

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 although we do not expect any changes either in the policy rates or in the unconventional toolkit (see below). The CSO is going to publish the most recent wage and unemployment statistics. We expect the readings to remain benign (unemployment rate well below 5%, wage growth 8-9%), but these figures still underestimate the COVID impact, underlying trends are much weaker.

External developments

The January economic sentiment index and the most recent M3 data are on the agenda in the euro zone. The ESI may have dropped in January in line with the worsening COVID situation, but M3 and lending figures could confirm that due to the aggressive steps of the ECB

financing conditions remain supportive in the economy.

Housing, orders, consumption and income data will be released in the US alongside with the most recent consumer sentiment indices and the advance estimate of Q4 GDP. The releases are likely to reinforce the view that the economy needs additional fiscal stimulus.

Summary of recent macro and market developments

The NBH is likely to remain on the sidelines in January

The NBH's Monetary Council is widely expected to remain on the sidelines when it meets next Tuesday. We do not expect any changes either in the policy rates or in the unconventional toolkit.

Back in December, the statement said that

- The increase in risk aversion vis-a-vis emerging markets (FX rate) continues to pose the greatest risk in terms of the outlook for inflation.
- It is the MNB's clear intention to prevent the current uncertain global market environment from causing an increase in upside risks to inflation.
- The MNB will be ready to increase the size of its balance sheet further to manage risks arising from the coronavirus pandemic.
- The MNB continues to use the government securities purchase programme and to settle for a lasting market presence.
- The MNB will continue to set the one-week deposit rate at weekly tenders, in response to the increase in risk aversion vis-a-vis emerging markets.
- The Bank will maintain the difference between the base rate and the one-week deposit rate as long as warranted by inflationary risks.

The key takeaway message from last month's statement was that the central bank would continue providing

stimulus at the long-end segment of the curve but sees no room to loosen monetary conditions at the short-end.

The recently released macroeconomic indicators were more or less in line with the expectations and do not warrant immediate changes in the monetary policy stance. The restriction measures will continue weighing on economic activity, but the industrial and export sectors have proved to be quite resilient. Headline inflation remained below 3% in December. Despite the stability of the headline index (well below the summer peak), core measures do not suggest any meaningful easing of inflationary pressures, though.

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

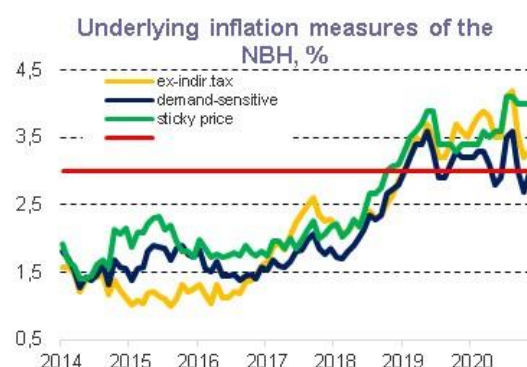
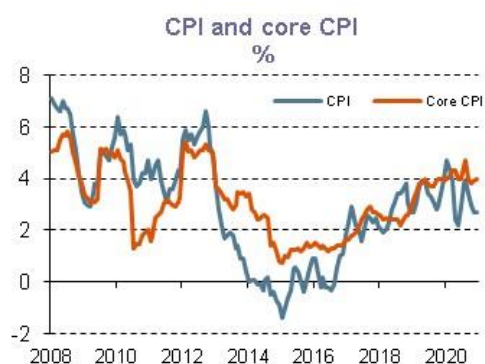
- A lasting rebound in economic activity can only be expected when the restrictions measures are lifted permanently, the timing of which depends on the speed of vaccination. According to the consensus view it will not happen until mid-year at the earliest, hence the pandemic will dampen activity in Q1 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.

The macro picture seems to justify the wait and see stance of the central bank and so do the most recent market developments. HUF has been supported by rising global risk appetite, the Bubor curve has stabilized (the

1W depo rate is a strong anchor) and long yields moved higher in line with rising core market yields.

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%.

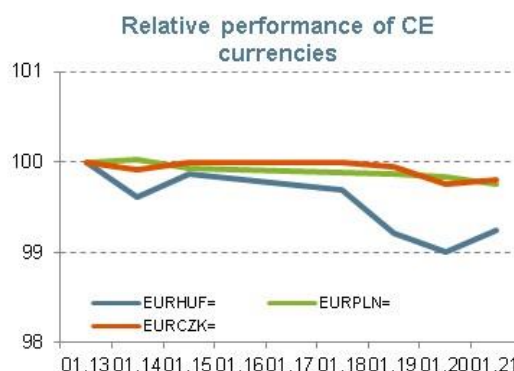


Source:CSO, NBH

EUR/HUF conveniently below 360

The pace of appreciation has accelerated recently, EUR/HUF managed to remain below the psychologically important 360 level this week. The weekly trend was strengthening, with the market moving in the 356-357 range on Friday in the first half of trading session. The strengthening of the forint this week has been accompanied by decreased global risk aversion and depreciation of the US dollar, but it is noteworthy that the forint also appreciated almost 1.0% against the Polish zloty and 0.65% against the Czech koruna. Moreover, due to the international movement of the dollar, the

appreciation of the forint against the dollar approached 1.5% on a weekly basis, moving below the 295 level. The potential further strengthening depends on international market sentiment, but the 355 level against the euro seems to be a strong support for now.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,49	112	0,03	66	0,00	63	-0,63
3Y	1,13	188	0,04	79	0,42	117	-0,75
5Y	1,55	227	0,38	110	0,74	145	-0,72
10Y	2,42	295	1,21	174	1,25	178	-0,53
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,57	126	0,06	75	-0,14	55	-0,68
3Y	1,08	186	0,12	90	0,41	119	-0,78
5Y	1,58	233	0,46	121	0,74	149	-0,75
10Y	2,25	282	1,21	178	1,20	177	-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 5

MONDAY 01/25/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Economic sentiment index	January	-19,7		
DE	10:00	Ifo index	January	92,1	90	

TUESDAY 01/26/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	14:00	MNB interest rate decision	January	0,6%	0,6%	

AUKCIÓK

Country	Time	Data	Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,35%		

WEDNESDAY 01/27/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	Durable goods orders, m/m	December	1,0%	1,0%	
US	20:00	Fed interest rate decision	January	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%	
EZ	11:00	Consumer confidence index	January	-15,5	-15	
DE	14:00	CPI, y/y	January	-0,3%	-0,3%	
DE	14:00	CPI, m/m	January	0,5%	0,5%	
US	14:30	Trade balance, USD bn	December	-84,8	-83	
US	14:30	GDP growth, flash, q/q	Q4	33,4%	4,6%	
US	14:30	Initial jobless claims, thousands	weekly	900	935	
US	14:30	Personal consumption, q/q	Q4	41,0%	2,2%	
US	14:30	Core PCE index, q/q	Q4	3,4%	3,5%	
US	16:00	New home sales, mln unit	December	0,84	0,85	

AUCTIONS

HU	11:30	3Y T-bond	HUF 30 bln	0,73%		
HU	11:30	5Y T-bond	HUF 30 bln	1,45%		
HU	11:30	10Y T-bond	HUF 20 bln	2,33%		

FRIDAY 01/29/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Gross wages, y/y	November	8,8%	8,7%	
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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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	61,8

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,33%		0,35%

WEDNESDAY 01/20/2021

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

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 15 bln	0,43%		0,45%

THURSDAY 01/21/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	13:45	ECB rate decision, policy rate	January	0,00%	0,00%	0,00%
EZ	13:45	ECB rate decision, depo rate	January	-0,50%	-0,50%	-0,50%
EZ	16:00	Consumer confidence index	January	-13,8	-15	-15,5
US	14:30	Building permits, mln unit	December	1,635	1,600	1709
US	14:30	Initial jobless claims, thousands	weekly	926	789	900
US	14:30	Housing starts, mln unit	December	1578	1564	1669

AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1,42%		1,45%
HU	11:30	10Y T-bond	HUF 25 bln	2,28%		2,33%
HU	11:30	20Y T-bond	HUF 10 bln	2,55%		2,80%

FRIDAY 01/22/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	10:00	Manufacturing PMI, flash	January	55,2	54,5	54,7
EZ	10:00	Services PMI, flash	January	46,4	45	45
EZ	10:00	Composite PMI, flash	January	49,1	48,3	47,5
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	



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