

CIB WEEKLY REPORT



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What to watch next week

Local market movers

The key event of the forthcoming week is going to be the NBH rate-setting meeting (see below).

External developments

Flash March PMIs and the German Ifo index will be in the focus in the euro zone next week. The Ifo index is expected to pick up slightly, but the PMI's are unlikely to show significant improvement in light of the recent COVID developments. Income and consumption figures, durable goods orders and the final UM consumer confidence index will be on the agenda in the US, the figures are not likely to change the overall macro picture.

Summary of recent macro and market developments

NBH meeting in the focus next week

The Monetary Council's next meeting is scheduled for Tuesday, and the updated Inflation Report will be released, too. We do not expect any changes either in the policy rates or in the QE program. The asset purchase program has already been adjusted (the NBH raised the weekly amount to HUF 60 bln and canceled the 50% cap), while the key tool to stabilize the HUF remain the 1W depo rate (the rate is reviewed weekly, each Thursday, but not by the Monetary Council).

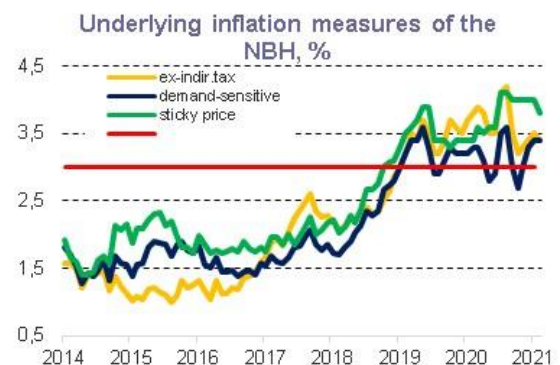
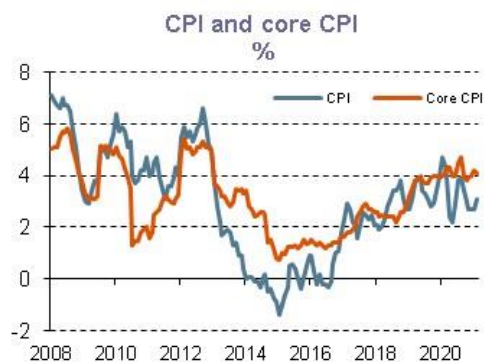
Incoming new information since the February meeting has not changed dramatically the macroeconomic outlook, although the downside risks surrounding the growth outlook and upside risks surrounding inflation prospects might have increased -in our view. Nonetheless, the NBH's December projections still seem to be valid (3.5-6% GDP growth and 3.5-3.6% CPI for 2021), but the staff might have revised marginally up the 2021 CPI forecast.

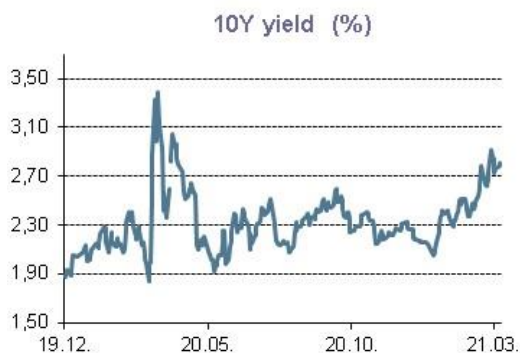
The statement is likely to repeat that the time profile of the pandemic and the expected economic recovery may continue to result in volatile pricing patterns; therefore, an exceptionally cautious approach is warranted in assessing more persistent inflationary effect adding that the increase in risk aversion vis-à-vis emerging markets continues to pose the greatest risk in terms of the outlook for inflation and the MNB will be ready to increase its balance sheet further to manage risks arising from the coronavirus pandemic.

The higher than usual uncertainties surrounding the CPI 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, and the spread versus Bunds and Polish bonds also widened. 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.

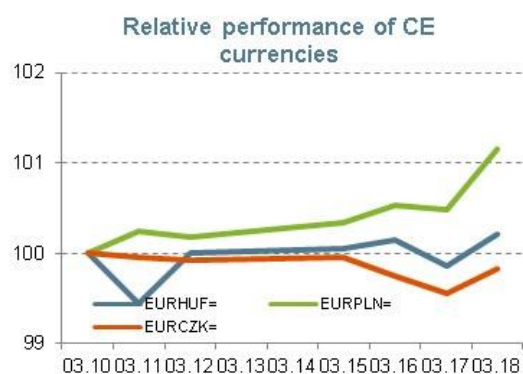




Source:CSO, NBH, Reuters

EUR/HUF trends higher

The forint's depreciation gained new momentum this week, EUR/HUF has flirted with the 369 threshold, yet again. Domestic macro data have not moved markets significantly during the last couple of days and the forint's regional peers traded in a relatively narrow ranges which suggest that the external factors have played a bigger role in FX rate trading. The main drivers behind the weakening trend remains international inflation fear and related rising trend of bond yields. Although, the FOMC meeting and the dovish messages lent some support to the regional currencies on Wednesday, but it proved to be short lived. The US dollar started to strengthen on Thursday again, and it was not HUF supportive: at the time of closing our report, the EUR/HUF exchange rate fluctuates around 368 (very close to all-time high levels). The developments of the contagion and international market sentiment will remain in the spotlight next week, too, and the central bank will continue closely monitoring market situation for sure.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,75	137	0,06	68	-0,22	40	-0,62
3Y	1,56	227	0,39	110	1,05	176	-0,71
5Y	1,97	258	0,88	149	1,47	208	-0,61
10Y	2,81	307	1,52	177	1,92	218	-0,26
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,55	119	0,11	75	-0,10	54	-0,64
3Y	1,21	194	0,24	97	0,67	141	-0,74
5Y	1,62	230	0,60	128	1,01	169	-0,68
10Y	2,43	287	1,21	165	1,47	190	-0,44

Source: Reuters

Macroeconomic and market forecasts

EXCHANGE RATES, QUARTERLY AVERAGE					
	2019 Q4	2020 Q2	2020 Q4	2021Q2	2021 Q4
EUR/HUF	332	352	361	363	357
CHF/HUF	303	331	335	329	318
USD/HUF	300	320	303	308	301
EUR/CHF	1,10	1,06	1,08	1,10	1,12
EUR/USD	1,11	1,10	1,19	1,18	1,19
GBP/USD	1,29	1,24	1,32	1,36	1,40
GBP/HUF	386	397	399	418	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

Macro diary

Week 13

MONDAY 03/22/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Economic sentiment index	March	-17,6		
US	15:00	Existing home sales, mln unit	February	6,69	6,54	

TUESDAY 03/23/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	8:30	C/A balance, EUR m	Q4	752		
US	15:00	New home sales, mln unit	February	0,923	0,885	
AUKCIÓK		#N/A	#N/A			

		Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,59%	

WEDNESDAY 03/24/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	9:30	Manufacturing PMI, flash	March	60,7		
DE	9:30	Services PMI, flash	March	45,7		
DE	9:30	Composite PMI, flash	March	51,1		
EZ	10:00	Manufacturing PMI, flash	March	57,9		
EZ	10:00	Services PMI, flash	March	45,7		
EZ	10:00	Composite PMI, flash	March	48,8		
HU	14:00	MNB interest rate decision	March	0,6%	0,6%	
EZ	16:00	Consumer confidence index	March	-14,8		
US	13:30	Durable goods orders, m/m	February	3,4%	0,9%	
US	14:30	Manufacturing PMI, flash	March	58,6		
US	14:30	Services PMI, flash	March	59,8		
US	14:30	Composite PMI, flash	March	59,5		

THURSDAY 03/25/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	13:30	Initial jobless claims, thousands	weekly	770		
US	13:30	GDP growth rate, q/q, 3rd estimate	Q4	4,1%	4,1%	

AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1,87%		
HU	11:30	10Y T-bond	HUF 30 bln	2,75%		
HU	11:30	15Y T-bond	HUF 15 bln	3,22%		

FRIDAY 03/26/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	10:00	Ifo index	March	94,2		
US	13:30	Personal income, m/m	February	10,0%	-7,2%	



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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	76,6
US	13:30	Retail sales, m/m	February	5,3%	-0,3%	-3,0%
US	14:15	IP, final, m/m	February	0,9%	0,6%	-2,2%
US	14:15	Capacity utilization	February	75,6%	75,4%	73,8%

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,58%		0,59%

WEDNESDAY 03/17/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	CPI, y/y	February	0,9%	0,9%	0,9%
EZ	11:00	CPI, m/m	February	0,2%	0,2%	0,2%
US	13:30	Building permits, mln unit	February	1,881	1,720	1,682
US	13:30	Housing starts, mln unit	February	1,58	1,57	1,421
US	19:00	Fed interest rate decision	February	0,25%	0,25%	0,25%

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 15 bln	0,61%		0,67%

THURSDAY 03/18/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	Trade balance, final, EUR m	January	27,5		24,2
US	13:30	Initial jobless claims, thousands	weekly	712		770

AUCTIONS

HU	11:30	5Y T-bond	HUF 30 bln	1,81%		1,87%
HU	11:30	10Y T-bond	HUF 20 bln	2,62%		2,75%
HU	11:30	20Y T-bond	HUF 10 bln	3,36%		3,42%

FRIDAY 03/19/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	PPI, y/y	February	0,9%		1,9%
DE	8:00	PPI, m/m	February	1,4%		0,7%



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