

# CIB WEEKLY REPORT



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## What to watch next week

### Local market movers

CSO is set to release detailed Q4 GDP statistics, that will reveal the causes behind the surprisingly strong Q4 reading. Flash January IP data may confirm the industrial sector's resilience, although it is uncertain whether and how the global chip shortage affected the Hungarian vehicle manufacturing sector at the beginning of 2021.

### External developments

Final February PMIs and flash HICP figures will be released in the euro zone alongside with the most recent retail sales and unemployment rate statistics. The PMIs will likely confirm that the euro zone economy remains quite resilient to the third wave of the pandemic, but will also highlight the divergencies between economic sectors (services vs. industry). Retail sales statistics will point to subdued consumption, but the unemployment rates are

expected to remain stable both in the euro zone and in Germany, thanks to the fiscal measures targeted at the labor market.

Headline euro zone inflation might have picked up further in February (to 1%, still way below the ECB target), but core HICP is expected to move down from the January peak.

February employment statistics will take center stage on the other side of the Atlantic, while the most recent ISM indices could confirm that the economy entered the new year on a firm footing. The labor market recovery, however, remains far from being completed, the unemployment rate is still above pre-COVID levels, and there are still ~10 mln less jobs in the economy.

## Summary of recent macro and market developments

### **NBH remained on the sidelines**

The Monetary Council left the key rates unchanged in February -in line with the expectations. The statement released after the meeting repeated the lines of the January document. 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). In line with the announcements in January the NBH reallocated liquidity from the collateralised lending facility towards government securities purchases and increased the amount of weekly purchases to HUF 60 bln. 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 Hungarian economy proved to be resilient to the second wave. FY 2021 GDP growth could be in the upper half of the 3.5-6% range projected in December.

- 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. Average 2021 CPI will be 3.5-3.6%, but inflation is expected to stabilize around target from 2022.
- 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 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 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 starting from summer) and global risk sentiment remains supportive (stable HUF).

Seeing the abrupt rise of core yields, the central bank might become more active on the FI market, where medium and long yields increased 40-60 bps ytd tracking core market developments. (The expected strong rebound of activity once lockdown measures are lifted, alongside with ultra loose economic policies stoke inflation fears on the global markets. Market-based inflation expectations jumped, and long yields also rose rapidly.)

The 10Y HU-DE spread widened slightly, but the increase is far from being dramatic. The spread moved in the 260-300 bps range during the last 12 months (except for the short, turbulent period during the outbreak of COVID), and although very close to the upper end, remains in this range.

The NBH is very unlikely to aim at going against the global trend and narrowing the spread drastically, but with the flexible use of its QE, it has an effective tool to smooth market movements and keep yields from rising levels unjustified by fundamentals (which in turn would result in an unwelcome tightening of financial conditions).

**EUR/HUF      headed      north**  
**breaking the 360 resistance**

EUR/HUF showed directionless movements in the first part of the week, the pair hovered in the 358-360 range. The NBH rate-setting meeting had a relatively small effect on the exchange rate on Tuesday and domestic macro data also have not moved markets significantly until the second half of the week. However, the Hungarian unit started to weaken on Thursday and the trend was not stopped at the 360 threshold, at the time of closing our report, the pair remains above 361.

The main factor behind the depreciation was the rise in global risk aversion (triggered by inflation fears), but the rapid deterioration of the COVID situation did not help (the government extended restriction measures, including curfew until March 15.)

HUF may remain driven by external development in the upcoming period, a prolonged period of risk aversion may well push EUR/HUF even higher. The central bank will closely monitor FX market developments, but the current level of the FX rate does not seem to warrant any kind of response, yet).





CE3 GOVERNMENT BOND YIELDS							
	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
<b>SPOT (bid)</b>							
1Y	0,64	125	0,12	73	0,27	87	-0,61
3Y	1,69	236	0,36	103	0,94	162	-0,67
5Y	2,05	261	0,84	140	1,18	175	-0,56
10Y	2,79	304	1,53	178	1,65	190	-0,25
<b>60-DAY AVG</b>							
1Y	0,52	118	0,10	76	-0,11	55	-0,66
3Y	1,08	184	0,17	93	0,53	129	-0,76
5Y	1,54	226	0,51	123	0,88	159	-0,72
10Y	2,33	284	1,28	179	1,34	184	-0,51

Source: Reuters

## Macroeconomic and market forecasts

EXCHANGE RATES, QUARTERLY AVERAGE					
	2019 Q4	2020 Q2	2020 Q4	2021Q2	2021 Q4
EUR/HUF	332	352	361	357	356
CHF/HUF	303	331	335	322	317
USD/HUF	300	320	303	303	306
EUR/CHF	1,10	1,06	1,08	1,11	1,12
EUR/USD	1,11	1,10	1,19	1,18	1,16
GBP/USD	1,29	1,24	1,32	1,34	1,35
GBP/HUF	386	397	399	406	414

INTEREST RATE FORECASTS					
(eop)	2019.12	2020.06	2020.12	2021.06	2021.12
NHB base rate	0,90%	0,75%	0,60%	0,60%	0,60%
HU 3M BUBOR	0,16%	0,74%	0,75%	0,70%	0,65%
Fed Funds rate	1,75%	0,25%	0,25%	0,25%	0,25%
ECB refi rate	0,00%	0,00%	0,00%	0,00%	0,00%
SNB 3M Libor target	-0,75%	-0,75%	-0,75%	-0,75%	-0,75%

	Unit	2017	2018	2019	2020	2021*	2022*
GDP growth, y/y - CIB forecast (*)	%	4,3	5,1	4,9	-5,1	3,9	4,0
GDP growth, y/y - Market consensus	%	-	-	-	-6,0	4,4	4,6
Industrial production, y/y	%	4,6	3,5	5,6	-6,1	6,5	5,5
Trade balance	EUR mln	8078	5520	4334	5700	5400	5000
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	3,5	3,1
CPI, y/y, average - Market consensus	%	-	-	-	3,4	3,2	3,1
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,7	3,3	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	-6,5	-4,5
Unemployment rate (eop)	%	3,8	3,6	3,5	4,4	4,6	4,2



## Week 10

### MONDAY 03/01/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Manufacturing PMI, final	February	54,9		
DE	10:00	Retail sales, y/y	January	1,5%	1,9%	
DE	10:00	Retail sales, m/m	January	-9,6%	1,0%	

### TUESDAY 03/02/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	GDP growth rate, final y/y	Q4	-3,7%	-3,7%	
HU	9:00	GDP growth rate, final q/q	Q4	1,1%	1,1%	
HU	9:00	PPI, y/y	January	6,8%		
HU	9:00	PPI, m/m	January	1,0%		
EZ	11:00	CPI, y/y	February	0,9%	1%	
EZ	11:00	CPI, m/m	February	0,2%		

### AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,47%		

### WEDNESDAY 03/03/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	PPI, y/y	January	-1,1%		
EZ	11:00	PPI, m/m	January	0,8%		
US	16:00	Services ISM index	February	58,7	58,7	

### AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 15 bln	0,52%		

### THURSDAY 03/04/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Retail sales, y/y	January	-4,0%		
HU	9:00	Trade balance, final, EUR m	December	310		
EZ	11:00	Unemployment rate	January	8,3%	8,3%	
EZ	11:00	Retail sales, y/y	January	0,6%		
EZ	11:00	Retail sales, m/m	January	2,0%		
US	14:30	Initial jobless claims, thousands	weekly	730		
US	16:00	Industrial orders, m/m	February	1,1%	1,0%	

### AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1,89%		
HU	11:30	10Y T-bond	HUF 20 bln	2,65%		
HU	11:30	20Y T-bond	HUF 10 bln	3,15%		

### FRIDAY 03/05/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Industrial orders, m/m	January	-1,9%	1%	
HU	9:00	IP, prelim., y/y	January	1,1%		
HU	9:00	IP, prelim., m/m	January	-2,4%		
US	14:30	Unemployment rate	February	6,3%	6,4%	
US	14:30	Trade balance, USD bn	January	-66,6	-67,5	



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