

Post-CPI Sell-Side Views (Alphabetical):

Goldman Sachs: Expect Policy Rate to Decline More Than Currently Priced

- While the persistence of services inflation is noteworthy, especially as the NBH has emphasised in its communication the importance of the category to monetary policy prospects, Goldman Sachs expect it to decline over the coming months.
- In their view, Hungarian inflation (and CEE inflation more broadly) is largely driven by external factors and accelerating growth and a strong labour market are unlikely to have a sizeable impact on the CPI.
- Given their relatively dovish views on Hungarian (and broader CEE) inflation, Goldman Sachs continue to expect policy rates to decline by more than is priced by the market in H2, but acknowledge that external risks, in particular HUF volatility, continue to act as the 'binding constraint' on the pace of rate reduction.

OTP Bank: Expect 25bp Cuts in Sep and Dec Meetings

- OTP Bank believe that incoming data will not change the central bank's view on the trajectory of inflation, especially as the NBH also predicted 3.8% inflation in its short-term forecast.
- Thus they maintain their 6.5% base rate forecast for the end of the year, but see some uncertainty around the timing of rate cuts. In OTP's baseline scenario they expect one 25bp cut in September and one in December, when the quarterly Inflation Reports will be published.
- An earlier cut in July is also in the cards, they note, but the unfavourable structure of June's inflation figure, the announced fiscal measures, and the weaker HUF increase the chances of a later cut.

ING: Risks to Inflation Biased Slightly to Upside

- ING note that the latest inflation data supports the central bank's continued cautious stance, adding that while a lot can happen between now and the July rate decision, financial market volatility and a deterioration in the structure of inflation (sticky, with elevated repricing in underlying inflation) could prevent the central bank from cutting rates.
- Based on the latest data, the performance of the Hungarian economy looks weak, ING say. Inflationary pressures are unlikely to be significant in the short term, while the labour market remains strong and wage outflows are higher than expected, which could put further upward pressure on prices of services.
- They note that the recent tax increases announced by the government are likely to be passed on to consumers in the form of higher prices sooner or later. These risks to the inflation outlook are therefore two-sided, with perhaps a slight bias to the upside.

JP Morgan: Believe Inflation Data Increases Chances of Hold in July

- In JP Morgan's view, the takeaway from today's print for monetary policy is that there is evidence of exhaustion in the disinflation process and hence it pays to be cautious. They believe that today's print, together with relatively a high EUR/HUF, increases the chances of the NBH keeping rates on hold this month.
- At the same time, rates in Hungary remain relatively high by regional standards and the NBH targets headline CPI, not core, so it may take comfort in the past six months inside the target band to continue easing, JPM add.
- They see still some room for easing this year and expect three rate cuts of 25bps (to 6.25%), the first being this month. Risks are, however, skewed for a pause and much will depend on the EUR/HUF moves between now and the NBH meeting on July 23.