

# Hungarian Central Bank Preview: June 2022

## Details:

**Monetary policy decision:** 1300BST, 1400CET, 0900ET, Tuesday 28<sup>th</sup> June 2022.

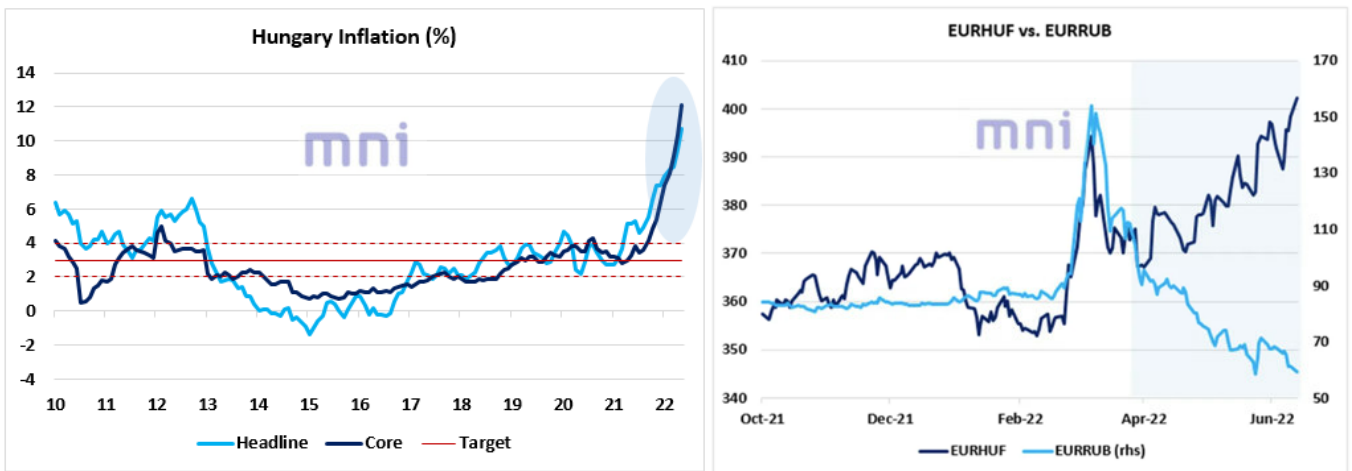
## MNI Point of View

### NBH To Accelerate Pace Amid HUF Weakness

The National Bank of Hungary (NBH) is likely to accelerate the pace of its tightening cycle and hike its policy rate by 100bps on June 28, which would levitate the benchmark rate to 6.9% (highest since July 2012), as HUF weakness keeps supporting inflation expectations. Sell-side consensus is split between a 50bps and 100bps hike, with a larger number of analysts favouring a 50bps hike. The central bank is also likely to proceed with a 30bps in the 1W depo rate, which would increase the 'effective' policy rate to 7.55%.

Inflationary pressures continue to rise in Hungary, with CPI accelerating to 10.7% in May (vs. 10.4% exp.), up from 9.5% the previous month, diverging significantly from the NBH 4-percent upper tolerance band (figure 1, left frame). Hungary officials reiterated on several occasions that inflation would be running a few ppt higher in the absence of price caps. For instance, PM Orban mentioned earlier this month that CPI inflation would be currently running at 15% / 16% in the absence of caps. As a result, the government has extended the caps on some basic food and fuel prices until October 1, and a cap on retail mortgage interest rates will remain in place until the end of the year. Sell-side analysts continue to revise their year-end inflation forecasts higher, currently estimated at 9.4% (vs. 7.7% in the beginning of May).

**Figure 1: Inflation above upper-end of tolerance band**



Source: Bloomberg, MNI

### Russia Default Weighing on HUF and Risky Assets

Russia defaulted on its foreign-currency debt for the first time since 1918 following the expiration of two coupons on Sunday. As a reminder, the country was given a 30-day grace period to pay a total of 100mil dollars in interests on bonds denominated in EUR and USD by May 27.

Hence, geopolitical uncertainty has been weighing on the Hungarian forint, which fell to a new all-time low (vs. EUR) on Monday following the Russia headlines. We previously saw that HUF has been extremely sensitive to the Russia/Ukraine developments and could be used as a better 'proxy' for EURRUB. Figure 1 (right frame) shows the significant divergence between EURRUB and EURHUF exchanges rates in recent weeks.

**HUF: Cheap, But Very Risky!**

We saw that HUF remains 'extremely cheap' using either a fundamental approach (BEER FX fair value) or historical ranges. Figure 2 (right frame) shows that HUF BEER is currently trading 30% below its 'fundamental' value (vs. USD). The chart ranks the major G10 and CEE currencies based on their percentage difference between the current spot rate and their 'fair' value, which we define using a Behavioral Equilibrium Exchange Rate (BEER) model (using terms of trade, inflation and 10y interest rate differentials as explanatory variables).

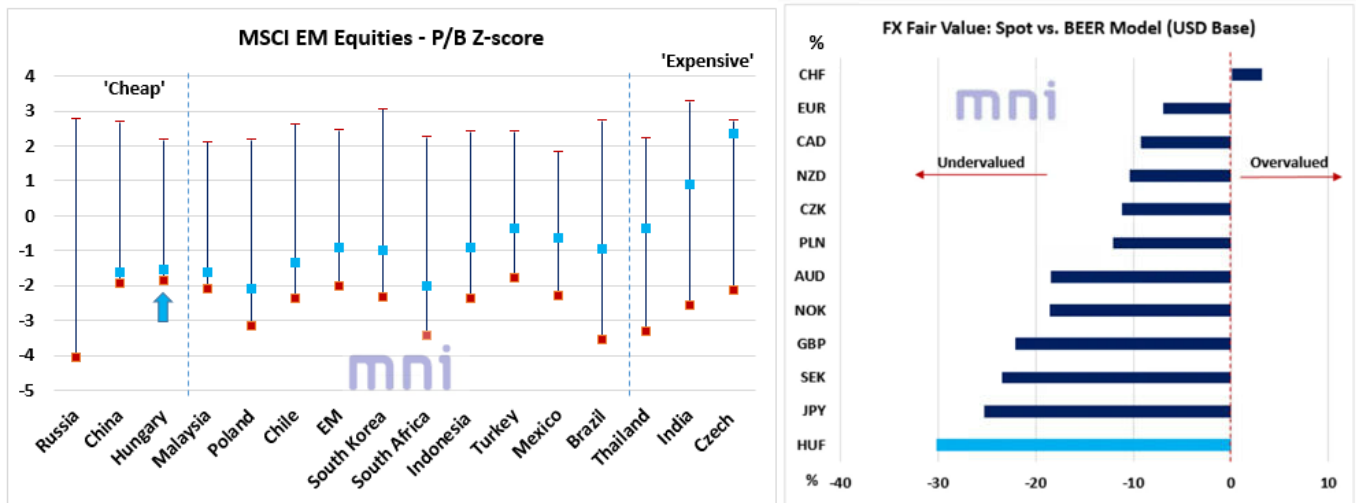
**Hungarian Equities: Second Cheapest Market Among EM**

Geopolitical uncertainty and HUF weakness have been weighing on Hungarian risky assets, with BUX Index remaining on a bear market, down nearly 30% since its early January high. Hungarian equity market is the second cheapest among the EM using a price-to-book z-score approach (excluding Russia). In figure 2 (left frame), we compute the z-score of P/B ratios of the 16 EM equity markets (15 countries + MSCI Emerging Market index) using over 10 years of data (starting January 2010) and then rank them from 'cheapest' to 'most expensive' based on the distance between the minimum value and the current z-score.

**Conclusion**

To conclude, the NBH is likely to hike its base rate by 100bps on June 28. The NBH is also likely to raise its 1W depo rate by 30bps to 7.55% on June 30.

**Figure 2**



Source: Bloomberg/MNI

## National Bank of Hungary Watch

### mni Central Bank Watch - NBH

June 27, 2022

MNI National Bank of Hungary Data Watch List							2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
<b>Inflation</b>											
CPI	% y/y	10.7	8.3	↑	7.4	↑					2.24
Import Prices	% y/y	26.3	21.8	↑	12.9	↑					1.46
PPI	% y/y	28.8	22.0	↑	18.3	↑					1.58
Demand Sensitive Inflation	% y/y	9.9	7.0	↑	5.1	↑					1.62
<b>Economic Activity</b>											
PMI Manufacturing	Index	51.5	53.8	↓	52.2	↓					-0.37
GDP (Q)	% q/q	2.1	2.2	↓	1.1	↑					0.15
Industrial Production	% y/y	4.7	6.9	↓	-2.5	↑					0.58
Economic Sentiment	Index	-7.5	-5.5	↓	-1.8	↓					-1.71
<b>Monetary Analysis</b>											
M0 Money Supply	% y/y	-7.71	-4.77	↓	25.84	↓					-2.05
M3 Money Supply	% y/y	17.73	15.45	↑	16.25	↑					0.89
Consumer Credit	HFBn	4103	4231	↓	4175	↓					-1.14
Non-Fin Corp Credit	EURmn	27577	28526	↓	27677	↓					-0.94
<b>Consumer / Labour Market</b>											
Retail Sales	% y/y	15.8	4.1	↑	5.7	↑					2.14
Consumer Confidence	Index	-39.4	-28.0	↓	-19.4	↓					-1.95
Unemployment Rate	%	3.4	3.8	↓	3.6	↓					-1.74
Average Gross Wages	% y/y	15.2	14.2	↑	8.7	↑					0.10
<b>Markets</b>											
Budapest Stock Index	Index	39502	43731	↓	51465	↓					-0.68
Hungary 10-Year Yield	%	7.85	5.24	↑	4.33	↑					1.52
HUF Yield Curve (2s-10s)	bps	-18.9	-9.7	↓	52.2	↓					-0.52
HUF TWI	Index	72.91	81.71	↓	84.27	↓					-1.87

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.  
Source: MNI, Bloomberg

## Sell-side Views

### BoA: Expecting 50bps Hike on Base Rate, 30bps on 1W Depo

- BoA expects the NBH to maintain a 50bp and 30bp hike combination in the base and weekly repo rates until both rates reach 8% in Q4 22.
- When there is extra FX volatility, the NBH may consider to deliver additional hikes on the weekly deposit rate as it did in June.

### GS: MNB to Step up Tightening Amid Ongoing Currency Pressures

- Given ongoing hawkish domestic developments and depreciation pressures on the Forint, GS thinks that the Council will step up its tightening next week, raising the base rate by +100bp to +6.90% (consensus split between +50bp and +100bp) and the 1-week deposit rate by +50bp to +7.75.
- GS also thinks that the guidance at the meeting will refrain from suggesting that the MNB is approaching the end of its tightening cycle and will maintain a strong hawkish bias.

**ING: Sees Terminal Rate Above 9%**

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

**JP Morgan: Expects 50bps Hike In Base Rate, 30bps Hike in 1W Depo**

- The NBH remains clearly driven by market sentiment and its impact on the forint, as evidenced by a mid-month 50bps hike to the 1-week depo rate (to 7.25%) recently.
- NBH rates arguably have the weakest transmission mechanism in the region, which together with the fact that FX reserves are relatively scarce means the NBH is the most exposed to changes in market sentiment and expectations of DM central bank tightening.
- JPM recently lifted its expectations for peak 1-week depo rate by 100bps to 9.5% in 3Q22, with the base-rate converging to that level by 4Q.
- This week, JPM expects a 50bp hike to the base rate to be followed by a 30bp deposit rate hike, as market sentiment has calmed somewhat.

**Morgan Stanley: NBH to hike base rate by 50bps**

- MS Expects NBH To hike base rate by 50bps to 6.40%.

**TD: Expecting 50bps on Base Rate, 30bps on 1W Depo Rate**

- TD expects the NBH to revert to the hiking pace from recent months and raise the base rate by 50bps, followed by a 30bps hike of the 1-week depo two days later.
- However, risks, in TD view, are skewed to the upside.
- EURHUF is again trading above 400, level which might make the NBH uncomfortable and prompt it to act.

**UniCredit: Expecting Key Rate To Reach 8% By October**

- UniCredit expects the NBH to increase the policy rate by 50bp to 6.40% on Tuesday.
- While the move has been well signalled by Deputy Governor Barnabas Virag, a larger rate hike is possible if pressure on the HUF increases from here on.
- The NBH has the option to intervene in the FX market and mop up HUF liquidity, which could lift short-term implied rates without the need of a larger rate hike.
- The NBH is the only Central European central bank that prepared markets for rate hikes above 7%, and we expect the key rate to reach 8% by October.
- There are material risks of more rate hikes if fiscal policy does not tighten.