

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

CSO is going to publish February CPI and flash January trade balance statistics next week. Inflation is widely expected to move higher and break the 3% threshold, again. The export numbers are likely to reflect the subdued industrial performance.

External developments

The key euro zone event of the forthcoming week is going to be the ECB's rate-setting meeting. The policy rate and the depo rate will remain unchanged, the focus will be on the statement and Lagarde's press briefing, from which the market may get some info of how worried the ECB is about the bond market turbulences and whether they plan something to smooth market movements.

CPI, PPI statistics and flash March consumer confidence data are on the agenda in the US.



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Summary of recent macro and market developments

Q4 GDP revised up, subdued year start in the industry and retail sales

CSO revised slightly up flash Q4 GDP data. According to the second estimate, the economy grew by 1.4% q-o-q (swda) and by minus 4.1% y-o-y (swda) in the October-December period. Unadjusted figures showed -3.6% y-o-y rate of growth. FY 2020 GDP growth came out at minus 5% -above the market consensus.

The detailed breakdown confirmed that the positive surprise came from the services sector's performance, the industry, the construction and agricultural sectors delivered more or less what we could have expected from the monthly data releases.

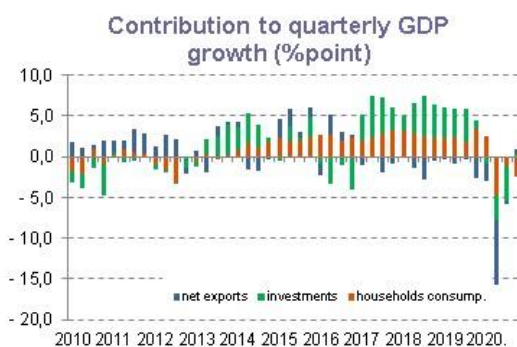
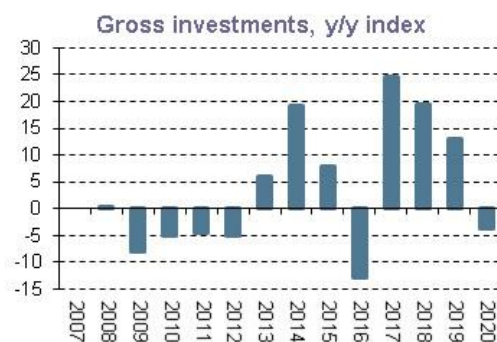
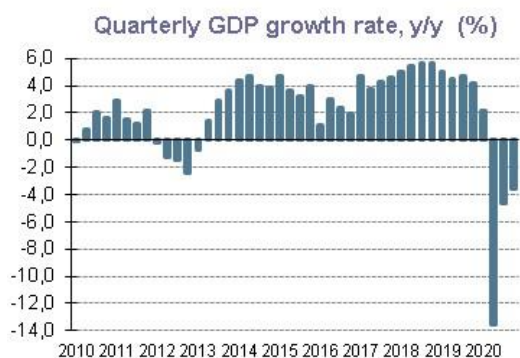
The industrial sector proved to be very resilient to the second wave (benefitting from the more targeted nature of the containment measures, the better global demand picture and the lack of major supply side disruptions), value added increased 2.2% y-o-y. Value added in the construction sector fell 3.9% y-o-y, and agriculture couldn't contribute to growth positively either. Value added in the services sector declined by only 5.7% y-o-y, but there were huge divergencies among the different subsectors. Tourism contracted by ~50%, transportation and storage by 20%, but other subsectors less affected by the restriction measures posted milder decreases.

At the absorption side, government consumption rose 6.2% y-o-y, but households' consumption was down 4.2% y-o-y. Surprisingly investments managed to post growth rate for the first time in 2020 (+1.2%). Government consumption added 0.2%points, net exports 0.6%points to overall growth, which could only partly offset the negative contribution from consumption (-2.5%) and gross capital formation -investments+inventory changes- (-2.4%).

Economic activity will remain weighed down by the newly introduced restrictions measures in Q1, and possibly in early Q2. The measures are stricter than during the

second wave (schools, nursery schools closed for 4 weeks, shops, services closed for 2 weeks -except for essential goods and services), moreover will impact a bigger part of Q1 compared to Q4. Hence q-o-q GDP growth could return to negative territory in Q1. Economic activity may start normalizing during Q2 (depending on the reopening schedule), but a strong rebound can only be expected in H2 2021. The next revision of our macro scenario will occur in late March. Our current (December) baseline scenario pencils in 3.9% GDP growth for this year, and although it is much below the current market consensus of 4.9%, in light of the exponential spread of the virus, the relatively slow progress in immunization and the new lockdown measures, this forecast does not seem to be overly pessimistic.

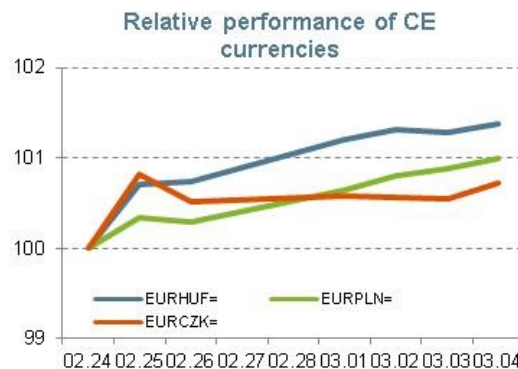
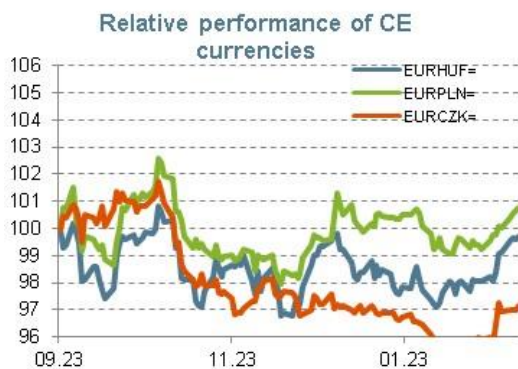
January IP and retail sales statistics point to a subdued year-start in both sectors. Although retail sales rose 0.2% m-o-m (wda), they were down 1.8% y-o-y, and a positive shift can not be expected in the foreseeable future either. Meanwhile, industrial output fell 6.7% y-o-y in the first month of 2021 according to unadjusted data, the first yearly decline since August 2020. Wda figures showed less severe contraction (-2.8% y-o-y and +0.5% m-o-m). Details are not yet available, but according to CSO, output in vehicle manufacturing fell the most. This is not a surprise considering the global chip shortage that dampened output across Europe. These problems may persist in the upcoming period (February PMI fell below the 50-point threshold, but once the supply side manages to catch up, the sector is on a good position to increase production again and work-off the losses.



EUR/HUF above 365

In line with the appreciation of the US dollar, the forint weakening trend continued this week especially from Thursday when the Hungarian government reintroduced strict restrictive measures due to the increase in cases related to the third wave of the epidemic. The forint depreciated vis-à-vis the euro by an additional 1%, so the EUR/HUF cross rate rose above 366 and was trading above that level even at the time of closing our weekly

report. Moreover, due to the international movement of the dollar, the weakening of the forint against the greenback was even more significant: it depreciated by more than 2.0% against the US dollar on a weekly basis and traded above 307. The performance of our currency remains dominated by two main factors: rising global risk aversion (inflation fears) and the worsening COVID situation. During the last couple of days, however, external factors may have played a bigger role in FX rate shifts as reflected in the relative performance of regional currencies. The Hungarian unit was not moving significantly against Czech koruna, the Polish zloty and the Romanian leu.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,65	129	0,09	73	-0,10	53	-0,64
3Y	1,60	231	0,35	106	0,98	169	-0,71
5Y	1,89	251	0,86	147	1,34	196	-0,62
10Y	2,62	294	1,56	188	1,74	206	-0,32
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,53	118	0,10	76	-0,10	55	-0,66
3Y	1,12	187	0,19	94	0,57	133	-0,75
5Y	1,57	227	0,54	125	0,91	162	-0,71
10Y	2,36	284	1,25	173	1,37	186	-0,49

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 11

MONDAY 03/08/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	IP, final, m/m	January	0,0%	-1,5%	
DE	8:00	IP, final, y/y	January	-1,0%		
HU	11:00	Budget balance, HUF bln	February	198,8		

TUESDAY 03/09/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Trade balance, final, EUR m	January	15.2		
HU	9:00	CPI, y/y	February	2,7%	3,1%	
HU	9:00	CPI, m/m	February	0,9%		
EZ	11:00	GDP growth rate, final y/y	Q4	-5,0%	-5,0%	
EZ	11:00	GDP growth rate, final q/q	Q4	-0,6%	-0,6%	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,56%		

WEDNESDAY 03/10/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	CPI, y/y	February	-1,4%	-1,7%	
US	14:30	CPI, m/m	February	0,3%	0,4%	

THURSDAY 03/11/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Trade balance, prelim., EUR m	January	398		
EZ	13:45	ECB interest rate decision	March	0,0%	0,0%	
US	14:30	Initial jobless claims, thousands	weekly	745		

AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1.79%		
HU	11:30	10Y T-bond	HUF 30 bln	2.57%		
HU	11:30	15Y T-bond	HUF 15 bln	3.31%		

FRIDAY 03/12/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	IP, final, m/m	January	-1,6%	-0,2%	
EZ	11:00	IP, final, y/y	January	-0,8%		
US	14:30	PPI, y/y	February	1,7%	2,6%	
US	14:30	PPI, m/m	February	1,3%	0,4%	



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Week 10

MONDAY 03/01/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Manufacturing PMI, final	February	54,9		49,4
DE	10:00	Retail sales, y/y	January	1,5%	1,9%	-8.7%
DE	10:00	Retail sales, m/m	January	-9,6%	1,0%	-4.5%

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%	-3.6%
HU	9:00	GDP growth rate, final q/q	Q4	1,1%	1,1%	1.4%
HU	9:00	PPI, y/y	January	6,8%		6.6%
HU	9:00	PPI, m/m	January	1,0%		0.7%
EZ	11:00	CPI, y/y	February	0,9%	1,0%	0.9%
EZ	11:00	CPI, m/m	February	0,2%		0.2%

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,47%		0.56%

WEDNESDAY 03/03/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	PPI, y/y	January	-1,1%		0.0%
EZ	11:00	PPI, m/m	January	0,8%		1.4%
US	16:00	Services ISM index	February	58,7	58,7	55.3

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 15 bln	0,52%		0.61%

THURSDAY 03/04/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Retail sales, y/y	January	-4,0%		-1.8%
HU	9:00	Trade balance, final, EUR m	December	310		398
EZ	11:00	Unemployment rate	January	8,3%	8,3%	8.1%
EZ	11:00	Retail sales, y/y	January	0,6%		-6.4%
EZ	11:00	Retail sales, m/m	January	2,0%		-5.9%
US	14:30	Initial jobless claims, thousands	weekly	730		745
US	16:00	Industrial orders, m/m	February	1,1%	1,0%	2.6%

AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1,89%		1.79%
HU	11:30	10Y T-bond	HUF 20 bln	2,65%		2.57%
HU	11:30	20Y T-bond	HUF 10 bln	3,15%		3.36%

FRIDAY 03/05/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Industrial orders, m/m	January	-1,9%	1%	1,4%
HU	9:00	IP, prelim., y/y	January	1,1%		-2,8%
HU	9:00	IP, prelim., m/m	January	-2,4%		0,2%
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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