

## National Bank of Hungary preview: All eyes on the forint

In our view, next week's central bank meeting in Hungary will be both extremely complicated and very simple. Everything hinges on the level of EUR/HUF. We see at least a 50bp hike in the base rate followed by a 30bp hike in the one-week deposit rate. We now see the terminal rate above 9%



The National Bank of Hungary in Budapest

# +50bp

ING's call

Change in the base rate

### The rationale behind our call

The twists and turns within financial markets are tied to feelings and intuition nowadays, rather than to facts and data. In this context, next week's rate-setting meeting will be a difficult one for the National Bank of Hungary. We see the direction as crystal clear (more tightening), but the magnitude of the hikes in the base rate and the one-week deposit rate will highly depend on

prevailing market sentiment.

We see the base case as a copy-paste from last month, with a 50bp rise in the base rate followed by a 30bp move in the one-week deposit rate on Thursday. The central bank might not want to retreat so quickly from its well-telegraphed “predictable and continuous” rate hike approach, at least not in the case of the base rate.

In the recent environment, where monetary policy by its nature is essentially helpless against inflationary forces (supply-side and real disposable income shocks, labour shortages, etc.), the only logical step would be to keep the exchange rate as stable as possible. In this regard, the size of the effective rate hike (the change in the one-week deposit rate) depends mainly on the behaviour of the forint, in our view.

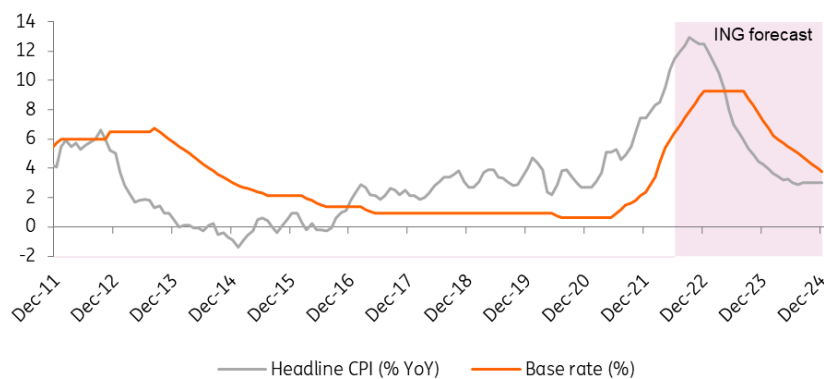
Should we see EUR/HUF stabilising around 395, we might see that 30bp move in the one-week rate, while a break above 400 might push decision-makers to take a more aggressive, frontloaded approach in the one-week deposit rate (e.g., a hike by 50bp, matching the size of the one-off hike on 16 June).

The next rate-setting meeting (unrelated to the size of the hikes) will bring us further reassurance that the central bank remains committed to tackling inflation. With the new staff projections coming (the June Inflation Report), we see the NBH revising the inflation path upwards in 2022 and 2023. This will result in forward guidance that pencils in further rate hikes over the remainder of the year, committing to a higher interest rate environment.

In our view, this ongoing tightening will lead us to a 9.25% terminal rate by the end of this year, when and where the base rate and the one-week deposit rate will be merged again. Over the remainder of the year, we see the base rate being raised by 50bp each month, with the finishing touch of a 35bp move in December. As pro-inflationary risks dominate, the changes in the one-week deposit rate might be less gradual, being a bit more frontloaded.

Thus, should we see HUF weakening further despite the NBH's hawkish forward guidance and commitment to tackle inflation, we might see more one-off hikes in the one-week deposit rate, reacting to idiosyncratic market shocks.

## ING's inflation and base rate forecasts in Hungary

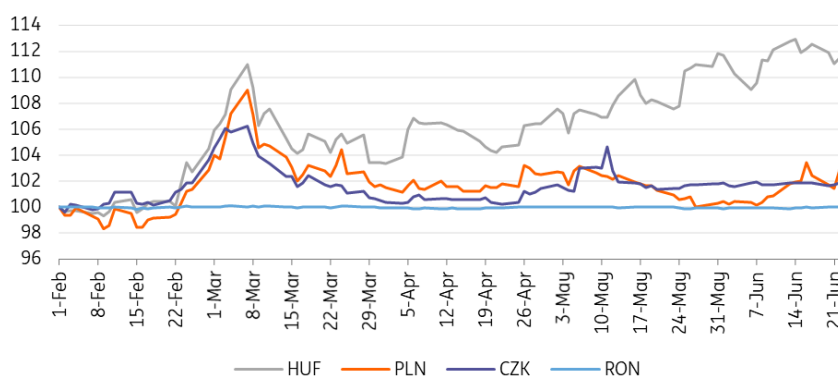


Source: NBH, ING

## What to expect in FX and rates markets

As above, a hike in the one-week deposit rate is the NBH's first line of defence as EUR/HUF continues to press 400. Even though investors seem reasonably short the forint already, it seems hard to see a sustainable rally in the currency until either the external environment improves (unlikely this summer) or some local news improves. Concessions on the Rule of Law dispute, perhaps in September, may be the best hope.

### CEE currencies vs EUR (1 Feb = 100%)



Source: NBH, ING

We continue to see that rates are getting close to their peak, but again low liquidity in the summer months and a very volatile external environment call for extreme agility here. As we discussed in our last preview, the one- to three-year segment of the swaps curve may be the best area to be looking to receive rates – perhaps something like in the two-year area, which has recently turned lower from just under 10%.

On the bond side, the focus will eventually shift to the improved fiscal balance and thus the lowered risk of excessive financing needs although with all sorts of bad headlines about windfall taxes, the dust might need more time to settle. This, along with our view on progress in the looming rule-of-law debate, suggests investors may have increasing confidence in adding to long HGB positions. With close to a 700bp concession already being built into 10-year HGB yields versus German Bunds and Bund yields looking toppish near 1.80%, we could expect to see investor interest into HGB dips this summer.

### Author

#### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

#### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@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).