

CIB WEEKLY REPORT



Contents

- **What to watch in the week ahead**
- **Summary of recent macro and market events**
- **Forecast tables**
- **Macro diary**

What to watch next week

Local market movers

No major data releases are scheduled for next week.

External developments

Final December HICP, the latest German ZEW index and flash January PMIs are on the agenda in the euro zone. HICP data will confirm that inflation remains stubbornly low in the euro zone, the ZEW index may rise on the back of vaccine optimism, but the January PMI's are expected to show deteriorating economic activity, especially in the services sector. The manufacturing PMI will remain conveniently above the 50-point mark, though. Low inflation and weak economic activity call for continuous economic policy support, the ECB is widely expected to reiterate its commitment to ultra loose monetary policies at its meeting also scheduled for next week.

Housing, weekly jobless claims data and the Philly Fed index will be out on the other side of the Atlantic. The flash January PMIs are set to be released, too. Activity may have deteriorated in the US as well, and the housing market could have weakened slightly, too.

Summary of recent macro and market developments

Inflation stable in December, the industrial and export sectors remain resilient

Headline CPI was flat at 2.7% in December, in line with our expectations. Consumer prices rose 0.3% m-o-m. Average 2020 CPI came out at 3.3%. Average tax-adjusted core CPI was 4.1% and the CSO's core measure stood at 3.7% last year -both higher than the headline reading and above the 3% medium term target of the central bank.

On a monthly basis, clothing and food prices went down in line with the seasonal pattern, but higher gasoline prices pushed inflation higher. Tobacco products also posted above average growth due to the new round of excise duty tax hikes.

Despite the stability of the headline index (well below the summer peak), core measures do not suggest any meaningful easing of inflationary pressures. CSO's core CPI picked up from 3.9% to 4% in December, the tax-adjusted core index rose from 3.3% to 3.4% and demand-sensitive inflation increased from 3% to 3.3% y-o-y.

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. Average 2021 inflation could be around 3.5%.

This forecast is in line with the NHB's most recent projections published in the December Inflation Report. The central bank staff pencils in 3.5-3.6% average CPI for

2021 and expects inflation to stabilize around target from 2022. Core inflation may remain elevated this year (4%), but the tax-adjusted measure may retreat to 2.8%-3%.

The drop of the headline index in Q4 is a welcome development for the NHB, but still elevated core measures justify cautiousness. This view was reinforced by public comments of Barnabás Virág. The vice governor said this week that

- the central bank cannot relax yet, vigilance is still needed in terms of inflation
- there will be a temporary spike in inflation in the spring due to the low base and higher fuel prices
- the expected restart of the economy can have unexpected impacts on both the supply and demand side
- therefore, the focus should be on the evolution of core measures
- both the inflation outlook and the global risk sentiment justify cautiousness

Monetary policy wise, these statements suggest that the central bank sees no room to lower rates at the short-end segment of the curve, 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 BUBOR rate may finish the year below the current 0.75%.

The Hungarian industrial and export sectors remained quite resilient in November -in line with the European and

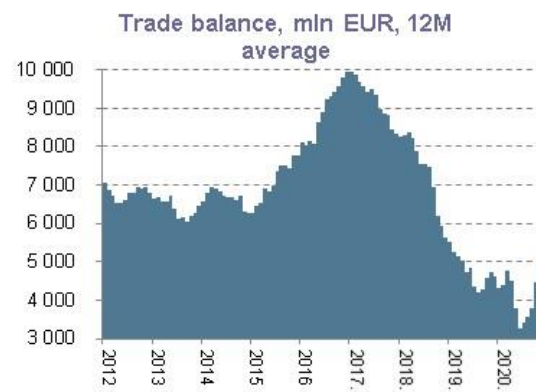
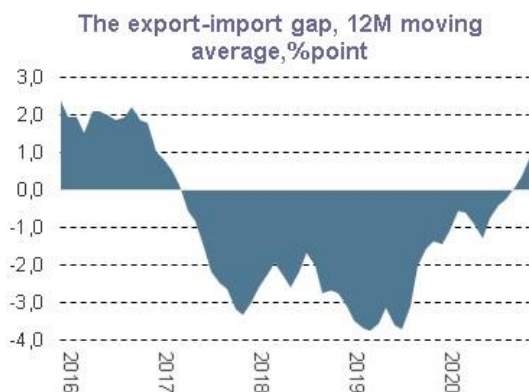
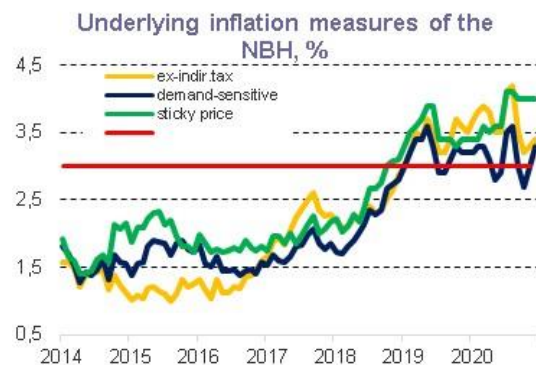
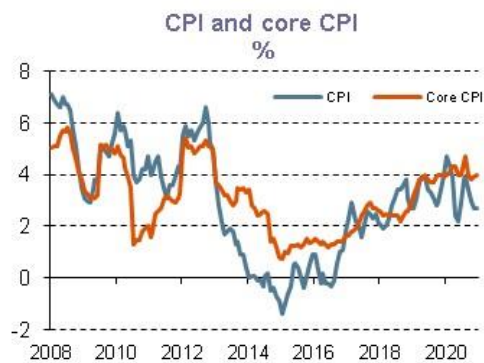
global trends. This is true even if we consider that industrial output -after rising steadily for more than half a year-actually dropped by 1.2% m-o-m. Still, unadjusted output was 3.5% higher compared to November 2019, and the wda figure also showed a 1.9% y-o-y increase (and is above the pre-crisis level). The key engines of growth were the vehicle manufacturing and the computer/electrical/optical subsectors.

Industrial output decreased 7% in the first 11 months of the year.

The outlook for 2021 is relatively encouraging. Although the pandemic and the related containment measures will weigh on activity in the next 1-2 quarters, the lockdown measures have a much bigger impact on the services sector, and the expected rebound in H2 will further support manufacturing. Orders data seem to confirm this view: new orders are 10% up y-o-y and the total orders book of manufacturing exceeds 2019 levels by 6.5%.

Industrial output may contract by ~7-7.5% 2020, followed by 6-6.5% growth in 2021.

The supportive external demand picture is reflected in the most recent trade figures, too. Exports (in EUR terms) rose by 6.9% in November surpassing the 1.9% increase in imports. Hence, the trade balance registered yet another strong monthly surplus (EUR 811 mln), bringing the cumulative surplus of the January-November period to 5.37 bln. Exports are down 5.5% in the first 11 months of 2020, but depressed domestic demand resulted in an even bigger fall (-6.9%) in imports. The FY surplus may conveniently be above EUR 5.5 bln, and the trade balance is not likely to deteriorate significantly in 2021 either.

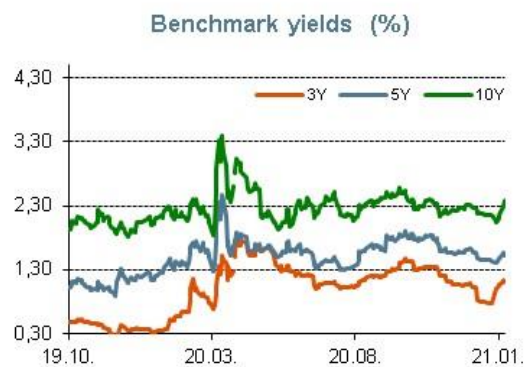
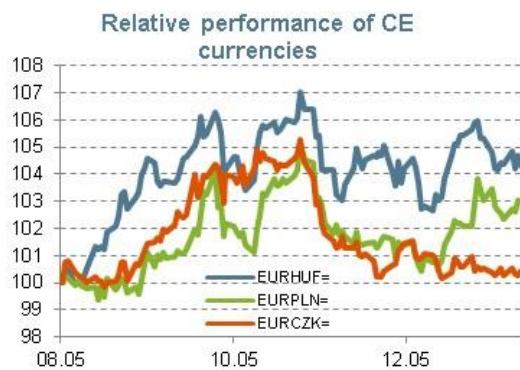


Source:CSO, NBH

EUR/HUF hovers around 360

In this week the forint fluctuated against the euro in a narrow range between 359.1 and 361.5. The more subdued exchange rate movements may have been supported by the relative stability of domestic interest rate expectations and the December inflation data. Although the beginning of the current week brought some weakening, the EUR/HUF cross rate did not rise above

362. On Thursday the Hungarian unit was boosted by NBH's Deputy Governor's statement which pushed the EUR/HUF lower, and at the time of closing our report, the pair remains below 360. The forint has not underperformed its regional peers this week, HUF moved in tandem with the CZK, and even performed slightly better than the PLN. However, the exchange rate drivers have not changed significantly, and domestic monetary policy and related expectations still do not point to a sustained and noteworthy appreciation of the forint.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,48	110	0,04	66	-0,01	61	-0,62
3Y	1,11	187	0,05	81	0,45	121	-0,76
5Y	1,52	224	0,37	109	0,79	151	-0,72
10Y	2,37	291	1,20	174	1,28	182	-0,54
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,59	128	0,06	75	-0,13	56	-0,69
3Y	1,10	188	0,13	92	0,40	118	-0,78
5Y	1,60	236	0,46	122	0,72	148	-0,76
10Y	2,24	281	1,20	177	1,18	175	-0,57

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

Macro diary

Week 4

MONDAY 01/18/2021

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

TUESDAY 01/19/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	11:00	ZEW index	January	55	55	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,33%		

WEDNESDAY 01/20/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	PPI, y/y	December	-0,5%	-0,4%	
DE	8:00	PPI, m/m	December	0,2%	0,2%	
EZ	11:00	CPI, y/y	December	-0,3%	-0,3%	
EZ	11:00	CPI, m/m	December	-0,3%	0,3%	
EZ	11:00	Core inflation, y/y	December	0,2%	0,2%	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 15 bln	0,43%		

THURSDAY 01/21/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	13:45	ECB rate decision, policy rate	January	0,00%	0,00%	
EZ	13:45	ECB rate decision, depo rate	January	-0,50%	-0,50%	
EZ	16:00	Consumer confidence index	January	-13,9	-15	
US	14:30	Building permits, mln unit	December	1,635	1,600	
US	14:30	Initial jobless claims, thousands	weekly	965	789	
US	14:30	Housing starts, mln unit	December	1547	1564	

AUCTIONS

HU	11:30	3Y T-bond	HUF 20 bln	0,73%		
HU	11:30	5Y T-bond	HUF 30 bln	1,42%		
HU	11:30	10Y T-bond	HUF 30 bln	2,28%		

FRIDAY 01/22/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	10:00	Manufacturing PMI, flash	January	55,2	54,5	
EZ	10:00	Services PMI, flash	January	46,4	45	
EZ	10:00	Composite PMI, flash	January	49,1	48,3	
US	15:45	Manufacturing PMI, flash	January	56,5	57,1	
US	15:45	Services PMI, flash	January	55,3		
US	15:45	Composite PMI, flash	January	54	54,8	



CIB BANK

January 15, 2021 | www.ebroker.hu

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

THIS DOCUMENT IS NOT A PROSPECTUS, AN OFFER OR AN INVITATION TO BUY OR SELL ANY SECURITIES UNDER HUNGARIAN OR FOREIGN LAW. THIS DOCUMENT IS BEING FURNISHED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED TO ANY OTHER PERSON. NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE PUBLISHED IN THE PRESS OR ANY OTHER MEDIA. ANY INVESTMENT DECISION WITH RESPECT TO ANY SECURITIES OF THE RESPECTIVE COMPANY MUST BE MADE ON THE BASIS OF AN OFFERING CIRCULAR OR PROSPECTUS APPROVED BY SUCH COMPANY AND NOT ON THE BASIS OF THIS DOCUMENT. THIS DOCUMENT HAS BEEN PREPARED USING SOURCES BELIEVED TO BE RELIABLE AND ACCURATE. AS THE INFORMATION CONTAINED IN THIS REPORT HAS NOT BEEN INDEPENDENTLY VERIFIED, NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED IS MADE AS TO THE FAIRNESS ACCURACY OR COMPLETENESS OF THE INFORMATION AND OPINIONS CONTAINED IN THIS DOCUMENT. THE INFORMATION AND OPINIONS IN THIS REPORT ARE SUBJECT TO CHANGE WITHOUT NOTICE. ANY OPINIONS AND PROJECTIONS CONTAINED IN THIS DOCUMENT ARE ENTIRELY THOSE OF THE AUTHORS. NEITHER THE RESPECTIVE COMPANY, CIB BANK CLOSELY-HELD CORPORATION, NOR ANY OTHER PERSON ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH.