

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

Monday will be a public holiday in Hungary markets will re-open on Tuesday. The macro diary lacks any market-moving data releases next week.

External developments

Final February euro zone inflation figures and the most recent German ZEW index will be published in the euro zone. The ZEW index is expected to rise reflecting more optimism about the macro outlook. The FOMC meeting will take center stage in the US, but the latest retail sales, IP and housing figures will be published, too.

Summary of recent macro and market developments

Inflation moved up, the trade balance registered a massive surplus

February CPI came out in line with the expectations, the headline index rose from 2.7% to 3.1%. Prices increased by 0.7% m-o-m. CSO's core CPI stood at 4.1%, NBH's tax adjusted core inflation was 3.4%.

Gasoline and food prices pushed the m-o-m index up, while closing prices went down in line with the seasonal pattern. Gasoline, services and clothing prices posted below average y-o-y growth, but tobacco prices increased by 10% (reflecting the impact of the excise duty hike), and food prices also posted above average rate of growth. Consumer durable prices rose 0.4% on the month and were 3.8% up y-o-y (the latter being a 4-year high) presumably as a result of the depreciating FX rate.

Inflation is set to accelerate in the upcoming period: the low base, rising oil prices and another round of tax hike in case of tobacco products will push the headline index above 4% in April-May. CPI is expected to move lower from the spring peak, but the inflation outlook for H2 is highly uncertain, we still don't have a clear picture of how the expected opening up the economy will impact the supply and demand side of inflation.

The higher than usual uncertainties surrounding the outlook alongside with the fragile FX rate calls for vigilance from the central bank's side. The NBH repeatedly said that cautiousness is warranted, they will closely monitor the outlook for inflation while also implying that the biggest risk to the CPI outlook is the FX rate (risk aversion vis-à-vis emerging market -as they put it). The recent inflation and market developments cement in our view, that there is no room to lower short rates. Also, the NBH will closely watch market moves and in case the HUF's depreciation speeds up, the central bank may increase the 1W depo rate to stabilize the FX rate. However, the recent weakening of the Hungarian unit may

well be explained by external developments (moreover, the FX rate has managed to stabilize), hence there is no need for immediate action now.

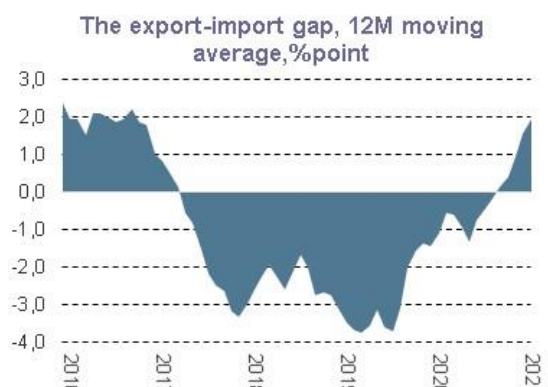
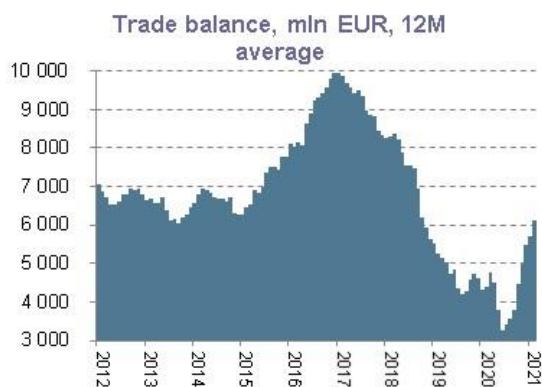
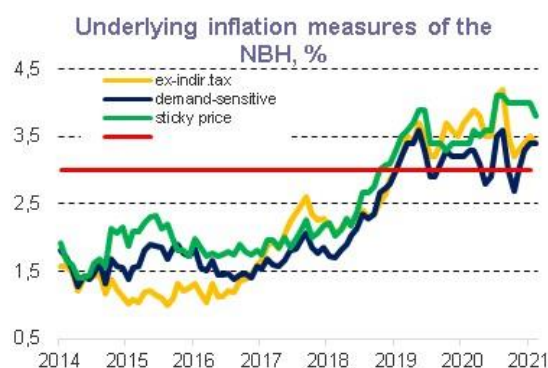
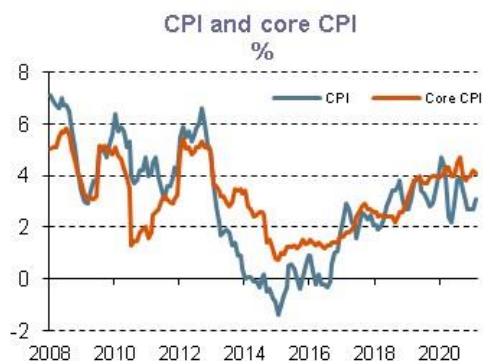
On the other hand, the central bank stepped in at the long-end segment of the curve. The fast and massive rise of core yields pushed domestic yields up as well, the 10Y yield jumped to 2.84% this week (+84 bps ytd), and the spread versus Bunds and Polish bonds also widened. The increase was even bigger at +10Y maturities where the central bank's room for intervention via the QE program was almost totally exhausted due to the 50% limit (the NBH could only buy 50% of the weekly issuance from a given series). In an effort to increase the room for maneuver the NBH canceled the 50% limit while keeping the cap on weekly purchases at HUF 60 bln. The announcement and more importantly the ECB's decision to speed up purchases pushed yields ~10 bps down on Thursday and the spread over Bunds also narrowed.

The central bank's aim is not to go against global trends, but to smooth market movements and ensure that the rise in yields are in line with the fundamentals and the increase does not result in an unwelcome and unjustified tightening of financial conditions. Therefore, we do not expect Hungarian long yields to revisit January lows, but neither believe that the march higher will continue. On the short run, we expect long yields to stabilize around current levels.

January trade balance figures were released this week, too. The trade balance posted a massive surplus of EUR 830 bln in the first month of the year -mainly reflecting subdued domestic demand. Exports rose more than 4% m-o-m in EUR terms but were still 5.5% down compared to the same period of 2020. Imports were flat on the month and were 10% below last year's level.

The outlook for exports will be determined by the negative impact of the lockdown measures across Europe and some industry specific problems (i.e. global chip shortage)

on the short run, but the export sector is still expected to post healthy growth rates this year. Imports may start to recover in tandem with the gradual reopening of the economy, but the trade surplus is not likely to deteriorate significantly this year.

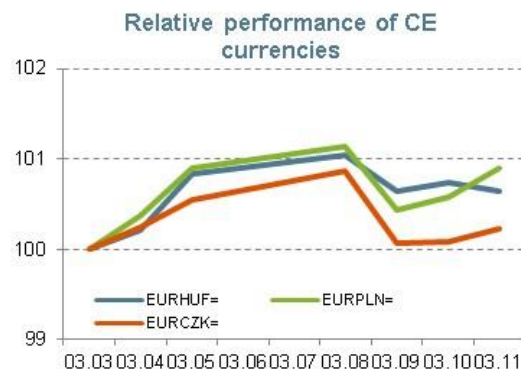
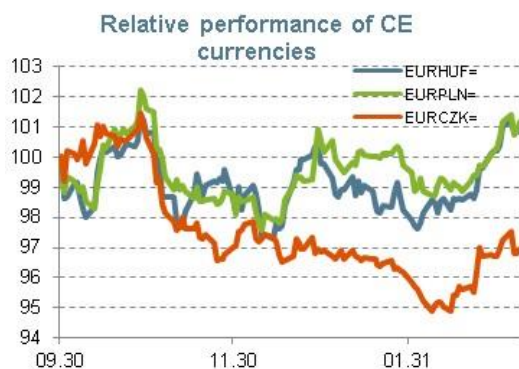
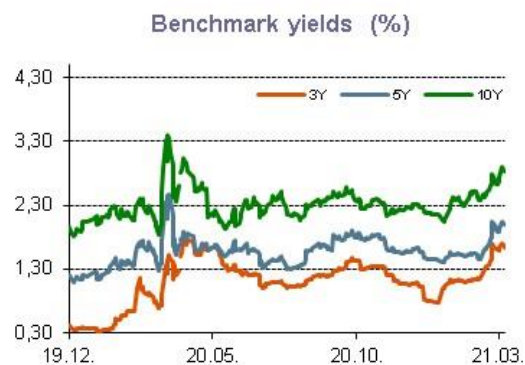


Source:CSO, NBH

EUR/HUF stabilized, long yields dropped

The consequences of the drastic increase of new COVID cases in the CEE region put all regional currencies under pressure during the last couple of weeks. Rising inflation worries, and the strengthening trend of the dollar have not helped either. During the last couple of days, the domestic exchange rate factors have not changed significantly, but in the first half of the week, the pace of depreciation has slowed down, EUR/HUF managed to remain below the psychologically important 370 threshold. Moreover, from late Tuesday, HUF started with a positive correction, which may have been due to the fact that the MNB modified its government securities purchase programme

without limits on individual bond series in order to support market stability and push down the long segment of the curve. The ECB announced a similar action on Thursday which also gave a strong boost to the Hungarian currency. In line with these measures in early Friday trading EUR/HUF hovers around 365. The central bank is not comfortable with EUR/HUF above 365 but we still think that as long as the depreciation remains controlled the NBH's wait-and-see attitude will not change.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,65	127	0,06	69	-0,08	54	-0,62
3Y	1,63	234	0,38	108	1,01	172	-0,71
5Y	2,00	261	0,83	144	1,41	202	-0,61
10Y	2,84	316	1,47	179	1,82	214	-0,32
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,54	119	0,10	75	-0,11	54	-0,65
3Y	1,17	191	0,21	95	0,62	136	-0,74
5Y	1,60	229	0,57	126	0,96	165	-0,69
10Y	2,40	286	1,23	169	1,42	188	-0,46

Source: Reuters

Macroeconomic and market forecasts

EXCHANGE RATES, QUARTERLY AVERAGE					
	2019 Q4	2020 Q2	2020 Q4	2021Q2	2021 Q4
EUR/HUF	332	352	361	360	357
CHF/HUF	303	331	335	324	318
USD/HUF	300	320	303	308	301
EUR/CHF	1,10	1,06	1,08	1,11	1,12
EUR/USD	1,11	1,10	1,19	1,17	1,19
GBP/USD	1,29	1,24	1,32	1,36	1,40
GBP/HUF	386	397	399	419	423

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%	0,76%	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%	-2,5%
DE	8:00	IP, final, y/y	January	-1,0%		-3,9%
HU	11:00	Budget balance, HUF bln	February	198,8		-539,7

TUESDAY 03/09/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Trade balance, final, EUR m	January	15,2		14,3
HU	9:00	CPI, y/y	February	2,7%	3,1%	3,1%
HU	9:00	CPI, m/m	February	0,9%		0,7%
EZ	11:00	GDP growth rate, final y/y	Q4	-5,0%	-5,0%	-4,9%
EZ	11:00	GDP growth rate, final q/q	Q4	-0,6%	-0,6%	-0,7%

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,56%		0,58%

WEDNESDAY 03/10/2021

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

THURSDAY 03/11/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Trade balance, prelim., EUR m	January	398		830
EZ	13:45	ECB interest rate decision	March	0,0%	0,0%	0,0%
US	14:30	Initial jobless claims, thousands	weekly	745		712

AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1,79%		1,81%
HU	11:30	10Y T-bond	HUF 30 bln	2,57%		2,62%
HU	11:30	15Y T-bond	HUF 15 bln	3,31%		3,22%

FRIDAY 03/12/2021

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



CIB BANK

March 12, 2021 | www.ebroker.hu

Week 12

MONDAY 03/15/2021

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

TUESDAY 03/16/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	11:00	ZEW index	March	71,2	75,0	
US	13:30	Retail sales, m/m	February	5,3%	-0,3%	
US	14:15	IP, final, m/m	February	0,9%	0,6%	
US	14:15	Capacity utilization	February	75,6%	75,4%	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,58%		

WEDNESDAY 03/17/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	CPI, y/y	February	0,9%	0,9%	
EZ	11:00	CPI, m/m	February	0,2%	0,2%	
US	13:30	Building permits, mln unit	February	1,881	1,720	
US	13:30	Housing starts, mln unit	February	1,58	1,57	
US	19:00	Fed interest rate decision	February	0,25%	0,25%	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 15 bln	0,61%		

THURSDAY 03/18/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	Trade balance, final, EUR m	January	27,5		
US	13:30	Initial jobless claims, thousands	weekly	712		

AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1,81%		
HU	11:30	10Y T-bond	HUF 20 bln	2,62%		
HU	11:30	20Y T-bond	HUF 10 bln	3,36%		

FRIDAY 03/19/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	PPI, y/y	February	0,9%		
DE	8:00	PPI, m/m	February	1,4%		



CIB BANK

March 12, 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 489-8313 Marianna Nagy FX sales 489-8303 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.



CIB BANK

March 12, 2021 | www.ebroker.hu