

National Bank of Hungary waiting on other central banks

With strong domestic data and a continued summer lull, the NBH has the luxury of waiting for other central banks to show their hand



The upcoming National Bank of Hungary rate-setting meeting tomorrow (22 August) is unlikely to ruffle the calm summer trading period. We don't believe the timing is right for any policy changes, at least not until the September meeting. In our view, domestic data does not warrant any NBH response either; as such, the NBH has the luxury of waiting for other central banks to 'show their hand'.

- Hungarian GDP grew by 3.2% YoY in 2Q17, according to preliminary data from the HCSO. Compared to the first quarter, this shows a significant, but not unexpected, slowdown. As market consensus was 3.6% YoY, it was a mild downside surprise, but unlikely to be a game changer regarding the overall performance, which is still rosy. If anything, this could help the NBH rationalise its 'lower for longer' policy stance, pointing toward the need for continued monetary stimulus.
- Headline CPI reached 2.1% YoY in Jul-17, moving up 0.2ppt from the low point in June. Core inflation increased further, reaching 2.6% YoY, a three-year high. As readings are roughly in line with the NBH's expectations, we do not see any monetary policy implications. The NBH is expected to remain dovish for as long as possible, and the lack of wage-push inflation is

also helping the central bank to stick to that policy.

- As the NBH has not been in the practice of holding a press conference after MPC meetings under Matolcsy's governorship, there is very little chance of obtaining any clue as to the mindset of the policymakers. The only guidance could come from the press release; which has been as dovish as possible, historically. It will be difficult to catch the market's attention, even in a slow summer.
- Against this backdrop, there is no need to do anything, and the timing would not be right either, in our view. Before the meeting of central bankers in Jackson Hole (24-26 August) and the ECB rate decision (7 September), any action would be ill-advised. As such, the NBH can play the 'wait-and-see' game, as its next MPC meeting is on 19 September, one day before the Fed rate setting meeting.

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We believe the NBH is well aware of the current summer lull, where strong fundamentals, paired with low volatility, low trading volumes and Polish political woes, have driven HUF stronger.

As such, we think it would be too early for the NBH to meaningfully react to HUF strength, as long as EUR/HUF: (a) continues to gravitate around the 305 level; and (b) the 303 resistance holds. As additional liquidity is likely to be injected during the NBH's September meeting, we look for EUR/HUF to move above 305 in coming months.

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