Hungarian Central Bank Preview: September 2022

Details:

Monetary policy decision: 1300BST, 1400CET, 0900ET, Tuesday 27th September 2022.

MNI Point of View

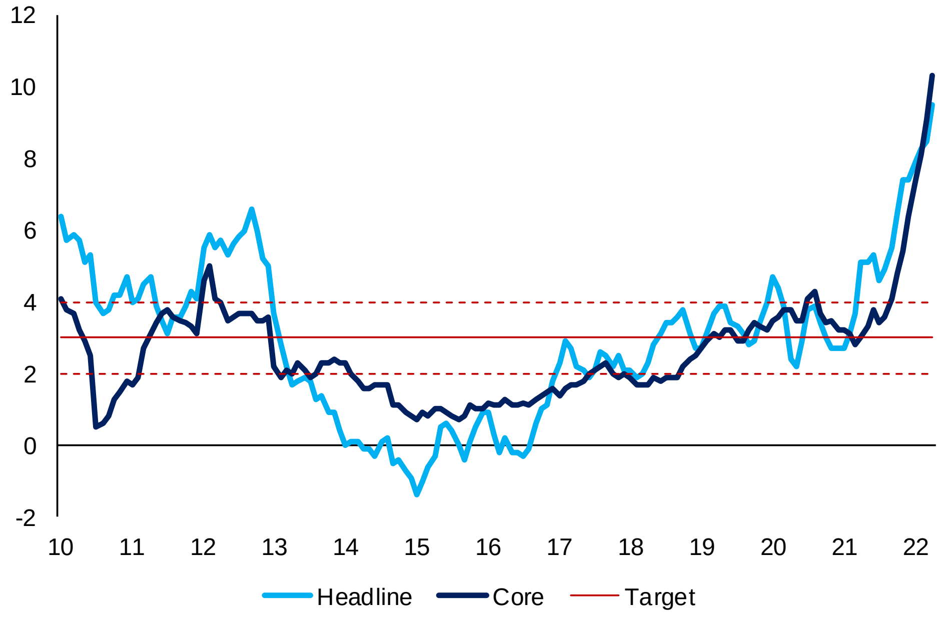
NBH To Retain Hiking Pace of 100bps

The National Bank of Hungary (NBH) is likely to maintain the pace of its tightening cycle and hike its policy rate by another 100bps, which would put the benchmark rate at 12.75%. HUF remains extremely sensitive to the level of risk aversion, with HUF effective exchange rates still stubbornly close to cycle lows. As such, pressure remains on the NBH board to extend their monetary tightening phase as a depreciating currency keeps supporting inflation expectations. Following the Tuesday decision, the NBH are also likely to readjust its 1W depo rate by a further 100bps on Thursday.

Inflationary pressures continued to rise in Hungary, with CPI accelerating to 15.6% in August (vs. 15.9% exp.), the highest level since 1998 and up from 13.7% the previous month. This keeps prices significantly above the bank's 4-percent upper tolerance band. Inflation continues to be driven by higher food and consumer durable prices, and the current prints would be even higher (by a few ppts) if the government had not rolled back prices for a number of staples.

Market analysts have mentioned that inflation could rise further in the coming months due to repricing and tax hikes, reaching 20% or more if energy price controls were lifted. Year-end sell side forecasts have been reviewed sharply to the upside in recent months, with analysts expecting inflation to stand at 12% at the end of the year.

Figure 1: Inflation remains well above upper-end of tolerance band



Source: Bloomberg, MNI

Deep Negative Real Yields Weighing on HUF

There have been several drivers impacting the forint in recent months, ranging from political uncertainty to investors' concerns on the country's twin deficits, with surging gas and electricity prices adding further pressure on the country's external balance. We saw that 'deep negative' real yields have been also significantly impacting EM FX since the start of the year, particularly the CEE region (including Turkey) where inflationary pressures have been the highest (figure 1, right frame). The forint is the second worst-performing currency this year after Turkey, down close to 23% against the US Dollar.

Figure 2: HUF NEER has deviated materially from long-run rolling average

Source: MNI/BBG

Conclusion

To conclude, the NBH is likely to hike its base rate by 100bps on August 30, levitating its policy rate to its highest level since April 2004. The NBH will also readjust its 1W depo rate to its base rate on Thursday.

National Bank of Hungary Watch

MNI National Bank of Hungary Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	15.6	10.7	↑	8.3	↑					2.50
Import Prices	% y/y	36.5	26.7	↑	23.5	↑					1.78
PPI	% y/y	37.9	28.5	↑	22.0	↑					1.56
Demand Sensitive Inflation	% y/y	14.2	9.9	↑	7.0	↑					1.64
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	57.8	51.9	↑	53.8	↑					1.03
GDP (Q)	% q/q	1.0	2.1	↓	2.2	↓					-0.54
Industrial Production	% y/y	6.6	4.8	↑	6.8	↓					1.36
Economic Sentiment	Index	-14.5	-7.5	↓	-5.5	↓					-1.30
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
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	28014	27577	↑	28520	↓					0.33
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	4.3	15.8	↓	4.0	↑					0.03
Consumer Confidence	Index	-52.6	-39.4	↓	-28.0	↓					-1.37
Unemployment Rate	%	3.4	3.4	→	3.8	↓					-0.49
Average Gross Wages	% y/y	15.3	15.2	↑	14.2	↑					-0.23
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Budapest Stock Index	Index	38657	39397	↓	43731	↓					-0.47
Hungary 10-Year Yield	%	9.31	7.20	↑	5.35	↑					1.38
HUF Yield Curve (2s-10s)	bps	-326.5	4.1	↓	1.1	↓					-1.51
HUF TWI	Index	78.58	77.95	↑	83.09	↓					-0.65

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

Barclays: Expect 100bps Hike, Risk of 75bps

- Barclays expect the NBH to deliver another 100bp hike and raise the policy rate to 12.75%. However, it may opt for a lesser 75bp hike following messaging from Deputy Governor Virag this week.
- Virag said that they plan a decisive hike in September, adding that 50bp or 75bp hike would be considered decisive. Barclays believe that it would be premature to reduce the pace of hikes to 50bp but 75bp would be feasible following some stability in the forint recently.

Goldman Sachs: Expect 75bps Hike, 50bps Hike in October

- Goldman expect the NBH to raise rates again, but reflecting the recent guidance by Deputy Governor Barnabas Virag, they forecast the pace of tightening to slow from +100bp to +75bp, and for rates to rise from +11.75% to +12.50%, versus roughly equally split consensus expectations between +75bp to +100bp rate hike.
- On inflation, headline surprised to the downside in August (an increase from +13.7% Y/Y to +15.6% Y/Y versus consensus forecast of +15.9% Y/Y), but Goldman think that the surprise reflected more the uncertainty surrounding the timing of the partial removal of household energy price freeze, which should instead show up in the September inflation reading. By contrast, core inflation continued to increase at a fast pace, rising from 2.3pp to +19.0% Y/Y.
- Goldman think that a rebalancing in the Hungarian economy needs to take place. While they think that the recent fiscal consolidation is encouraging and the fiscal stance is likely sufficiently tight to preserve fiscal sustainability, it is unclear that this is sufficient to stabilise Hungary's external balances.
- The baseline forecast is that after slowing the pace of tightening at this meeting, the NBH will hike rates by an additional 50bps to +13.00% in October and remain on hold from there. However, whether this will truly mark the end of how high rates will go in Hungary will be more of a function of exchange rate pressures, with the risks still skewed towards more tightening required than what we currently forecast.

ING: Expect 75bps Hike, Risk of 100bps

- ING narrowly favour a 75bps hike on Tuesday, taking the Bank Rate to 12.50%, although another 100bps is on the table. ING also see the central bank revising its GDP outlook significantly downward in 2022 and 2023.
- The government's decision to prolong price cap measures for basic food and fuel will lower the near-term CPI peak, somewhat limiting concerns about consumer inflation expectations becoming extreme.
- The latest official communication, which pointed out that the CPI peak might be near - a milestone in this tightening cycle - could also be a sign of a possible slowdown in the pace of hiking.
- Decision-makers might be worried about the vulnerability of the forint and will also argue that the government’s latest support package could increase medium-term inflation given it reduces the risk of recession. If the latter arguments are taken into account with greater weight, ING see a chance for a 100bps hike next week.

UniCredit: Expect 100bps Hike

- UniCredit expect the NBH to take the policy rate to 12.75% on Tuesday, matching market expectations, in an attempt to curtail potential HUF depreciation.
- UniCredit expect the NBH to hike to 15% by year end due to likely increasing inflation. CPI data for August did not reflect the sharp rise in electricity and natural-gas prices for households with above-average consumption.
- Headline inflation is expected to exceed 20% Y/Y by early 2023, falling thereafter and reaching single digits by the end of 2023. This could allow the NBH to cut the policy rate to around 10% by the end of 2023.

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB