

CIB WEEKLY REPORT



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What to watch next week

Local market movers

The key domestic event of the forthcoming week is going to be the NBH rate-setting meeting and the publication of the new Inflation Report. We do not expect any changes either in the interest rates or in the unconventional toolkit, but it will be interesting to see how the central bank evaluates recent macro and market developments (appreciation of the forint, falling inflation, compromise over the EU budget veto) and how the macro projections have changed in light of these developments.

Back in November, the NBH -while keeping the policy rates on hold- scaled up both the QE and the NHP Hajrá programs, and repeated that additional monetary stimulus -if needed- will be provided via these tools. As far as the policy rate is concerned, the Council believed that the

current level of short term rates supports price stability as well as financial stability. The statement said, that the biggest risk regarding the inflation outlook remains risk aversion vis-à-vis emerging markets (i.e. the FX rate), and the central bank is ready to maintain the difference between the policy rate and the 1W depo rate (the effective rate) as long as justified by inflationary risks (i.e. fragility of the FX rate).

Headline inflation dropped significantly from the summer highs and now stands below 3%. Core measures, however, remain elevated, which justifies cautiousness. Therefore, the policy rate is widely expected to remain on hold for the foreseeable future.

Rising global risk appetite and the positive outcome of the „veto issue” triggered a U-turn in the EUR/HUF trajectory, EUR/HUF trades below 355 at the time of closing our weekly report. Thus, the question is whether the central bank considers the recent appreciation of the FX rate enough to close the gap between the 1W depo (0.75%) and the policy rate (0.6%). We think that it is more likely that the NBH decides to wait a little more and to keep the 1W rate at its current level until the end of the year. However, if inflation outcomes at the beginning of 2021 remain supportive (which is likely to be the case) and the FX rate remains relatively strong, the NBH may decide to cut the 1W rate in Q1 2021 pushing the Bubor curve down as well.

po External developments

Flash December PMI's, the latest German Ifo index, EZ industrial output and inflation figures are on the agenda next week in the euro zone. Final November HICP figures will confirm that inflation remains extremely low, the IP figures may point to a relatively resilient industrial sector, but forward-looking indicators (PMI, Ifo) will show that the second wave is having an impact on economic activity. The Ifo index is set to dip in December and so are the PMI indices. Nonetheless, the latter is also going to confirm the divergence between the industrial and services sectors

performance: the manufacturing PMI is expected to remain above the 50-point threshold, while the services index is likely to move further south, deep into recession territory. On the other side of the Atlantic, the Fed meeting will take center stage, the market does not expect any changes in the policy rates until 2022-2023, though. The statement is likely to reaffirm the view, that in case the economy needs additional monetary support, the Fed will provide it via the QE program.

Summary of recent macro and market developments

Inflation retreats further, the trade balance still in the black

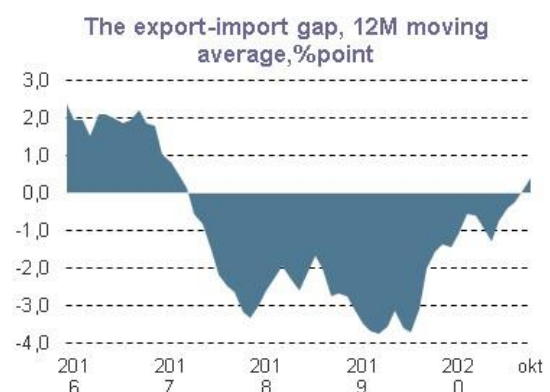
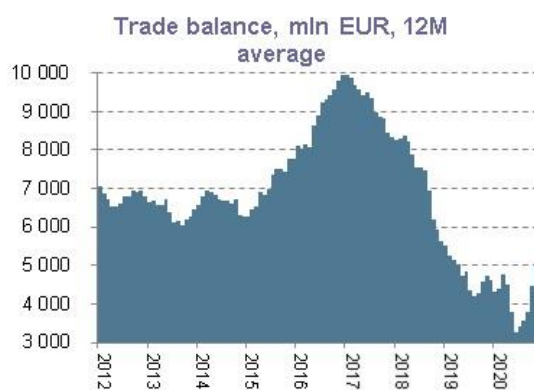
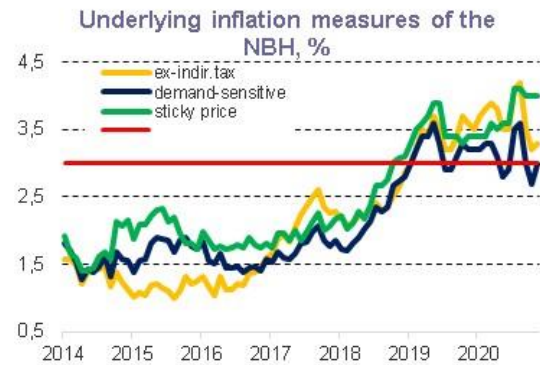
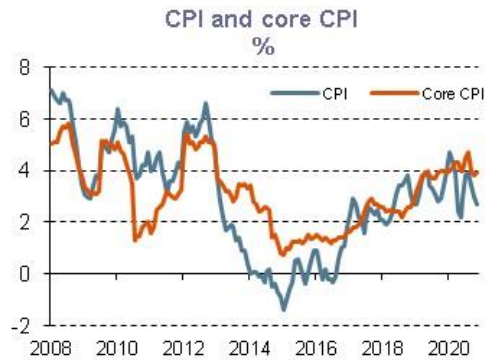
Inflation surprised at the weak side in November, again. Headline CPI dropped from 3% to 2,7% on the back of cheaper gasoline prices and decreasing services prices. Consumer prices fell 0.2% m-o-m. Price dynamics in the consumer durables category eased as well. Despite the strong fall of the headline index, inflationary pressures have not eased in the economy, which is also confirmed by the relatively high level of core measures. CSO's core CPI picked up from 3.8% to 3.9%, and the central bank's measures of underlying inflation also moved higher/remained elevated.

Headline inflation is expected to remain subdued during the next few months (below 3%), but is likely to jump in the spring (to above 4%) when the low 2020 base kicks in. Nonetheless, CPI is expected to gradually decrease in H2 and monthly outcomes may converge towards the medium-term target. Average 2021 CPI could be around 3-2-3.3%.

The trade balance posted yet another strong surplus in October (EUR 896 mln). Exports decreased by 1.5% y-o-y in EUR terms, but imports were 6.8% lower compared to the same period of 2019. The surplus of the first 10 months of the year reached EUR 4.6 bln, which confirms our earlier expectations for a FY surplus above EUR 5 bln.

The industrial sector recovered quite nicely from the first

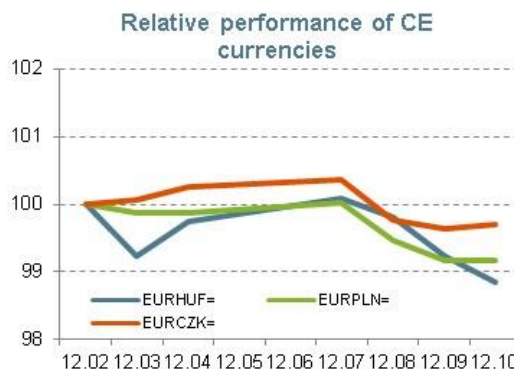
COVID wave and has proved to be very resilient during the second one, which is clearly visible in the export numbers. Meanwhile imports are weighed down by weak domestic demand, hence the massive surplus of the trade balance.



Source:CSO

EUR/HUF below 355

The HUF went on weakening at the beginning of the week and traded above 361 against the euro on Tuesday, but the positive development about the EU budget deal triggered a rebound on Wednesday. Hence, the EUR/HUF broke below the 355 threshold and at the time of closing our report, the pair fluctuates around that level. In line with the international movement of the dollar, the appreciation of the forint against the dollar approached 2% on a weekly basis, close to the level of 292. Although the Hungarian unit was the best performer in the region this week, but from the beginning of November, the HUF was not moving significantly against Czech koruna, the Polish zloty and the Romanian leu. Looking ahead, we still think that the risk of an uncontrolled and fast HUF depreciation has been reduced, but a new, lasting firming trend is also not in the cards.



CIB BANK

CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,56	129	0,04	76	-0,03	70	-0,73
3Y	1,02	182	0,09	89	0,43	123	-0,80
5Y	1,58	236	0,51	129	0,81	159	-0,78
10Y	2,26	285	1,38	197	1,28	187	-0,59
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,69	136	0,04	71	-0,02	65	-0,66
3Y	1,25	203	0,17	95	0,36	114	-0,78
5Y	1,71	246	0,51	126	0,63	139	-0,75
10Y	2,32	288	1,30	186	1,05	161	-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	5000	5700
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	3,2
CPI, y/y, average - Market consensus	%	-	-	-	3,4	3,1
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,6	3,2
CPI, y/y, end of period - Market consensus	%	-	-	-		
Budget balance / GDP (ESA, including one-off revenues)	%	-2,2	-2,2	-1,6	-8,9	-5,0
Unemployment rate (eop)	%	3,8	3,6	3,5	4,4	4,6

Macro diary

Week 50

MONDAY 12/07/2020

Country	Time	Data	Period	Previous	Forecast	Result
		No major data release	#N/A			

TUESDAY 12/08/2020

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	CPI, y/y	November	3%	3,1%	2,7%
HU	9:00	CPI, m/m	November	0,2%	0,2%	-0,2%
DE	11:00	ZEW index	December	39	44,3	55
EZ	11:00	GDP growth rate, final y/y	Q3	-14,8%	-4,3%	-4,3%
EZ	11:00	GDP growth rate, final q/q	Q3	-11,8%	12,7%	12,5%

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 19,5 bln	0,39%		0,39%

WEDNESDAY 12/09/2020

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Trade balance, prelim., EUR m	October	20800	16000	19400
HU	9:00	Trade balance, prelim., EUR m	October	1140		896
HU	11:00	Budget balance, HUF bln	November	-2604		-3298

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 30 bln	0,48%		0,47%

THURSDAY 12/10/2020

Country	Time	Data	Period	Previous	Forecast	Result
EZ	13:45	ECB rate decision, policy rate	December	0,00%	0,00%	0,00%
EZ	13:45	ECB rate decision, depo rate	December	-0,50%	-0,50%	-0,50%
US	14:30	CPI, y/y	November	1,2%	1,3%	1,2%
US	14:30	CPI, m/m	November	0%	0,1%	0,2%
US	14:30	Initial jobless claims, thousands	weekly	712	775	853

AUCTIONS

HU	11:30	5Y T-bond	HUF 45 bln	1,55%		1,49%
HU	11:30	10Y T-bond	HUF 45 bln	2,24%		2,19%
HU	11:30	15Y T-bond	HUF 20 bln	2,32%		2,29%

FRIDAY 12/11/2020

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	PPI, y/y	November	0,5%	0,4%	0,8%
US	14:30	PPI, m/m	November	0,3%	0,2%	0,1%



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Week 51

MONDAY 12/14/2020

Country	Time	Data	Period	Previous	Forecast	Result
		No major data release	#N/A			

TUESDAY 12/15/2020

Country	Time	Data	Period	Previous	Forecast	Result
HU	14:00	MNB interest rate decision	December	0,6%	0,6%	
US	15:15	Capacity utilization	November	72,8%	73%	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,39%		

WEDNESDAY 12/16/2020

Country	Time	Data	Period	Previous	Forecast	Result
DE	9:30	Manufacturing PMI, flash	December	57,8	57,9	
DE	9:30	Services PMI, flash	December	46	46,2	
DE	9:30	Composite PMI, flash	December	51,7	52	
EZ	10:00	Manufacturing PMI, flash	December	53,8	53,6	
EZ	10:00	Services PMI, flash	December	41,7	41,3	
EZ	10:00	Composite PMI, flash	December	45,3	45,1	
EZ	11:00	Trade balance, final, EUR m	October	24000		
US	14:30	Retail sales, m/m	November	0,3%	-0,2%	
US	14:30	> ex-autos, m/m	November	0,2%	0,1%	
US	15:45	Manufacturing PMI, flash	December	56,7	56	
US	15:45	Services PMI, flash	December	58,4	56,5	
US	15:45	Composite PMI, flash	December	58,6		

THURSDAY 12/17/2020

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	CPI, y/y	November	-0,3%	-0,3%	
EZ	11:00	CPI, m/m	November	-0,3%	-0,3%	
EZ	11:00	Core inflation, y/y	November	0,2%	0,2%	
US	14:30	Building permits, mln unit	November	1544	1555	
US	14:30	Housing starts, mln unit	November	4,9%	-0,3%	
US	14:30	Initial jobless claims, thousands	weekly	853	725	

AUCTIONS

HU	11:30	3Y T-bond	HUF 20 bln	1,00%		
HU	11:30	5Y T-bond	HUF 30 bln	1,49%		
HU	11:30	10Y T-bond	HUF 30 bln	2,19%		

FRIDAY 12/18/2020

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	PPI, y/y	November	-0,7%	-0,8%	
DE	8:00	PPI, m/m	November	0,1%	0,1%	
DE	8:00	Ifo index	December	90,7	90,2	



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Contacts

Resarch	Sales – Securities	Sales FX
<ul style="list-style-type: none"> • Mariann Trippon Head of Research 423-2420 • András Bukovszki Junior analyst 	<ul style="list-style-type: none"> • Balázs Borók Head of Securities Sales 489-8365 • Balázs Pápay Equity sales 489-8366 • Balázs Tóth Equity sales 489-8345 • Sándor Fenyvesi FI sales 489-8352 • Zoltán Verzár FI sales 489-835 	<ul style="list-style-type: none"> • Mária Juhász Head of Treasury sales 489-8303 • Marianna Nagy FX sales 489-8313 • Péter Kelemen FX sales 489-8304 • Gábor Horváth FX sales 489-8327

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