

16 January 2019
EM FX & Rates Trader

Short EUR/HUF via 12m forward

NBH taking back control – embrace HUF

The signalled start of NBH Bubor normalization should be a significant tailwind for HUF, which remains undervalued, is oversold and benefits from the strongest current account position in the region. The NBH further taking back its credibility in a world where global central banks are turning more dovish is a big positive for HUF medium-term fortunes. Short EUR/HUF via 12-m forward, target 310. This translates into expected return of 4.4% vs forwards

Vice Governor Nagy pointed today to the **start of Bubor normalization**, making it more dependent on the core CPI outlook (which, as per below, we think will warrant monetary normalization). Rising Bubor (towards 0.90% at most this year) should translate into a significant tailwind for HUF in an environment where global (and CEE) central banks are turning more dovish.

As per Fig 1, core CPI is set to continue heading higher (core CPI excluding indirect taxes should reach around 3.3% by mid-year). This suggests the NBH is likely to announce a reduction to the size of the FX swap portfolio for Q2 in the March NBH meeting (the inflation report meeting) and start a managed rise in Bubor. With Bubor rising, we expect interest rate differentials to move in favour of HUF, particularly as the HUF IRS market is likely to overshoot (in light of the recent strong decline in the entire CEE region).

While Bubor normalization should provide the needed catalyst for stronger HUF (one important by-product of a rising Bubor will be a less negative Hungarian real rate – a factor which has been of great concern to many investors), other fundamental factors should lead to HUF strength:

Positioning: As per Fig 2, we note that the market is heavily short HUF. The prime reason behind these shorts (mainly those built last year) was concerns about NBH credibility and whether the central bank is behind the curve. Today's announcement and the eventual delivery of Bubor normalization should ease these concerns and lead to a reversal of the stretched positioning.

Current account: The current account will also support our short EUR/HUF call as we expect the surplus to have already bottomed out in 2018, remaining at the same level this year (1.5%) and rising to 2.1% in 2020 (Fig 3). As for the drivers of the current account, we expect economic activity to slow, stemming from lower investment activity and deceleration in consumption growth. Both of these factors will impact import activity, meaning that we see a lowered import need for the Hungarian economy. Meanwhile, we expect the new manufacturing capacities to start producing, translating into elevated export activity. Against this backdrop, we expect the current account to remain well in surplus, standing out in the CEE space.

Valuation: HUF remains cheap vs EUR on a medium term basis. As per Fig 4, HUF is the second cheapest currency in the CEE space. While the PLN is cheaper, the lack of any hawkish NBP stance makes the PLN much less attractive (particularly in light of upcoming Parliamentary elections in 2H19). In contrast, although the CNB is also in tightening mode (like NBH now) CZK is not cheap and in contrast to HUF is overbought. Hence, as per our [2019 FX Outlook: Peak Dollar](#), HUF is our CEE choice for this year

Petr Krpata, CFA
Chief EMEA FX and IR Strategist
London +44 20 7767 6561
petr.krpata@ing.com

Péter Virovác
Senior Economist, Hungary
Budapest +36 1 235 8757
peter.virovacz@ing.com

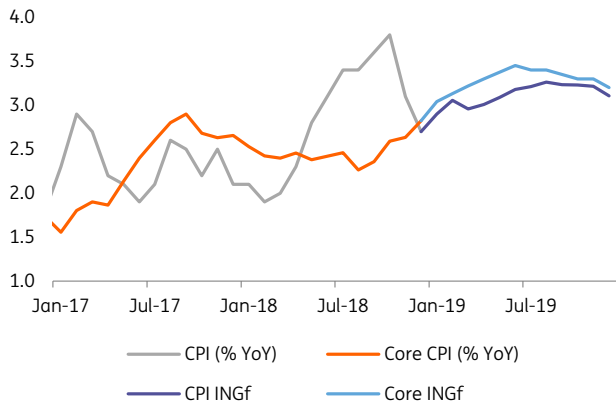
View all our research on Bloomberg at
ING5<GO>

research.ing.com

Short EUR/HUF via 12-m forward, entry 324.20, target 310.00, stop loss 325.00, spot ref. 321.75

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES & ANALYST CERTIFICATION

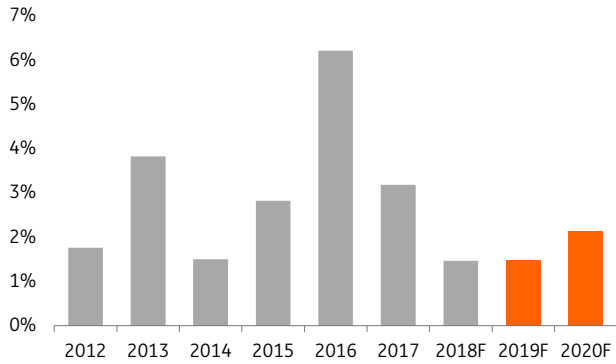
Fig 1 Core CPI is set to rise



Source: ING,

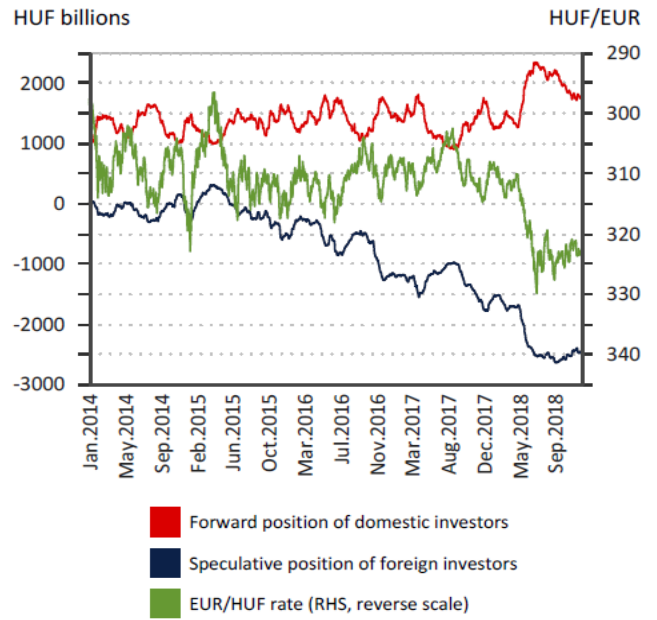
Fig 3 Current account bottomed

Current account as % of GDP



Source: ING

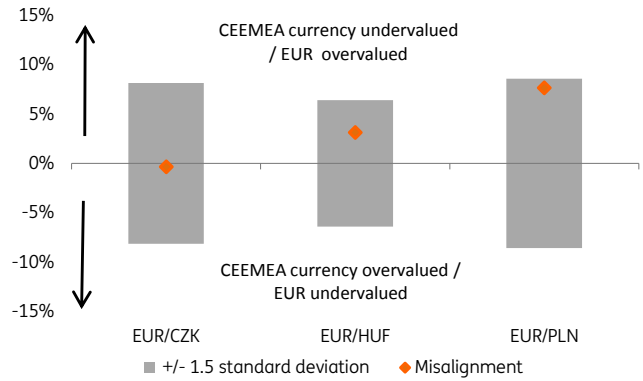
Fig 2 Market is short HUF



Source: NBH

Fig 4 HUF is cheap

%, CEEMEA real exchange rates misalignments vs their BEER fair value



Source: ING,

Research Analyst Contacts

Developed Markets		Title	Telephone	Email
London	Mark Cliffe	Head of Global Markets Research	44 20 7767 6283	mark.cliffe@ing.com
	James Knightley	Chief International Economist	44 20 7767 6614	james.knightley@ing.com
	James Smith	Economist, Developed Markets	44 20 7767 1038	james.smith@ing.com
	Jonas Goltermann	Economist, Developed Markets	44 20 7767 6909	jonas.goltermann@ing.com
	Carlo Cocuzzo	Economist	44 20 7767 5306	carlo.cocuzzo@ing.com
	Chris Turner	Global Head of Strategy and Head of EMEA and LATAM Research	44 20 7767 1610	chris.turner@ing.com
	Petr Krpata	Chief EMEA FX and IR Strategist	44 20 7767 6561	petr.krpata@ing.com
	Padhraic Garvey	Global Head of Debt and Rates Strategy	44 20 7767 8057	padhraic.garvey@ing.com
Amsterdam	Maarten Leen	Head of Macro Economics	31 20 563 4406	maarten.leen@ing.com
	Teunis Brosens	Senior Economist, Eurozone	31 20 563 6167	teunis.brosens@ing.com
	Bert Colijn	Senior Economist, Eurozone	31 20 563 4926	bert.colijn@ing.com
	Raoul Leering	Head of International Trade Analysis	31 20 563 4407	raoul.leering@ing.com
	Joanna Konings	Senior Economist, International Trade Analysis	31 20 576 4366	joanna.konings@ing.com
	Timme Spakman	Economist, International Trade Analysis	31 20 576 4469	timme.spakman@ing.com
	Marieke Blom	Chief Economist, Netherlands	31 20 576 0465	marieke.blom@ing.nl
	Marcel Klok	Senior Economist, Netherlands	31 20 576 0465	marcel.klok@ing.nl
	Jeroen van den Broek	Head of DM Strategy and Research	31 20 563 8959	jeroen.van.den.broek@ing.com
	Maureen Schuller	Head of Covered Bond Strategy and Financials Research	31 20 563 8941	maureen.schuller@ing.com
	Martin van Vliet	Senior Rates Strategist	31 20 563 8801	martin.van.vliet@ing.com
	Benjamin Schroeder	Senior Rates Strategist	31 20 563 8955	benjamin.schroeder@ing.com
	Hamza Khan	Head of Commodities Strategy	31 20 563 8958	hamza.khan@ing.com
	Warren Patterson	Commodities Strategist	31 20 563 8921	warren.patterson@ing.com
	Suvi Platerink Kosonen	Senior Credit Analyst, Financials	31 20 563 8029	suvi.platerink@ing.com
	Nadège Tillier	Senior Credit Analyst, Utilities	31 20 563 8967	nadege.tillier@ing.com
	Hendrik Wiersma	Senior Credit Analyst, TMT	31 20 563 8961	hendrik.wiersma@ing.com
	Job Veenendaal	Credit Analyst, Consumer Products and Retail	31 20 563 8956	job.veenendaal@ing.com
	Roelof-Jan van den Akker	Head of Technical Analysis	31 20 563 8178	roelof-jan.van.den.akker@ing.com
Brussels	Peter Vanden Houte	Chief Economist, Belgium, Eurozone	32 2 547 8009	peter.vandenhoute@ing.be
	Julien Manceaux	Senior Economist, France, Belgium, Switzerland	32 2 547 3350	julien.manceaux@ing.be
	Philippe Ledent	Senior Economist, Belgium, Luxembourg	32 2 547 3161	philippe.ledent@ing.be
	Steven Trypsteen	Economist, Spain, Portugal	32 2 547 3379	steven.trypsteen@ing.be
	Charlotte de Montpellier	Economist, Switzerland	32 2 547 3386	charlotte.de.montpellier@ing.be
Frankfurt	Carsten Brzeski	Chief Economist, Germany, Austria	49 69 27 222 64455	carsten.brzeski@ing.de
	Inga Fechner	Economist, Germany, Austria	49 69 27 222 66131	inga.fechner@ing.de
Milan	Paolo Pizzoli	Senior Economist, EMU, Italy, Greece	39 02 55226 2468	paolo.pizzoli@ing.it
Emerging Markets		Title	Telephone	Email
New York	Gustavo Rangel	Chief Economist, LATAM	1 646 424 6464	gustavo.rangel@ing.com
London	Nicholas Smallwood	Senior Emerging Markets Credit Analyst	44 20 7767 1045	nicholas.smallwood@ing.com
	Trieu Pham	Emerging Markets Sovereign Debt Strategist	44 20 7767 6746	trieu.pham@ing.com
Czech Rep	Jakub Seidler	Chief Economist, Czech Republic	420 257 47 4432	jakub.seidler@ing.com
Hong Kong	Iris Pang	Economist, Greater China	852 2848 8071	iris.pang@asia.ing.com
Hungary	Péter Virovác	Senior Economist, Hungary	36 1 235 8757	peter.virovac@ing.com
Philippines	Nicky Mapa	Senior Economist, Philippines	632 479 8855	nicholas.mapa@asia.ing.com
Poland	Rafal Benecki	Chief Economist, Poland	48 22 820 4696	rafal.benecki@ingbank.pl
	Piotr Poplawski	Senior Economist, Poland	48 22 820 4078	piotr.poplawski@ingbank.pl
	Jakub Rybacki	Economist, Poland	48 22 820 4608	jakub.rybacki@ingbank.pl
	Karol Pogorzelski	Economist, Poland	48 22 820 4891	karol.pogorzelski@ingbank.pl
Romania	Ciprian Dascalu	Chief Economist, Romania	40 31 406 8990	ciprian.dascalu@ing.com
	Valentin Tataru	Economist, Romania	40 31 406 8991	valentin.tataru@ing.com
Russia	Dmitry Dolgin	Chief Economist, Russia and CIS	7 495 771 7994	dmitry.dolgin@ingbank.com
Russia	Egor Fedorov	Senior Credit Analyst, Russia and CIS	7 495 755 5480	egor.fedorov@ingbank.com
Singapore	Rob Carnell	Chief Economist & Head of Research, Asia-Pacific	65 6232 6020	robert.carnell@asia.ing.com
	Prakash Sakpal	Economist, Asia	65 6232 6181	prakash.sakpal@asia.ing.com
Turkey	Muhammet Mercan	Chief Economist, Turkey	90 212 329 0751	muhammet.mercan@ingbank.com.tr

Disclosures Appendix

ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

IMPORTANT DISCLOSURES

Company disclosures are available from the disclosures page on our website at <http://research.ing.com>.

The remuneration of research analysts is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

Securities prices: Prices are taken as of the previous day's close on the home market unless otherwise stated.

Conflicts of interest policy. ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at <http://research.ing.com>.

Research analyst(s): The research analyst(s) for this report may not be registered/qualified as a research analyst with the NYSE and/or NASD. The research analyst(s) for this report may not be an associated person of ING Financial Markets LLC and therefore may not be subject to Rule 2241 and Rule 2242 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst's account.

FOREIGN AFFILIATES DISCLOSURES

Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

AMSTERDAM

Tel: 31 20 563 8955

Bratislava

Tel: 421 2 5934 6111

Bucharest

Tel: 40 21 222 1600

Budapest

Tel: 36 1 235 8800

Buenos Aires

Tel: 54 11 4310 4700

Dublin

Tel: 353 1 638 4000

BRUSSELS

Tel: 32 2 547 2111

Frankfurt

Tel: 49 69 75936 519

Geneva

Tel: 41 22 592 3079

Hong Kong

Tel: 852 2848 8488

Istanbul

Tel: 90 212 335 1000

Kiev

Tel: 380 44 230 3030

LONDON

Tel: 44 20 7767 1000

Madrid

Tel: 34 91 789 8880

Manila

Tel: 63 2 479 8888

Mexico City

Tel: 52 55 5258 2000

Milan

Tel: 39 02 89629 3610

Moscow

Tel: 7 495 755 5400

NEW YORK

Tel: 1 646 424 6000

Paris

Tel: 33 1 56 39 32 84

Prague

Tel: 420 257 474 111

Sao Paulo

Tel: 55 11 4504 6000

Seoul

Tel: 82 2 317 1800

Shanghai

Tel: 86 21 2020 2000

SINGAPORE

Tel: 65 6535 3688

Sofia

Tel: 359 2 917 6400

Taipei

Tel: 886 2 8729 7600

Tokyo

Tel: 81 3 3217 0301

Warsaw

Tel: 48 22 820 4696

Research offices: legal entity/address/primary securities regulator

Amsterdam	ING Bank NV, Foppingadreef 7, Amsterdam, Netherlands, 1102BD. <i>Netherlands Authority for the Financial Markets</i>
Brussels	ING Belgium SA/NV, Avenue Marnix 24, Brussels, Belgium, B-1000. <i>Financial Services and Market Authority (FSMA)</i>
Bucharest	ING Bank NV Amsterdam - Bucharest Branch, 48 Iancu de Hunedoara Bd, 011745, Bucharest 1, Romania. <i>Financial Supervisory Authority, Romanian National Bank</i>
Budapest	ING Bank NV Hungary Branch, Dozsa Gyorgy ut 84/B, H - 1068 Budapest, Hungary. <i>National Bank of Hungary</i>
Frankfurt	ING-DiBa AG, Theodor-Heuss-Allee 2, 60486 Frankfurt, Germany. <i>Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)</i>
Hong Kong	ING Bank NV, Hong Kong Branch, 8/F, Three Pacific Place, 1 Queens' Road East, Hong Kong. <i>Hong Kong Securities and Futures Commission</i>
Istanbul	ING Bank AS, ING Bank Headquarters, Resitpasa Mahallesi Eski Buyukdere Cad. No.8, 34467 Sariyer, Istanbul, Turkey. <i>Capital Markets Board</i>
London	ING Bank NV London Branch, 8-10 Moorgate, London EC2R 6DA, United Kingdom. <i>Financial Conduct Authority</i>
Manila	ING Bank NV Manila Branch, 20/F Tower One, Ayala Triangle, Ayala Avenue, 1226 Makati City, Philippines. <i>Philippine Securities and Exchange Commission</i>
Milan	ING Bank NV Milano, Via Arbe, 49, Milano, Italy, 20125. <i>Commissione Nazionale per le Società e la Borsa</i>
Moscow	ING Bank (Eurasia) JSC, 36, Krasnoproletarskaya ulitsa, 127473, Moscow, Russia. <i>The Central Bank of Russia</i>
New York	ING Financial Markets LLC, 1133 Avenue of the Americas, New York, United States, 10036. <i>Securities and Exchange Commission</i>
Prague	ING Bank NV, Prague Branch, Českomoravská 2420/15, Prague 9, Czech Republic. <i>Czech National Bank</i>
Singapore	ING Bank NV Singapore Branch, 1 Wallich Street, 12-01 Guoco Tower, Singapore 078881. <i>Monetary Authority of Singapore</i>
Warsaw	ING Bank Slaski SA, Ul. Pulawska 2, Warsaw, Poland, 02-566. <i>Polish Financial Supervision Authority</i>

Disclaimer

This report has been prepared on behalf of ING (being for this purpose the Wholesale Banking business of ING Bank N.V. and certain of its subsidiary companies) solely for information purposes. ING forms part of ING Group (being for this purpose ING Groep N.V. and its subsidiary and affiliated companies). The information in this report is not investment, legal or tax advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. ING may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise have an interest in any transactions or investments (including derivatives) referred to in this report. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this report. Neither ING Group nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this report or its contents. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of ING, ING has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to ING's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or ING's website shall be at your own risk. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. ING will not treat recipients of this report as its customers by virtue of their receiving this report. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any company or market discussed herein and other persons should not take any action on the basis of this report. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise. ING is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). The wording in this report is concluded on publication date as mentioned in this report. Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.

Country-specific disclosures: **EEA:** This report constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive (MiFID II) and as such contains an objective or independent explanation of the matters contained herein. Any recommendations contained in this report must not be relied on as investment advice based on the recipient's personal circumstances. If further clarification is required on words or phrases used in this report, the recipient is recommended to seek independent legal or financial advice. **Hong Kong:** This report is distributed in Hong Kong by ING Bank N.V., Hong Kong Branch which is licensed by the Securities and Futures Commission of Hong Kong under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). This document does not constitute a solicitation or an offer of securities or an invitation to the public within the meaning of the SFO. This report is to be circulated only to "professional investors" as defined in the SFO. **Italy:** This report is issued in Italy only to persons described in Article No. 58 of Consob Regulation No. 16190. **Singapore:** This document is provided in Singapore by or through ING Bank N.V., Singapore Branch and is provided only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. If you are an accredited investor or expert investor, please be informed that in ING's dealings with you, ING is relying on the following exemptions to the Financial Advisers Act, Cap. 110 ("FAA"): (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts ING from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts ING from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAR, which exempts ING from complying with Section 36 of the FAA on disclosure of certain interests in securities. **United Kingdom:** This report is issued in the United Kingdom by ING Bank N.V., London Branch only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors). **United States:** Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements. The distribution of this report in other jurisdictions may be restricted by law or regulation and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.