National Bank of Hungary preview: A copy-paste of January

We think it is too early for the Hungarian central bank to recalibrate and expect it to wait for new economic staff projections in March. The rate hike cycle should continue in February with a copy-paste decision from January. This should not induce a major change in FX and rates markets

National Bank of Hungary in Budapest

+50bp

ING's call

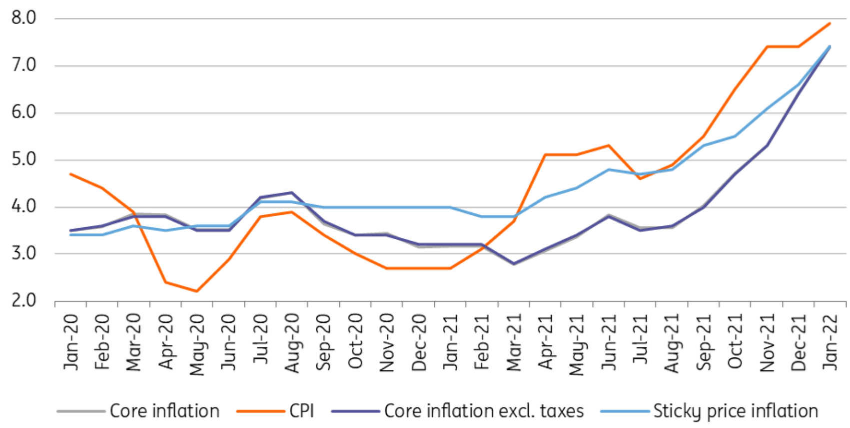
Change in the base rate

The rationale behind our call

GDP growth in the fourth quarter came in at 2.1% quarter-on-quarter - a major upside surprise. With the carry-over effect being much stronger into 2022, and taking into consideration the first quarter fiscal impulse, we could easily see this year's GDP growth at slightly above 6%.

The central bank's December inflation report called for headline inflation to peak in November. However, actual price pressures have increased further, showing a 7.9% year-on-year reading in January. It is clear that the last official outlook is already outdated, but we don't think that the National Bank of Hungary will be in a rush to undergo a shift in its monetary tightening strategy without a new comprehensive economic projection. This will be at the central bank's disposal only in March.

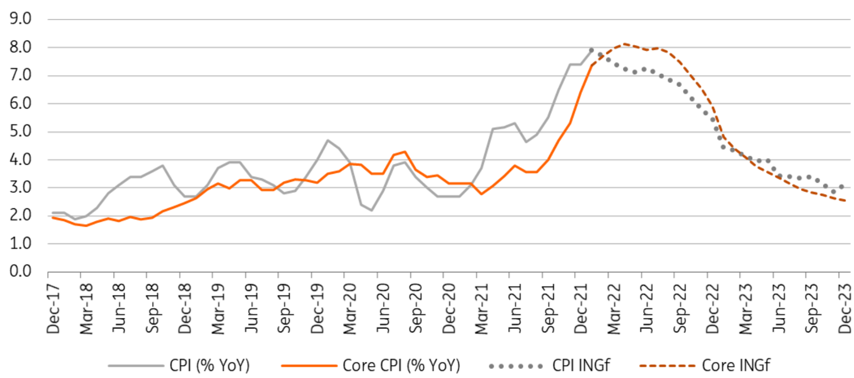
Hungarian inflation indicators (% YoY)



Source: HCSO, NBH, ING

Nonetheless, the market is moving its inflation and rate hike expectations higher and we are no exception. We see this year's average CPI at 6.8% year-on-year -a remarkable upside revision. This stems from the January surprise in price changes as well as from the much stronger economic activity expected during 2022. Moreover, anecdotal evidence and surveys are pointing towards heightened inflation expectations of households and the willingness of corporates to raise prices further.

Inflation forecast of ING (% YoY)

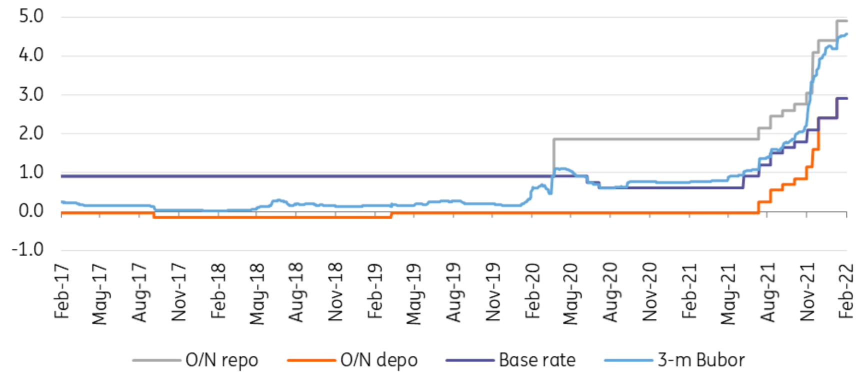


Source: HCSO, ING

In such an environment, we expect the central bank to continue the rate hike cycle with another

50bp rise, affecting the base rate and the interest rate corridor. Meanwhile, we see a 30bp hike in the one-week deposit rate later in the week. This will be a copy-paste of the January decision. But this will be complemented by more hawkish rhetoric. We think the central bank's forward guidance could open up the possibility of speedier tightening, suggesting an even higher terminal rate, which we now see in the range of 6.20-6.50%, depending on the February inflation reading.

The main interest rates in Hungary

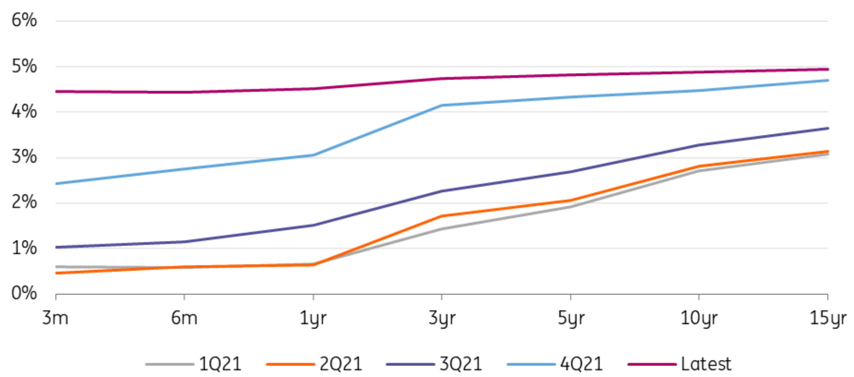


Source: NBH, ING

What to expect in FX and rates markets

There is too much noise out there (e.g., looming Federal Reserve hike, geopolitical tensions), thus we don't expect the February rate-setting meeting to be a game-changer for the EUR/HUF in the short run. For now, 355 will remain an anchor, especially if the central bank commits to doing more based on its incoming forecast update in March, if warranted. However, as we approach the general election (3 April), we see uncertainty resulting in heightened risk aversion regarding the forint. This could push EUR/HUF temporarily back to the 365 area again, despite the ongoing tightening cycle.

Hungarian yield curve



Source: GDMA, ING

We don't see a significant chance that the NBH will under-deliver on recent rate hike expectations. Based on money market trades, the market expects the tightening cycle to top out at 6% in about six months. We expect the base rate and the effective rate (one-week deposit rate) to peak somewhere in the 6.20-6.50% area. It could be closer to the top of our range should February inflation surprise on the upside again. This means that both the short and the long end of the yield curve will move up further (the former to a greater extent).

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