Public

Markets Directorate Interest Rate Flash

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Hedline inflation moderates

Source: Bloomberg			
Short term interest rates HUF(%)	19.12.23	20.10.23	difference
BUBORON	11.50	13.00	-1.50
BUBOR1M	10.67	12.61	-1.94
BUBOR3M	10.12	11.91	-1.79
BUBOR6M	9.82	11.74	-1.92
IRS on 6month BUBOR	19.12.23	20.10.23	difference
IRS 2Y	6.61	9.16	-2.56
IRS 3Y	6.10	8.51	-2.41
IRS 5Y	5.78	8.14	-2.36
IRS 10Y	5.99	7.96	-1.97

Zero cost (ZC) collar 6 month BUBOR, calculation by K&H based on Bloomberg data(%)	
19.12.23	
collar 2Y	5.20-7.00
collar 3Y	4.90-6.40
collar 5Y	4.40-6.25
collar 10Y	4.40-6.50

Source: Bloomberg				
Difference between IRS's		19.12.23	20.10.23	difference
1Y IRS	vs IRS 3Y	2.10	1.90	0.20
	vs IRS 5Y	2.42	2.45	-0.03
2Y IRS	vs IRS 5Y	0.83	1.20	-0.37
	vs IRS 7Y	0.79	1.38	-0.59

CAP on 6month BUBOR (%), source: Bloomberg 4.5.23	
3Y 7.00%	2.60
3Y 8.00%	1.90
5Y 7.00%	3.79
5Y 8.00%	2.87

KO cap collar on 6m BUBOR (%), K&H calculation, source: Bloomberg		KO(%)
19.12.23		
3Y	3.00-5.00	6.50
5Y	3.00-5.00	7.00

Source: Bloomberg	
Base rate (%)	19.12.23
Eurozone	4.50
US	5.50
Great-Britain	5.25
Canada	5.00
New-Zealand	5.50
Japan	0.10
Poland	5.75
Czech Republic	7.00
Australia	4.35
Hungary	11.50
Turkey	40.00
Romania	7.00

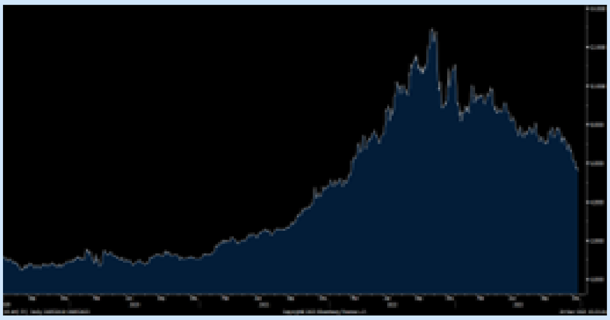
Markets commentary and significant price evolutions

In line with expectations, the consumer price index has decreased in November, from October's 9.9% it fell to 7.9% YoY, which was a positive surprise compared to September, when it dropped from 12.2% to 9.9%YoY. Core Inflation increased by 0.3% MoM, which is identical to the number observed in October. This reflects that the main driver of the strong deinflation processes is the aversion from the previous years' price shocks by a 12 months basis. When it comes to contributors, we can highlight two main elements: food- and fuel prices that, when combined, explain approximately 75% of the slowing down between October and November. The deinflation process looks to be quite strong up until the march-april time period, mainly thanks to the high base and the depressed domestic demand. We maintain our stance that inflation will reach its lowest point in april around the levels of 4.5-5% and it could remain near 5% for the rest of the year with some upside risk in the last quarter. This means that the yearly average inflation in 2024 could be somewhere in the ballpark of 5.2%.

The Hungarian Central Bank has further decreased the base rate by 75 basis points from 11.50% to 10.75% and considering that we expect inflation for december to be around 6.2% YoY, we think that the Central Bank will continue the 75 bp rate cuts in January and February as well, which will result in a base rate of 9.25% by the end of February. March could bring us to an interesting turning point and the interest rate decision could largely be influenced by the monetary policies of leading Central Banks (when and at what pace they start the easing cycle) but we think that MNB could end the 75 bp rate cuts once the base rate reaches 8.5%. In April monetary easing could continue with 50 bp rate cuts. According to our inflation forecasts and considering that the Central Bank wants to maintain the positive real interest-rate environment, we expect the Hungarian National Bank to switch to 25 base point cuts in June and by the end of the year we will reach a base rate of 6.25%. The strict tone of the Monetary Council could remain neutral and careful, highlighting the more symetric risks on the forecast horizon.

In recent weeks there has been a huge fall in the government bond and IRS markets. The main reason for this was that the market began to price in a rapid and aggressive cycle of interest rate cuts in major markets, particularly in the US, which increased risk appetite globally. Hungarian yields have fallen roughly 100 basis points in line with the curve, with both the 10-year bond yield and the 10-year IRS falling below 6% in recent days. The agreement with the EU on the horizontal conditionality (which freed up €10 billion from the 2021-2027 fiscal framework) and the sharp fall in inflation have also supported the rapid fall in interest rates. We believe that the market has priced in a very positive economic scenario, so risks are now short and pointing towards a slight correction.

Hungarian GDP fell by 0.4% (yellow), with core inflation at 9.07% (green) and inflation at 7.90% (orange)



The 5-year HUF IRS