

CIB WEEKLY REPORT



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What to watch next week

Local market movers

Final November trade and December flash IP figures may reinforce the view that despite losing some momentum towards the end of 2020, the industrial and export sectors remained resilient. The January BMI may be slightly below the December level in line with the wider European trend.

External developments

Final BMIs will confirm that the EZ economy started 2021 on a weak note. Euro zone inflation is expected to pick up in January due to one-offs, but the medium-term outlook (subdued, below target inflation) is not likely to change. The US ISM indices are also expected to dip in January, but both the manufacturing and the services component will remain conveniently above the 50-point threshold. The January ADP and NFP figures will confirm that weakening economic activity and the phasing out of fiscal measures halted the labor market recovery in the US.

Summary of recent macro and market developments

The NBH remains on the sidelines in January

The Monetary Council left all key rates on hold this week, in line with the expectations. The monetary stimulus to support the recovery will still be provided via the unconventional toolkit (targeting the medium and long-end segment of the curve), where some fine tuning was announced. Namely, the NBH decided to reallocate liquidity from the collateralised lending facility towards government securities purchases, and will also target bonds with less than 10 years maturity (medium segment). The gap between the 1W depo rate (that anchors MM rates) and the policy rate will remain in place.

The key messages of the statement are as follows:

- The **incoming macroeconomic data are consistent** with the projection in the MNB's December Inflation Report.
- The time profile of the pandemic and the expected economic recovery may continue to result in **volatile pricing patterns**; therefore, an exceptionally **cautious approach is warranted** in assessing more persistent inflationary effect.
- The **increase in risk aversion vis-à-vis emerging markets** continues to pose the **greatest risk** in terms of the outlook for inflation.
- The MNB will be **ready to increase its balance sheet further** to manage risks arising from the coronavirus pandemic.
- The MNB will **reallocate liquidity** provided under its individual programmes from the collateralised lending facility **towards government securities purchases**.
- It will be ready to extend its government securities purchases to include **government securities with maturities of less than ten years**.

- The Monetary Council decided to **raise the amount available under the Bond Funding for Growth Scheme** from HUF 750 billion to 1,150 billion and altered some conditions of the Scheme.
- The Bank will **maintain the difference between the base rate and the one-week deposit rate** as long as warranted by inflationary risks.
- It is key to maintain **short-term yields at a safe distance from a range close to zero**.

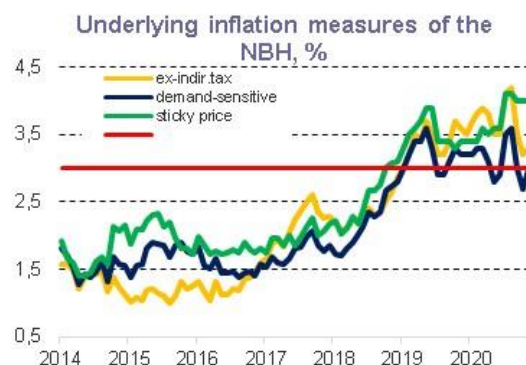
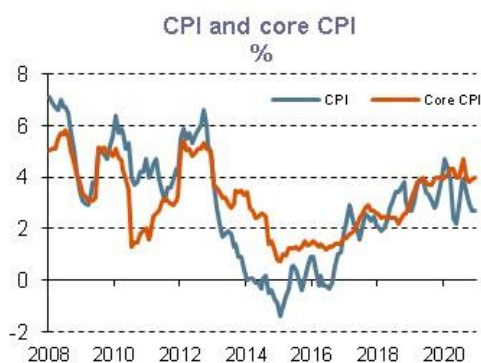
To sum it up, the central bank would continue providing stimulus at the medium and long-end segment of the curve, but sees no room to loosen monetary conditions at the short-end.

The macroeconomic outlook remains characterized with a high degree of uncertainties:

- A lasting rebound in economic activity can only be expected when the restrictions measures are lifted permanently, the timing of which depends on the speed of vaccination. According to the consensus view it will not happen until mid-year at the earliest, hence the pandemic will dampen activity in Q1 and partly in Q2, a robust rebound can only be expected in the second half of the year.
- The higher than usual volatility of inflation is expected to persist in 2021 partly as a result of the base effect and partly stemming from the demand and supply side impacts of the pandemic. Headline CPI is expected to rise above 4% in the spring (due to the low base) but may gradually inch down later. However, the restart of the economy in H2 can have unexpected impacts on both the supply and demand side of inflation.

Monetary policy wise, these developments suggest that there is no room to lower rates at the short-end segment of the curve, yet. Monetary policy will remain cautious as long as the spring inflation spike is not behind us and they don't have a clearer picture of the inflation outlook beyond H1.

According to our forecast, the policy rate will remain unchanged (0.6%) throughout 2021, the gap between the policy rate and the 1W depo rate (0.75%) can only be closed if inflation developments are in line with the current expectations (gradual retreat from summer) and global risk sentiment remains supportive (stable HUF). If these scenarios materialize, the 3M Buber rate may finish the year below the current 0.75%.

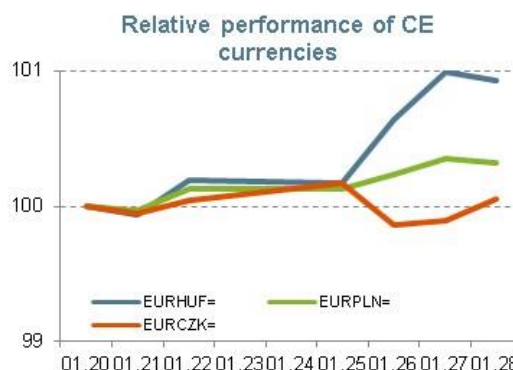


Source:CSO, NBH

Moderate HUF weakening

The strengthening of the forint that characterized the second part of the last week was temporary, the depreciation of the Hungarian unit restarted, pushing EUR/HUF above the average of the last month. The volatile global risk sentiment and the appreciation of the USD were not HUF supportive, but the forint's underperformance versus its regional peers suggested that domestic factors played a bigger role in the depreciation. Due to the elongated economic recovery, the Hungarian central bank will continue to maintain loose monetary conditions, therefore the space for HUF-strengthening trend is limited. Although, the Hungarian unit posted a slightly positive correction on Thursday-

Friday and EUR/HUF dropped from 361 to below 359 again, on a weekly basis, this represented more than 0,5% weakening against the euro.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,51	117	0,01	67	-0,05	60	-0,66
3Y	1,10	189	0,04	83	0,46	125	-0,79
5Y	1,50	225	0,38	114	0,80	156	-0,75
10Y	2,33	288	1,16	171	1,27	182	-0,55
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,55	123	0,07	75	-0,14	54	-0,68
3Y	1,06	184	0,12	90	0,41	119	-0,77
5Y	1,55	230	0,45	120	0,76	150	-0,75
10Y	2,25	281	1,25	181	1,22	178	-0,56

Source: Reuters

Macroeconomic and market forecasts

EXCHANGE RATES, QUARTERLY AVERAGE				
	2019 Q4	2020 Q2	2020 Q4	2021 Q4
EUR/HUF	332	352	360	356
CHF/HUF	303	331	335	317
USD/HUF	300	320	305	307
EUR/CHF	1,10	1,06	1,07	1,12
EUR/USD	1,11	1,10	1,18	1,16
GBP/USD	1,29	1,24	1,30	1,35
GBP/HUF	386	397	397	414

INTEREST RATE FORECASTS				
(eop)	2019.12	2020.06	2020.12	2021.12
NHB base rate	0,90%	0,75%	0,60%	0,60%
HU 3M BUBOR	0,16%	0,74%	0,75%	0,65%
Fed Funds rate	1,75%	0,25%	0,25%	0,25%
ECB refi rate	0,00%	0,00%	0,00%	0,00%
SNB 3M Libor target	-0,75%	-0,75%	-0,75%	-0,75%

	Unit	2017	2018	2019	2020	2021
GDP growth, y/y - CIB forecast (*)	%	4,3	5,1	4,9	-5,9	3,9
GDP growth, y/y - Market consensus	%	-	-	-	-6,0	4,7
Industrial production, y/y	%	4,6	3,5	5,6	-7,5	6,5
Trade balance	EUR mln	8078	5520	4334	5600	5900
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	3,5
CPI, y/y, average - Market consensus	%	-	-	-	3,4	3,1
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,7	3,3
CPI, y/y, end of period - Market consensus	%	-	-	-		
Budget balance / GDP (ESA, including one-off revenues)	%	-2,2	-2,2	-1,6	-8,9	-6,5
Unemployment rate (eop)	%	3,8	3,6	3,5	4,4	4,6

Week 6

MONDAY 02/01/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Manufacturing PMI, final	January	51,1	52,9	
HU	9:00	Trade balance, final, EUR m	November	895	811	
EZ	11:00	Unemployment rate	December	8,3%	8,3%	
DE	13:00	Retail sales, y/y	December	5%	4,7%	
DE	13:00	Retail sales, m/m	December	-2,2%	1,9%	

TUESDAY 02/02/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	PPI, y/y	December	5,5%		
HU	9:00	PPI, m/m	December	0%		
EZ	11:00	GDP growth, flash, y/y	Q4	-4,3%	-6,1%	
EZ	11:00	GDP growth, flash, q/q	Q4	12,5%	-1,7%	

AUKCIÓK

Country	Time	Data	Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,36%		

WEDNESDAY 02/03/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	PPI, y/y	December	-1,9%	-2%	
EZ	11:00	PPI, m/m	December	0,4%	0,2%	
EZ	11:00	CPI, y/y	January	-0,3%	0,2%	
EZ	11:00	CPI, m/m	January	0,3%	0,3%	
US	16:00	ISM index	January	57,2	56,8	

AUKCIÓK

Country	Time	Data	Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 15 bln	0,45%		

THURSDAY 02/04/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Retail sales, y/y	December	-0,8%		
EZ	11:00	Retail sales, y/y	December	-2,9%	0,9%	
EZ	11:00	Retail sales, m/m	December	-6,1%	-3,4%	
US	14:30	Initial jobless claims, thousands	weekly	847	875	

AUCTIONS

Country	Time	Data	Amount	Previous	Forecast	Result
HU	11:30	5Y T-bond	HUF 30 bln	1,42%		
HU	11:30	10Y T-bond	HUF 25 bln	2,26%		
HU	11:30	20Y T-bond	HUF 10 bln	2,80%		

FRIDAY 02/05/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	IP, final, m/m	December	-1,2%		
HU	9:00	IP, final, y/y	December	1,6%		
US	14:30	NFP, change in non-farm payrolls, thousands	January	-140	50	
US	14:30	Unemployment rate	January	6,7%	6,7%	
US	14:30	Trade balance, USD bn	December	-68,1	-66,4	



CIB BANK

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MONDAY 01/25/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Economic sentiment index	January	-19,7		-16,3
DE	10:00	Ifo index	January	92,1	90	90,1
TUESDAY 01/26/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	14:00	MNB interest rate decision	January	0,6%	0,6%	0,6%
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,35%		0,36%
WEDNESDAY 01/27/2021						
Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	Durable goods orders, m/m	December	1,2%	1,0%	0,2%
US	20:00	Fed interest rate decision	January	0,25%	0,25%	0,25%
THURSDAY 01/28/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Unemployment rate	December	4,4%	4,5%	4,2%
EZ	11:00	Consumer confidence index	January	-15,5	-15	-15,5
DE	14:00	CPI, y/y	January	-0,3%	-0,3%	1%
DE	14:00	CPI, m/m	January	0,5%	0,5%	0,8%
US	14:30	Trade balance, USD bn	December	-84,8	-83	-82,5
US	14:30	GDP growth, flash, q/q	Q4	33,4%	4,2%	4,6%
US	14:30	Initial jobless claims, thousands	weekly	914	935	847
US	14:30	Personal consumption, q/q	Q4	41,0%	2,2%	2,5%
US	14:30	Core PCE index, q/q	Q4	3,4%	1,2%	1,4%
US	16:00	New home sales, mln unit	December	0,84	0,85	0,84
AUCTIONS						
HU	11:30	3Y T-bond	HUF 30 bln	1,45%		1,42%
HU	11:30	5Y T-bond	HUF 30 bln	2,33%		2,26%
HU	11:30	10Y T-bond	HUF 15 bln	2,42%		2,50%
FRIDAY 01/29/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Gross wages, y/y	November	8,8%	8,7%	8,6%
US	14:30	Personal income, m/m	December	-1,1%	0,1%	
US	15:45	Chicago PMI	January	59,5	58,7	

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