

National Bank of Hungary preview: unchanged pace of tightening

Incoming data don't sharply contradict the central bank's March forecast. We see a maintained pace of tightening, hiking the base rate and the 1-week deposit rate by 100bp and 30bp, respectively. Even with hawkish forward guidance, we don't envision a marked Hungarian forint strengthening, but we see room for higher market rates



The National Bank of Hungary in Budapest

+100bp

ING's call

Change in the base rate

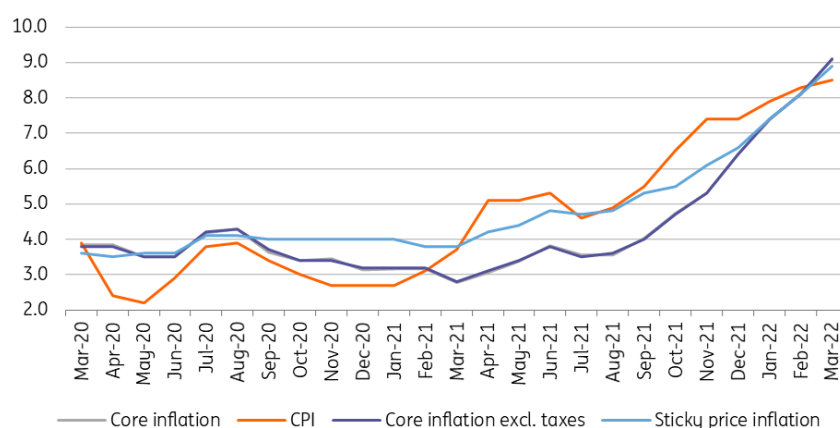
The rationale behind our call

Incoming data of the past month haven't been in sharp contradiction with the National Bank of Hungary (NBH) forecasts. We say this despite the surprisingly strong economic activity data and the lower-than-expected headline inflation in March. Our confidence lies with the wide forecast

bands of the central bank, providing a bigger margin of error in actual data.

Pre-war data from retail, industry, and construction sectors, and even the latest big data, are suggesting surprisingly strong first quarter GDP growth. This could mean a wider positive output gap, translating into longer and stronger demand-driven inflation for the remainder of the year, in our view.

Headline and underlying inflation measures (% YoY)

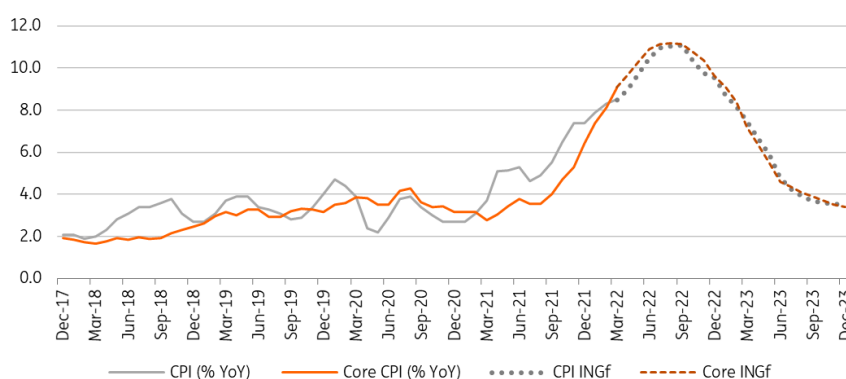


Source: HCSO, NBH, ING

This demand-driven inflation has already been visible in the core inflation reading, moving to 9.1% year-on-year in March. So, despite the slight downside surprise in headline inflation at 8.5% year-on-year, the underlying price pressure remains powerful. In any case, these are not meaningful changes compared to the NBH-forecasted path.

In this respect, we see no urgency to change the tactics of monetary policy during the April rate-setting meeting. The central bank remains data-driven and not “what other forecasters are thinking”-driven. So, even if the International Monetary Fund's latest projection sees headline inflation at 10.4% on average in 2022, and even if we tend to agree with that with our updated 10% forecast, the central bank's world won't shake.

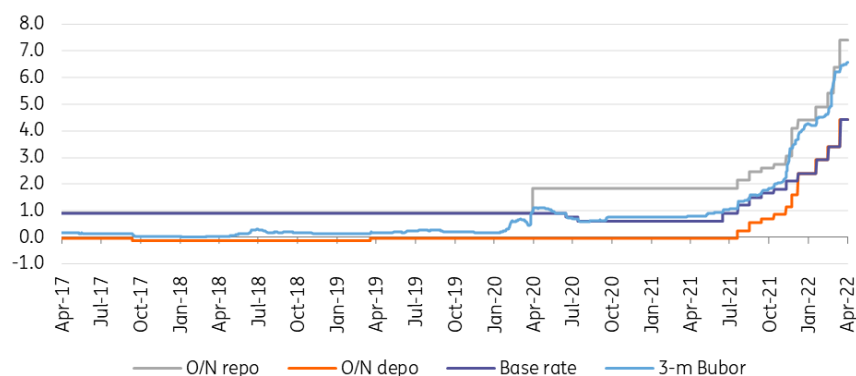
Inflation forecast of ING (% YoY)



Source: HCSO, ING

Against this backdrop, we see the NBH sticking to its March playbook. This means a 100bp rise to 5.40% in the base rate on 26 April and a 30bp hike to 6.45% in the 1-week depo rate on 28 April. The forward guidance should remain hawkish as we expect the central bank to emphasise the upside risks in inflation.

The main interest rates in Hungary (%)

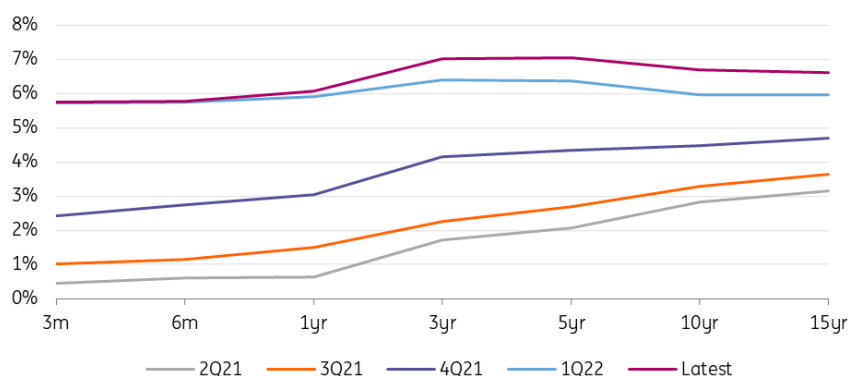


Source: NBH, ING

What to expect in FX and rates markets

With EUR/HUF now being close to pre-election levels of 368, we hardly see this April rate-setting being a game-changer. Although it can provide some support for the Hungarian forint (HUF), we don't envision a marked strengthening here purely based on monetary policy decisions. Sanctions and inflation risks, as well as the rule-of-law debate, will keep investors on alert. We see EUR/HUF around 370 in the short run with a possible quick move to 355-360 should we see a sudden de-escalation in geopolitics.

Hungarian yield curve



Source: GDMA, ING

The situation in debt and rates markets remains fragile. Investors need to deal with uncertainties regarding core market monetary policies, scope and magnitude of local fiscal tightening, sources of extra financing needs, inflation risks, rule-of-law debate, and the war and sanction policies. However, Hungary is the only market in the region that has not yet erased the losses from last week's rate correction. Thus, we see room for the market to return to recent highs or move even

slightly higher, especially in the current environment of rising core rates. On the FRA curve, we see the juiciest spot within six months. On the longer horizon, the market is still pricing in higher levels than our forecast, but we don't expect the market to have a reason to lower its expectations in light of the coming NBH meeting.

Authors

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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>.