

# 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 final January trade balance figures alongside with the most recent wage and unemployment statistics. The high trade surplus reflects depressed domestic demand, the slow, but steady deterioration on the labor market is likely to continue and wage growth is also set to weaken. The March PMI, however, may creep above the 50-point market again, in line with the pick up of EZ PMIs.

### External developments

Euro zone economic sentiment index is expected to move higher in March despite the extension of the restriction measures and the worsening COVID situation in many countries. Headline HICP may have moved up in March, but the core index may have remained stable. March employment statistics will take center stage in the US next week. Non-farm payrolls are expected to rise strongly pushing the unemployment rate down.

## Summary of recent macro and market developments

### NBH meeting: some hawkish hints

The key domestic event of the current week was the NBH rate-setting meeting and the publication of the updated Inflation Report.

The staff left the 2022-2023 CPI projections unchanged but raised the 2021 forecast (in case of the headline and core index by 0.3%points and 0.1%point, respectively). The GDP projections were raised marginally up, they expect +4-6% GDP growth this year and 5-6% expansion in 2022. The 2023 forecast is 3.5%.

The Monetary Council's decisions came as no surprise. In line with the expectations, the key rates were left on hold and no new measures were announced either.

The statement released after the meeting was a little bit more hawkish, which is not a surprise in light of the upwardly revised CPI projection. Besides the well-known risk aversion vis-à-vis emerging markets they added second-round inflation effect as a new risk factor to watch. The Council still believes that the rise of inflation in 2021 will be temporary, but headline CPI peaking close to 5%, the risks stemming from the reopening of the economy and the fragile FX rate justify extreme cautiousness, the hawkish shift was necessary to preserve and strengthen the Bank's inflation fighting credentials. It is crystal clear, that in the current circumstances there is no room to lower the 1W depo rate, it can only be discussed much later and only if the FX rate is stronger and inflation convincingly moves down from the spring highs. Therefore, Bubor rates are likely to remain elevated in the upcoming period.

The QE program will be the key tool to smooth market movements at the long-end segment of the curve. However, we do not think that long rates will re-test the January levels, the 10Y yield could hover around current levels and may even rise slightly further during the year. I

The central bank still considers risk aversion vis-à-vis

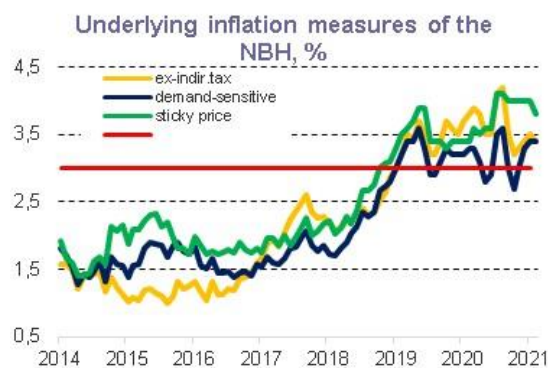
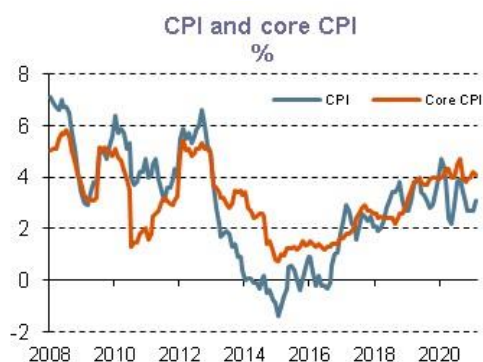
emerging markets -the phrase referring to the FX rate- a key risk regarding the inflation outlook. We think that the NBH will not tolerate fast and uncontrolled depreciation (above-370 EUR/HUF), if it happens, they are likely to raise the 1W depo rate, again.

The key points of the statement:

- The third wave of the coronavirus pandemic is expected to cause a decline in GDP in the first quarter of 2021. GDP is expected to grow by between 4.0 and 6.0 percent in 2021, by between 5.0 and 6.0 percent in 2022 and by 3.5 percent in 2023.
- Inflation is likely to be highly volatile in the coming months. In analyzing longer-term trends, the MNB places great emphasis on the assessment of underlying indicators, especially on core inflation excluding indirect tax effects.
- In the coming months, spikes in inflation will occur due to base effects, rising fuel prices, further increase in excise duties and demand-supply frictions as the economy restarts.
- The consumer price index will approach 5 percent in the second quarter.
- As temporary effects fade, inflation will return to the central bank tolerance band from the summer months.
- With inflation expectations anchored, we do not expect second-round effects according to our baseline scenario.
- As a result, inflation is expected to stabilise around the central bank target again.
- The MNB lays special emphasis on developments in inflation expectations following the restart of the economy, and on the neutralization of potential

second-round effects.

- The MNB will continue to use its government securities purchase programme by maintaining a lasting presence in the market, taking a flexible approach to changing the structure of weekly securities purchases, to the extent and for the time necessary.
- 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 increase in risk aversion vis-a-vis emerging markets and potential second-round effects following the restart of the economy pose the greatest risk in terms of the outlook for inflation.
- If warranted by an increase in upside risks to inflation, the MNB will be ready to use the appropriate instruments.



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### Inflation Report, baseline scenario

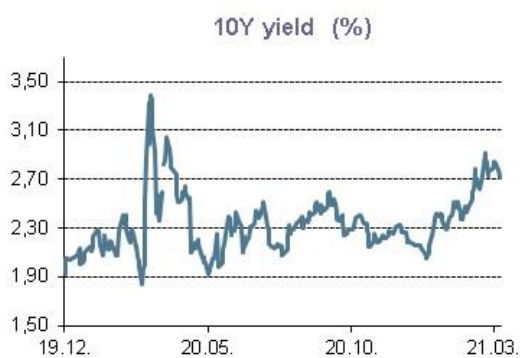
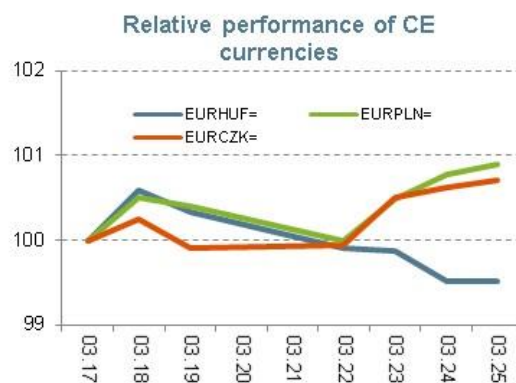
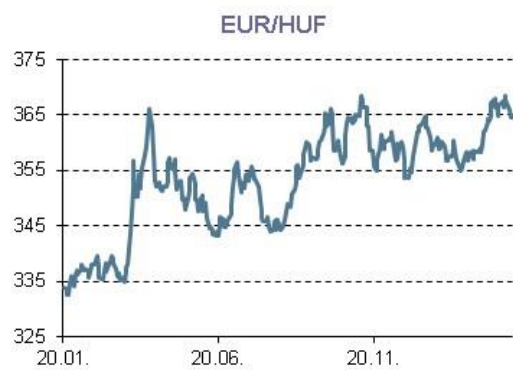
	2020	2021	2022	2023
	Actual		Projection	
<b>Inflation (annual average)</b>				
Core inflation	4.1	3.9 - 4.1	2.9 - 3.0	3.0
Core inflation excluding indirect tax effects	3.7	2.9 - 3.1	2.7 - 2.8	3.0
Inflation	3.3	3.8 - 3.9	2.9 - 3.0	3.0
<b>Economic growth</b>				
Household consumption expenditure	-2,5	2.6 - 4.5	3.8 - 4.9	3.0
Government final consumption expenditure	-0,8	2.7 - 3.6	1.5 - 2.6	1.5
Gross fixed capital formation	-7,3	5.0 - 7.2	6.4 - 6.6	2.8
GDP	-5,0	4.0 - 6.0	5.0 - 6.0	3.5

Source:CSO, NBH

### EUR/HUF moved down

Despite the strengthening wave of the USD in this week the Hungarian unit posted a relatively strong positive correction during the last couple of days. Although the policy rate and the 1-week deposit rate were not touched either, the NBH said it was committed to maintaining price stability and ready to use suitable instruments if it necessary and that message was HUF supportive. The forint appreciated against the euro by an almost 1% on a weekly basis, so the EUR/HUF cross rate retreated to below 365 at the time of closing our research report. Moreover, in regional comparison the forint was the best performer, the strengthening trend of our currency against the PLN and CZK was more significant.

We still believe that the central bank is not comfortable with EUR/HUF above 365. Although the central bank statement managed to stabilize the forint, the outlook for inflation and interest rates remains highly uncertain.





CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,76	140	0,10	74	-0,38	26	-0,64
3Y	1,45	221	0,39	115	1,02	179	-0,76
5Y	1,88	257	0,88	157	1,50	219	-0,69
10Y	2,71	308	1,51	188	1,91	228	-0,37
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,57	120	0,10	74	-0,06	58	-0,63
3Y	1,26	200	0,25	99	0,72	146	-0,74
5Y	1,66	233	0,63	131	1,07	174	-0,68
10Y	2,48	290	1,21	163	1,52	194	-0,42

Source: Reuters

## Macroeconomic and market forecasts

EXCHANGE RATES, QUARTERLY AVERAGE					
	2019 Q4	2020 Q2	2020 Q4	2021Q2	2021 Q4
EUR/HUF	332	352	361	366	364
CHF/HUF	303	331	335	332	323
USD/HUF	300	320	303	313	315
EUR/CHF	1,10	1,06	1,08	1,10	1,13
EUR/USD	1,11	1,10	1,19	1,17	1,16
GBP/USD	1,29	1,24	1,32	1,36	1,39
GBP/HUF	386	397	399	426	436

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%	0,74%	0,73%
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	4,1	4,7
GDP growth, y/y - Market consensus	%	-	-	-	-6,0	4,7	5,1
Industrial production, y/y	%	4,6	3,5	5,6	-6,1	6,5	7,5
Trade balance	EUR mln	8078	5520	4334	5700	5400	5000
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	3,8	3,3
CPI, y/y, average - Market consensus	%	-	-	-	3,4	3,6	3,2
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,7	3,6	3,1
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	4,1



# Macro diary

## Week 14

### MONDAY 03/29/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Trade balance, final, EUR m	January	830		

### TUESDAY 03/30/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Unemployment rate	February	4,3%		
EZ	11:00	Consumer confidence index	March	-10,8		
DE	14:00	CPI, y/y	March	1,3%	1,7%	
DE	14:00	CPI, m/m	March	0,7%	0,5%	
US	15:00	Case-Shiller house price index, y/y	January	10,37%		

### AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,60%		

### WEDNESDAY 03/31/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Gross wages, y/y	January	10,6%		
HU	9:00	PPI, y/y	February	6,6%		
HU	9:00	PPI, m/m	February	0,7%		
DE	9:55	Unemployment rate	March	6,0%	6,0%	
EZ	11:00	CPI, y/y	March	0,9%	1,4%	
EZ	11:00	CPI, m/m	March	0,2%	1,0%	
US		Chicago PMI	March	59,5	60	

### AUKCIÓK

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

### THURSDAY 04/01/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Manufacturing PMI, flash	March	49,4		
US	13:30	Initial jobless claims, thousands	weekly	684		

### AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	5Y T-bond	HUF 30 bln	1,80%		
HU	11:30	10Y T-bond	HUF 20 bln	2,61%		
HU	11:30	20Y T-bond	HUF 10 bln	3,42%		

### FRIDAY 04/02/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	NFP, change in non-farm payrolls, thousands	March	379	613	
US	14:30	Unemployment rate	March	6,2%	6,0%	



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## Week 13

### MONDAY 03/22/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Economic sentiment index	March	-17,6		-16,7
US	15:00	Existing home sales, mln unit	February	6,69	6,54	6,22

### TUESDAY 03/23/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	8:30	C/A balance, EUR m	Q4	752		185
US	15:00	New home sales, mln unit	February	0,923	0,885	0,775
AUKCIÓK		#N/A	#N/A			
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,59%		0,60%

### WEDNESDAY 03/24/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	9:30	Manufacturing PMI, flash	March	60,7		66,6
DE	9:30	Services PMI, flash	March	45,7		50,8
DE	9:30	Composite PMI, flash	March	51,1		56,8
EZ	10:00	Manufacturing PMI, flash	March	57,9		62,4
EZ	10:00	Services PMI, flash	March	45,7		48,8
EZ	10:00	Composite PMI, flash	March	48,8		52,5
HU	14:00	MNB interest rate decision	March	0,6%	0,6%	0,6%
EZ	16:00	Consumer confidence index	March	-14,8		-10,8
US	13:30	Durable goods orders, m/m	February	3,4%	0,9%	-1,1%
US	14:30	Manufacturing PMI, flash	March	58,6		59,0
US	14:30	Services PMI, flash	March	59,8		60,0
US	14:30	Composite PMI, flash	March	59,5		59,1

### THURSDAY 03/25/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	13:30	Initial jobless claims, thousands	weekly	770		684
US	13:30	GDP growth rate, q/q, 3rd estimate	Q4	4,1%	4,1%	4,3%
AUCTIONS						
HU	11:30	5Y T-bond	HUF 30 bln	1,87%		1,80%
HU	11:30	10Y T-bond	HUF 30 bln	2,75%		2,61%
HU	11:30	15Y T-bond	HUF 15 bln	3,22%		3,00%

### FRIDAY 03/26/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	10:00	Ifo index	March	94,2		100,4
US	13:30	Personal income, m/m	February	10,0%	-7,2%	



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