

Hungary: Passive central bank won't help the forint

We expect the National Bank of Hungary meeting today to be a non-event. That could be bad for the forint



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➔ USD: Benefiting from bad news elsewhere, domestic data remaining solid

The US dollar has been outperforming Asian FX overnight (both emerging markets and G10 currencies) as the modestly below consensus China April PMIs weighed on regional FX. Still, with the China forward-looking indicators remaining in expansionary territory (above the 50 level), this suggests no meaningful or prolonged negative effect on local currencies, or a negative spillover into wider market sentiment. On the US front, even though the March core US PCE deflator turned somewhat softer yesterday, the strength in the underlying activity (ie, March personal consumption) suggests no urgent need for the Federal Reserve to cut interest rates this year, in turn keeping the attractive US dollar interest rate differential vs the rest of the G10 FX in place. USD to stay supported.



EUR: Another soft reading

Our economists look for a below consensus eurozone 1Q GDP growth of 0.2% quarter-on-quarter (consensus 0.3%). Expectations for a rebound in GDP growth, after lacklustre growth at the end of 2018, have faded as business surveys have been worryingly weak in the first few months of the year. This in turn suggests some modest downside risk to EUR/USD today, with the pair being already heavily weighed down by disappointing eurozone data over the past few months. EUR/USD to converge towards the 1.1100 level today. Weaker EUR/USD due to the softer eurozone data should be also modestly negative for central and eastern FX today.

📌 PLN: Stabilising CPI but further acceleration in prices in coming months

In Poland, our economists expect CPI to stabilise in April at 1.7% year-on-year. But prices should continue accelerating into the summer and get close to the 2.5% central bank target. To the extent to which this induces markets to price in some marginal rate increases next year, this should be partly supportive for the zloty. For today, PLN may struggle due to the likely softer eurozone 1Q GDP.

📌 HUF: Passive NBH raising question marks about its credibility

Despite the upside surprise in Hungarian March inflation data and the recent advance in oil prices, we expect the National Bank of Hungary meeting today to be a non-event. The central bank made it clear in March it doesn't intend to change monetary policy until there are new staff projections for decision-makers (to come at the June meeting). This may, in turn, disappoint those who look for any reaction from the NBH towards the rising CPI today and thus be negative for the forint, as the NBH's inflation-targeting credibility could be questioned once again. This momentum should gain traction again next week, when April headline CPI (next Thursday) should be close to 4.1% YoY and core CPI around 4.0% YoY. We target EUR/HUF 329 next month.

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