

## The National Bank of Hungary shows how tapering is done

As expected, the NBH raised the base rate 30bp to 1.50% and left open the door for further tightening. The surprise was that it launched the tapering of its asset-buying plan. Even though it is hard to call this a hawkish hike, EUR/HUF continued lower on the diverging ECB: NBH policy path. And HUF swap rates seem to have the tightening cycle already priced



The National Bank of Hungary

### See you in September

In response to an economy already back to pre-pandemic levels and inflation expected to stay above the 2-4% tolerance band for the rest of the year, the NBH delivered their third consecutive 30bp hike.

While the NBH concluded their statement by promising that the 'tightening cycle will continue until the inflation outlook stabilises around target in a sustainable manner', the speed of further tightening will be very much dependent on the September Inflation Report. This report is typically released after the central bank policy meeting – the next policy meeting being September 21st.

This inflation report will review the impact of the tightening delivered so far on the inflation outlook. The market today seems to read that as the pace of tightening slowing – perhaps to 20bp or less increments.

The other big news was the NBH announcing the start of tapering. The ongoing QE programme of buying HUF60bn of government securities seemed at odds with a tightening cycle and the NBH addressed that today by announcing that weekly purchases would be cut to HUF50bn (scaling back government bond purchases at the shorter end of the curve).

The NBH also switched from reviewing this QE programme to a quarterly basis (next in September) from a previous review based on when a stock of assets was hit. Like fellow central banks engaging in QE, the NBH promised to be flexible to market conditions.

## Market reaction: Forint likes it

The Forint has been the best EMFX performer over the last month, rallying 3.25% against the dollar. The Forint added another 0.5% today, with the market presumably liking the sound of tapering and tighter financing conditions in general. EUR/HUF is also bearing the brunt of diverging ECB: NBH policy.

Notably, HUF swap rates did not move much at all and suggest the IRS market looks comfortable with pricing the terminal NBH base rate up in the 2.25% area. It will be interesting to see whether further tapering has any impact on the pricing of the terminal base rate – e.g. lower.

And the clearest move came in government bonds, where 5-year HGBs sold off 4bp as the NBH starts to scale back its bond-buying programme.

Hungarian FX, rates and debt markets look set for further volatility ahead of a 'comprehensive assessment of the NBH policy stance in September.

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