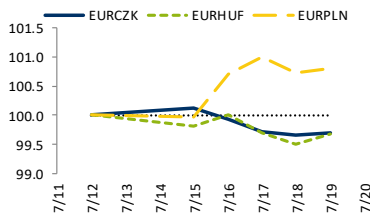


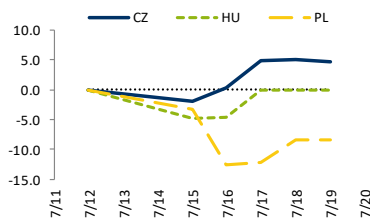
Friday, 19 July 2024

Forex markets (index)



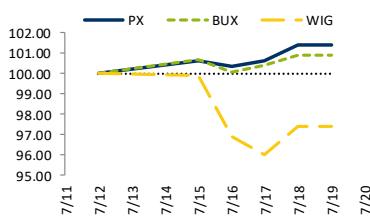
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.26	25.25	0.04
EURHUF	390.7	390.1	0.16
EURPLN	4.289	4.286	0.07

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.919	3.923	-0.4
HUGB 10Y	6.45	6.45	0.0
PLGB 10Y	5.57	5.57	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1612.5	1612.5	0.00
BUX	72900	72900	0.00
WIG	86413	86413	0.00

Regional insights

NBH's meeting preview: 25 bps rate cut

The National Bank of Hungary (NBH) has a rate setting meeting on Tuesday (23rd July). Although it looked to be an easy call (status quo), the situation has changed during the last days.

NBH's Vice Governor, Mr Virág said at an event on Monday (15th July) that the structure of inflation has changed, mainly services are pulling inflation, and we see this in other countries as well. According to him, inflation is likely to remain around the tolerance band in the second half of the year, with higher-than-historical average repricing. He points out that according to some analyses, annual inflation could be as high as 5% by the end of the year, but this would require a repricing rate twice the historical average. For this reason, he believes inflation could be closer to 4% than 5%. He emphasized again that we should not sit back, nor celebrate a premature victory over inflation. The main objective is to achieve the inflation target, which requires a tight and prudence monetary policy.

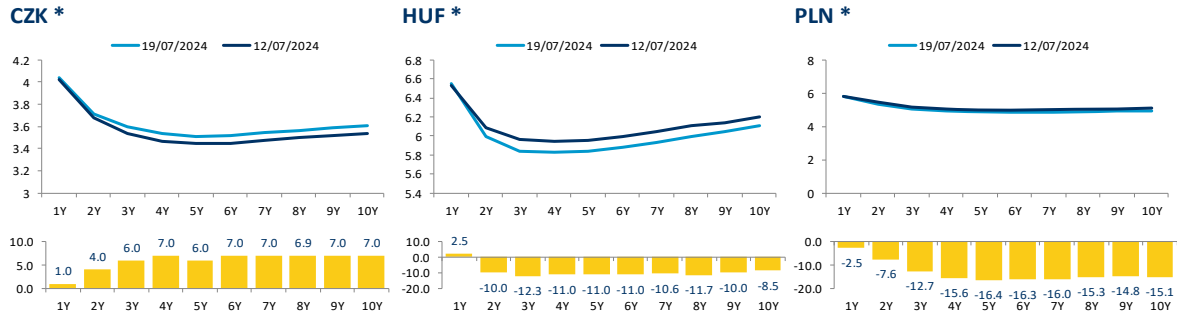
A new era in monetary policy has begun, with the central bank taking decisions month by month. Inflation expectations need to be anchored, which requires an appropriate level of real interest rates. According to Virág, 2 or 3 rate cuts by the end of the year are realistic, but the NBH needs more incoming data to judge the developments, while the July rate cut is an absolutely open question.

How we see the inflation development is that the latest inflation figure for June was in line with expectation. The headline figure moderated to 3.7% YoY from 4% YoY, while core inflation increased from 4% YoY to 4.1% YoY, which shows that food and energy are the two main reasons driving down headline inflation while at the same time it suggests that there is still some upward pressure in underlying inflation. We don't fully share the view of Mr Virág that inflation could be closer to 4% YoY at the end of the year. We expect headline inflation to be around 4.8-4.9% YoY at the end of the year.

On the other hand, the NBH may judge positively that the government announced fiscal consolidation. At the same time yields moderated along the curve during the last weeks. The forint appreciated from 398 levels to 390 against the euro, which is definitely a comfortable level for the NBH.

So as a conclusion we think that the NBH may cut the base rate by 25bps next week from 7% to 6.75%, but we maintain our year-end base rate forecast at 6.25%, so it means a shift of one rate cut from August to July in our forecast and we expect a cut for September and one more for the December as well.

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
PL	07/22	10:00	Retail sales	%	06/2024						-0.1	5.0
PL	07/22	14:00	Money supply M3	%	06/2024						1.0	8.0
PL	07/23	10:00	Unemployment rate	%	06/2024						5.0	
HU	07/23	14:00	Policy rate	NBH	07/2024						7.0	
HU	07/24	8:30	Wages	%, ytd.	05/2024							13.5
CZ	07/24	12:00	CZ bond auction 2024-2033, 3.00%	CZK B	07/2024				4.0			
CZ	07/24	12:00	CZ bond auction 2024-2036, x.xx%	CZK B	07/2024				4.0			
HU	07/26	8:30	Unemployment rate	%	06/2024						4.3	

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