

## NBH Review: Too early to change hawkish forward guidance

The National Bank of Hungary left rates unchanged with no surprises. Although the market was expecting at least some shift in forward guidance after the dovish data in recent weeks, the governor reiterated hawkish guidance, indicating a long path to rate cuts. High inflation expectations and global uncertainties are now in the central bank's crosshairs



National Bank of  
Hungary Governor  
Mihaly Varga

# 6.50%

Key interest rate

No change expected

### Focus on elevated inflation expectations

As expected, the National Bank of Hungary left interest rates unchanged today at 6.50%. The main focus was on forward guidance which remained hawkish and essentially unchanged from the March meeting, despite some dovish shift in the Hungarian and global story. Governor Mihaly

Varga reiterated at the start of the press conference that rates may remain unchanged for an extended period, while the risks to growth and inflation have increased. Judging by the Governor's tone, it appears that inflation expectations have become the NBH's primary concern, with a decline in this area now set as the main objective. This follows a spike earlier in the year, driven by unexpected inflationary pressures in January and February.

A considerable part of the speech was also devoted to global uncertainties stemming from the US trade wars and financial market sensitivities in emerging markets, including Hungary. The Governor mentioned that maintaining financial stability is key to achieving price stability, suggesting that the level of EUR/HUF is still one of the main indicators for the central bank.

## No rate cut this year despite dovish risk rising

In the absence of any changes in the NBH's forward guidance, our view remains unchanged. As a baseline, we expect the central bank to leave rates unchanged for the whole of this year, and we may see the first rate cut only at the beginning of next year. Inflation did show a downside surprise in March compared to market expectations, but this was in line with the NBH forecast. April inflation should show another decline next week, probably below 4.0%, but we expect a rebound for subsequent months.

Admittedly, the government measures point to some downside risk, and at the same time, the government is discussing extending the current measures, which could again push the inflation profile down a bit. However, we believe that the inflation problem has not been solved and headline inflation will hold at 4% in the second half of the year, while core inflation will remain even higher at closer to 5%. Still, the risks at the moment are further downside surprises in inflation due to hard-to-quantify government measures and downside surprises in economic growth driven by global developments, which would increase the chances of a rate cut at the end of this year.

### Our market view

It is evident from the market reaction that the market had built up some expectations of a dovish NBH shift based on the weaker data in recent weeks. Although the rates market has seen some rebound across the IRS curve, FX remains essentially unchanged following the end of the NBH press conference. This confirms our assumption that EUR/HUF is more of a global play than a local story at the moment. Although there has been some loosening since the US 'Liberation Day', the DAX index is still our best leading indicator for EUR/HUF, while local factors remain marginal in our models. This makes EUR/HUF harder to predict in the current situation. But we believe that further downside is limited, and the current lower EUR/HUF levels are rather temporary, with a return to 410 likely in the second half of the year. In the short term, however, a significant unwind of US tariff policy or significant progress in the Ukraine-Russia peace deal is a positive risk for the HUF.

In the rates space, the market has outpriced a few basis points of easing across the curve, but the dovish core markets are holding the HUF curve down. In a one-year horizon, we see less than three rate cuts priced in and roughly 150bp throughout the cycle, with a terminal rate of around 5.00 if we assume BUBOR above the NBH key rate at the end of the cycle.

Thus, in our view, at the short end of the curve, the market is overpricing the dovish economic data in the weeks ahead, and although inflation data next week will support this

narrative, the story may turn against market pricing in the months ahead. On the other hand, the belly and long end of the curve still look cheap despite the significant rally in recent weeks. At the same time, given global uncertainty, risk-reward has fallen significantly here in our view, and we wouldn't want to chase the rally.

## Author

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto: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 [www.ing.com](http://www.ing.com).