Hungarian Central Bank Preview: November 2022

Details:

Monetary policy decision: 1300GMT, 1400CET, 0800ET, Tuesday 22nd November 2022.

MNI Point of View

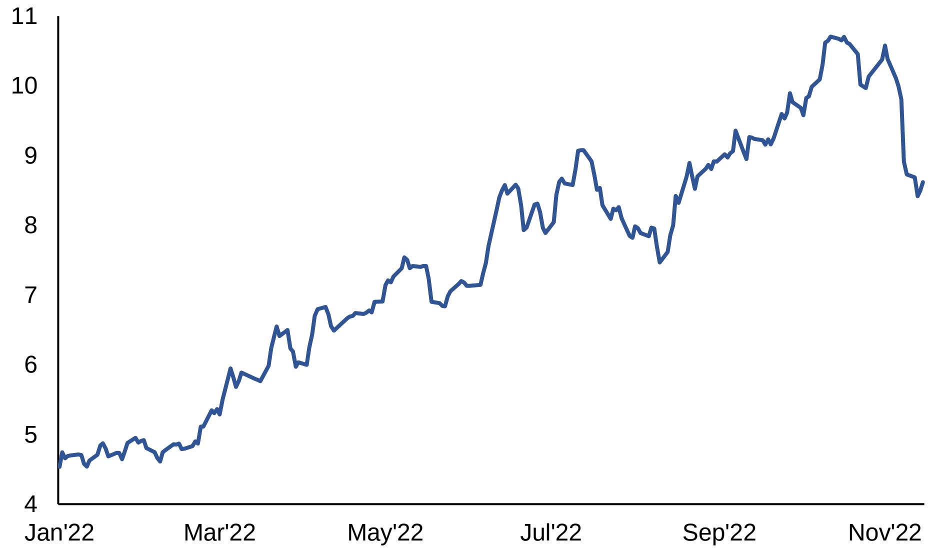
The headline policy rate is likely to remain unchanged again this month as the central bank continues to lean more heavily on liquidity tenders and FX swaps as tools to control liquidity, tighten financial conditions and continue to work against the market's bias to sell HUF in periods of risk-off.

HUF volatility has remained heightened since the last NBH decision, with concerns over the smooth receipt of EU funding prompting markets to retain's HUF's close ties with broad risk sentiment. Analysts are uniform in seeing no change to headline policy rates this week, with most pointing toward the pre-announced tools as carrying the load for monetary policy going forward.

Deputy Governor Virag highlighted that the central bank needs to see a significant improvement in risk sentiment to reduce the spread between the base rate (13%) and the effective rate (18%). Since there has been no marked improvement in either of these criteria, no change in the monetary policy setup is expected. As a result, the liquidity tender and FX swap interest rates will be left to contend with domestic markets, keeping the market relevancy of this week's rate decision relatively low.

The stabilisation of Hungarian bond market has carried over following the emergency inter-meeting action in September, which will bolster the bank's approach and should prompt the board to retain their 'whatever it takes' stance with liquidity draining operations and FX tenders.

Figure 1: 10Y Yields Remain Well Below October Highs



Source: MNI/BBG

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Outside of the NBH policy mix, focus remains on Hungary's access to EU funding, with the European Commission still due to decide on several tranches of payments. Hungary could lose access to as much as EUR 4.1bln in funds if the recovery plan is not approved by year-end, with a separate EUR 7.5bln blocked on rule-of-law concerns. On Nov 17, the European Parliament expressed concern over corruption if funds were to be granted, with the lawmaker panel finding only 2 of Hungary's 17 remedial measures are adequate for Rule of Law concerns, and that only 3 of the 17 have actually been implemented. Expectations remain that Budapest will eventually gain access to the monies, however any payments will likely be heavily contingent on strong conditions covering anti-graft and judicial independence.

These market measures likely play a larger role in the bank's reaction function over current levels of inflation, which remain elevated due to soaring food costs after the recent drought. November data showed CPI rose to 21.0% - slightly below expectations though at the highest level since 1996.

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	21.1	13.7	↑	9.5	↑					2.52
Import Prices	% y/y	42.5	33.1	↑	23.3	↑					1.49
PPI	% y/y	42.7	34.8	↑	25.6	↑					1.23
Demand Sensitive Inflation	% y/y	16.2	12.6	↑	8.8	↑					1.36
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	56.4	58.0	↓	57.6	↓					0.60
GDP (Q)	% q/q	-0.4	0.8	↓	1.6	↓					-2.00
Industrial Production	% y/y	11.6	4.8	↑	4.3	↑					1.97
Economic Sentiment	Index	-21.9	-9.4	↓	2.6	↓					-1.66
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	23.79	-7.77	↑	-7.71	↑					0.72
M3 Money Supply	% y/y	19.51	18.16	↑	16.69	↑					0.78
Consumer Credit	HFBn	4103	4231	↓	4175	↓					-1.14
Non-Fin Corp Credit	EURmn	28510	27734	↑	27978	↑					0.94
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	3.0	4.5	↓	16.7	↓					-0.27
Consumer Confidence	Index	-55.4	-41.7	↓	-20.0	↓					-1.25
Unemployment Rate	%	3.6	3.2	↑	3.7	↓					0.55
Average Gross Wages	% y/y	16.6	14.9	↑	31.1	↓					-0.15
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Budapest Stock Index	Index	44515	41805	↑	43470	↑					-0.84
Hungary 10-Year Yield	%	8.34	8.17	↑	6.86	↑					1.37
HUF Yield Curve (2s-10s)	bps	-277.8	-258.6	↓	-2.7	↓					-1.18
HUF TWI	Index	84.76	77.72	↑	80.54	↑					1.42

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

Goldman Sachs: Expect Base Rate Unchanged, EU Funds Expose Threat to Forint Volatility

- Goldman Sachs expect the base rate to be left unchanged at 13.0% and for all the additional measures introduced in the intermeeting decision back in October (e.g. O/N deposit rate at 18.0%) to remain in place.
- Since the emergency rate hikes the Forint has recovered significantly and was trading at its strongest levels over the past months versus the Euro. Nevertheless, headlines regarding a possible delay to the agreements on the EU funds is a reminder that the Forint remains exposed, and therefore, the MNB will need to remain vigilant to maintain FX stability in the current environment.

ING: Expect Base Rate Unchanged with No Improvement in Risk Environment or Macro Outlook

- ING have seen no material improvement either in the risk environment or in the macro outlook which would make the National Bank of Hungary think about any change. They also expect a reinforcement of the hawkish ‘whatever it takes’ stance, even if we get some positive news about the Rule-of-Law procedure.
- When it comes to macro developments, neither the inflation nor the GDP outlook show a material decoupling from the latest central bank forecast. Core and headline inflation readings moved higher in October and the peak might come only in late 2022 or early 2023. This gives no room for manoeuvre in monetary policy this time.
- Despite the 18% marginal rate and the hawkish monetary policy stance in Hungary, the forint has remained volatile. The recent market movements have provided excellent proof that it is not fundamentals, monetary policy intentions or financial processes that decide what happens to a given country's financial assets. In ING’s view, all this confirms that the central bank will continue to maintain a high state of alert and policy flexibility.

JP Morgan: Expect Base Rate Unchanged, Bond Expiry In Focus

- At one point, the HUF was rallying and nearly crossed below 400 vs. the euro, which may have increased the temptation to cut the 1-day rate, yet, the NBH acted prudently and JPM expect it will continue to do so in coming weeks as risk sentiment can still easily turn against it.
- More interesting in the next week is to understand what plans the central bank has regarding the HUF2.5 trillion or so set to expire in the 2-month facility. JPM think the recent sudden shifts in policy have left the local banking system poorly motivated to participate in such schemes, so normally the majority of the money would flow into the 1-day depo, unless the NBH decides to pay a rate much above the 1-day.

UniCredit: Expect Base Rate Unchanged, Inflation Risks to be Signalled

- UniCredit expect the NBH to keep rates on hold, signalling inflationary risks ahead which are unlikely to allow for a rapid reduction in interest rates.
- The NBH allowed interbank interest rates to fall below 16% as the pressure on the HUF subsided. If Hungary receives access to funds from the Recovery and Resilience Facility, a further HUF rally could see interbank rates fall closer to the policy rate of 13%.
- In further good news for the NBH, the fiscal adjustment continued in October, with the 12M-rolling budget deficit falling to 7.5% of GDP, the lowest level in two years, while the YTD budget deficit was 4.0% of GDP.