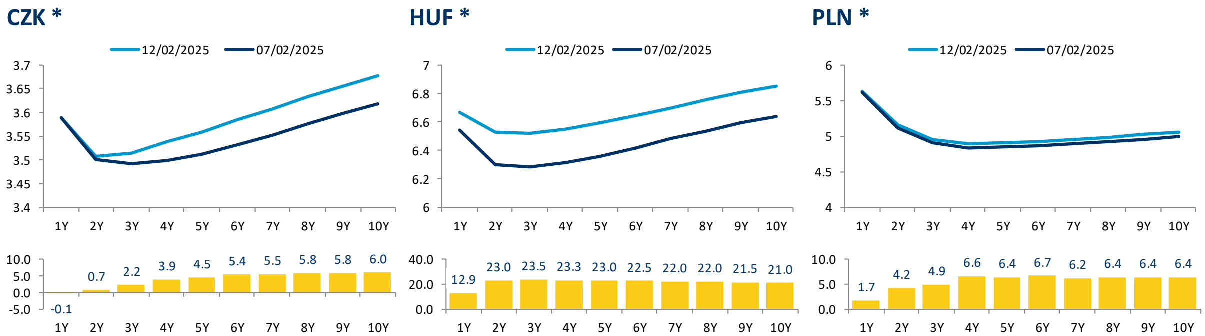
In the medium term, the government's stimulus programs (substantially boosting consumption) may keep inflation stuck in the 4-5.5% range this year, with average annual inflation in the range of 4.5-5% in 2025. The NBH latest forecasts in the Inflationary Report in December stood at 3.3-4.1% YoY. In addition, upside risks are the continued rise in energy prices, especially gas prices, in recent months and the risk for a tariff war. At the same time, downside risks are a potential peace deal on the Russian-Ukrainian front, especially through energy and commodity prices, which would improve the inflation outlook. It would be important for peace to be reached before gas storage capacity is filled up, i.e. in the spring, otherwise the expensive energy that is being stockpiled will continue to weigh on corporate costs even into the winter.

A further strengthening of the forint could help to slow inflation. In this case, an important guideline is that in 2024 the annual average forint exchange rate was around 395 against the euro, while this year the average so far is around 410, so despite the current forint appreciation, we can still talk about a 3-4% weaker forint, which could raise inflation by up to 1 percentage point. Clearly, levels below 400 would be needed to eliminate the impact of exchange rate depreciation.

Inflation is expected to slow in the coming months, moderating to around 4% in April. If the positive risks mentioned above do not materialize, we could see this year's low in April and we could see rates closer to 5% in the second half of the year.

Regarding monetary policy it suggests that the NBH will maintain a hawkish stance, excluding the possibility of rate cut in the near future despite the strengthening HUF, but neither do we expect a rate hike as Hungary has still positive real interest rate both backward and forward looking. February and March figures will play key importance, because if we see further deterioration of inflation orbit it could result in a rate hike later in the year. Or base case scenario changed due to the high inflation figure, and we expect now maximum one or two rate cuts for this year in 2H25.

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	02/12	9:00	CPI	%	01/2025 *F			1.3	2.8	1.3	2.8	1.3	2.8
CZ	02/12	12:00	CZ bond auction 2024-2033, 3,00%	CZK B	02/2025					5			
CZ	02/12	12:00	CZ bond auction 2024-2036, 3.60%	CZK B	02/2025					4			
CZ	02/12	12:00	CZ bond auction 2024-2044, 4.00%	CZK B	02/2025					1			
HU	02/12	14:00	Minutes of the monetary policy meeting	NBH	01/2025								
PL	02/13	10:00	GDP	%	4Q/2024 *P						3.3	-0.1	2.7
CZ	02/13	10:00	Current account	CZK B	12/2024					6.45		30.01	
PL	02/13	14:00	Current account	EUR M	12/2024					-1464		-521	
PL	02/13	14:00	Trade balance	EUR M	12/2024					-1980		-1646	
PL	02/14	10:00	CPI	%	01/2025					0.7	5.0	0	4.7
CZ	02/14	10:00	Minutes of the monetary policy meeting	CNB	02/2025								

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