

National Bank of Hungary preview: It begins now!

While the National Bank of Hungary tends to err on the side of caution, we believe that all the boxes have now been ticked and that we are heading into a rate-setting meeting that will deliver the first rate cut since September 2024. This won't be a one-off move, and we anticipate further easing during this year



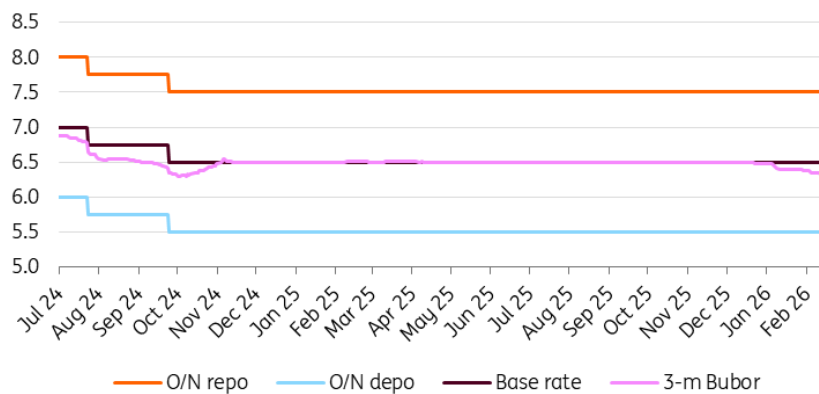
NBH Governor, Mihaly Varga, speaking last month

Our call

We believe that the National Bank of Hungary (NBH) is ready to pull the trigger, cutting the base rate by 25bp to 6.25% on 24 February. All the important metrics and market developments suggest that this is imminent. This move would end the 16-month period without a rate change. Alongside the cut in the main interest rate, we expect the +/- 100bp interest rate corridor to shift lower in line with the base rate adjustment.

Looking further ahead, if our short-term inflation and FX forecasts are correct, we believe there may be scope for another 25bp rate cut in March. The general election on 12 April will then have a strong influence on what happens next. However, if price and market stability prevail, we anticipate one or two further rate cuts before the end of 2026.

The main interest rates (%)



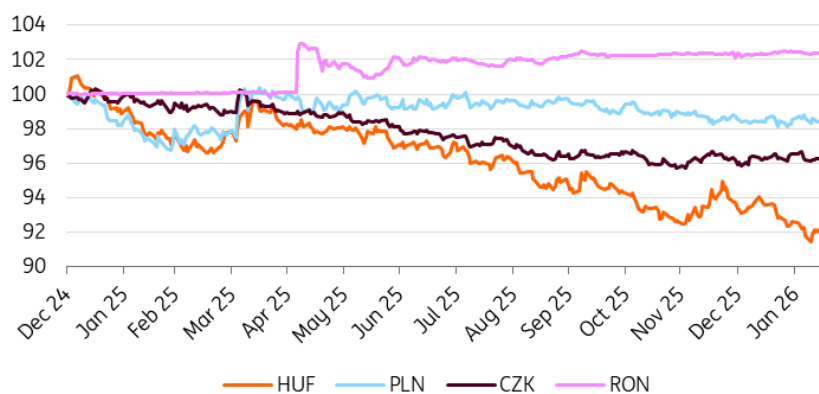
Source: NBH, ING

Our market views

The forint tests new highs ahead of the NBH cutting cycle restart, supported by global risk-on sentiment for EM currencies but also market pre-election positioning. EUR/HUF near two-year lows clearly gives NBH the green light to cut rates. At the same time, given the fully priced-in two cuts for the next couple of meetings in February and March, and more later, it suggests that the forint should not be too damaged next week if the central bank indeed delivers a rate cut.

At the same time, the market has repeatedly shown its intention to fade any upward correction in EUR/HUF, and we therefore believe that any weakness in the forint could serve as an opportunity for new long positions. Still, rate cuts are a negative signal for carry, and we expect that although we may see more gains before elections in April, the further path of EUR/HUF down will be lower.

CEE FX performance vs EUR (end-2024 = 100%)

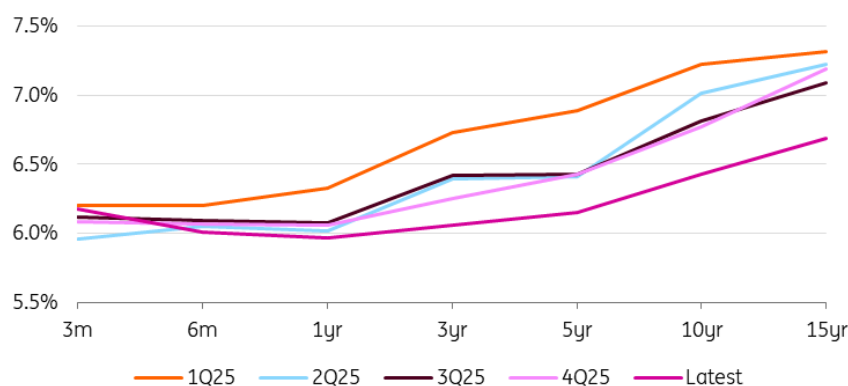


Source: NBH, ING

Rates and bonds have also seen a strong rally in recent weeks, but it was only Monday's (16 February) move that broke through this year's ranges. The very front-end of the curve may seem done with around 100bp of easing priced in for this year. On the other hand, the market has only just begun to unwind some of the fiscal premium at the long end, as it no longer anticipates any

new fiscal measures from the government before the April elections. Investors had expected such an announcement in PM Orbán’s “State of the Nation” address on 14 February.

Hungarian yield curve



Source: GDMA, ING

At the same time, the sub-par economic performance and a stronger FX suggest weaker inflation in the longer term. Therefore, we expect the belly and long-end of the curve to continue to perform well overall. Paradoxically, restarting rate cuts may not lead to the generally expected steepening of the curve, and after the recent flattening, we are rather neutral on its shape.

The background

As expected, the NBH kept its key interest rate at 6.50% in January. The interest rate corridor remained in place, maintaining a range of +/- 100bp around the base rate. In line with the data-driven approach, the upside surprise in the December inflation figures (mostly in services) prompted the central bank to keep the rate on hold. The post-decision communication emphasised the importance of start-of-year repricing, especially in services, and FX stability as grounds for a possible rate change.

✓ The inflation outlook has improved

[Inflation in Hungary](#) was broadly in line with our sub-consensus expectations in January, falling well below the central bank’s target. On top of that, the favourable trend also continued in the monthly repricing pattern. The structure also shows some improvement, with services inflation being lower than usual in the first month of the year. Furthermore, the government has extended the price shield measures by another three months, with the scheme due to end in May. The only caveat is that commodity prices have shown mixed changes, with oil rising, though gas prices peaked since the previous rate-setting meeting and are now falling again.

✓ The forint has shown further strengthening

The Monetary Council has emphasised the importance of FX stability several times. Since the January interest rate decision, the EUR/HUF exchange rate has tested the 376.6 resistance level. Although it failed to break through that floor at first, the market seems bullish on Hungary. As investors continue to pour money into emerging markets this year, EM currencies have been more stable than those in developed nations. This clearly favours a continued support trend for the

Hungarian forint, with the carry trade remaining favourable even if cuts are on the horizon.

The market is well positioned for a rate cut

Speaking of which, the market clearly accepts the idea of an easing cycle. Based on money market pricing, a series of 25bp rate cuts has already been factored in for the next couple of months. If the Monetary Council does not want to surprise the markets and the signalling of money markets is important to monetary policymakers, this kind of market pricing should guide the central bank towards a rate cut in February and March.

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