

March inflation numbers in Hungary and the Czech Republic may restore rates momentum

Inflation in the eurozone and Poland reached record highs in March, surprising markets massively. The experience of recent months suggests that we can expect a similar story in Hungary and the Czech Republic. Despite the fact that market expectations have shifted significantly upwards in recent weeks, we believe there is still room to grow

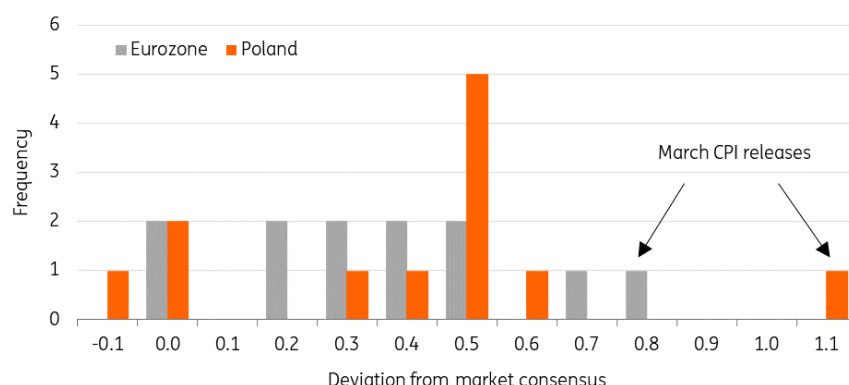


Czech inflation has fallen into single digits

Eurozone and Poland see record upside surprise in inflation for March

Recently-released March inflation data in the [eurozone](#) and [Poland](#) showed a massive surprise compared to market expectations. In the eurozone, year-on-year inflation amounted to 7.5% from the previous 5.9%, surprising the markets by 0.8pp. In Poland, March inflation reached 10.9% from the previous 8.5%, beating market expectations by 1.10pp. In both cases, the latest readings and the market surprises reached multi-year, or even all-time highs.

March inflation numbers surprised massively



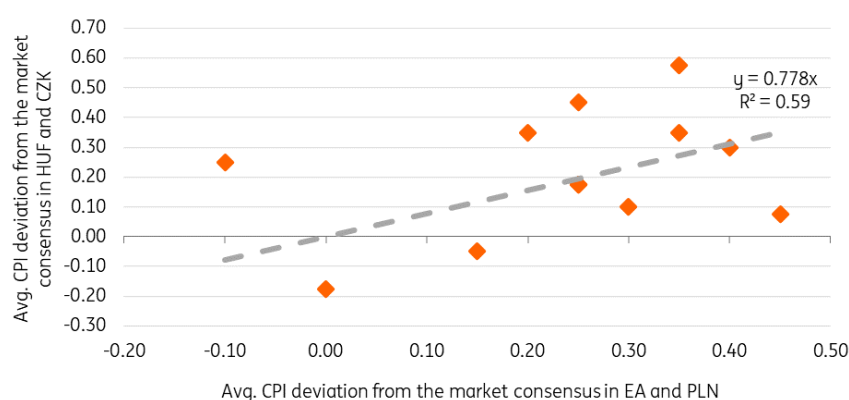
Source: Refinitiv, ING

The same story can be expected in Hungary and the Czech Republic

In the coming days, inflation figures will be published in Hungary (8 April) and in the Czech Republic (11 April). Based on the experience of recent months and the nature of common inflationary pressures, we believe that we may see a significant upside surprise in inflation in these countries as well. March is the first month fully affected by the Ukrainian conflict, higher energy, oil and food prices. Added to this are the Central and Eastern Europe region-specific inflationary pressures in the core component, which together make inflation hard to gauge these days.

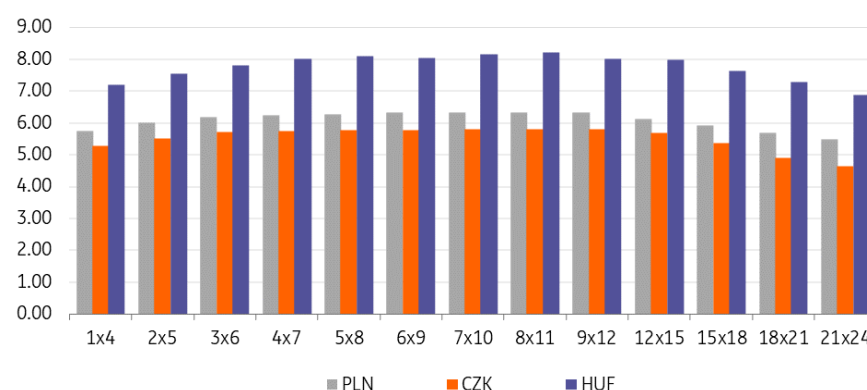
In Hungary, the market consensus expects an increase from 8.3% to 8.8%. Our economist Peter Virovacz in Budapest expects 9.1%, but even higher figures are realistic in his view. In the Czech Republic, the market consensus has not yet been published, but we believe that expectations will be in the range of slightly above 12%. In our view, however, it is not impossible that inflation will be closer to 13%.

Eurozone and Polish figures imply surprises in Hungary and the Czech Republic



Source: Refinitiv, ING

Market implied policy rates in Central and Eastern Europe



Source: Refinitiv, ING

Market view: still room for market rates go higher

Although market expectations have moved up massively in recent weeks, we still think there is room to go higher. In Hungary, the market currently expects a terminal rate of slightly above 8%, which is within reach of our forecast of 8.25%. In the Czech Republic, the situation is similar with a level of 5.75%. On the other hand, in both cases, a further upward shift in [our forecasts](#) cannot be ruled out and for the markets, further surprises in inflation will mean expecting a peak in the tightening cycle at higher levels either temporarily or permanently. More and more we are being asked whether the current levels of the IRS curves in both these countries are already too high and it is time to turn the rudder. We agree that a peak is coming, but we are not there yet and inflation numbers in the coming days may again send a hawkish signal, restore momentum and push market pricing even higher.

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.