

CIB WEEKLY REPORT



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What to watch next week

Local market movers

April PMI will be released next week, and CSO will publish the most recent trade, IP and retail sales statistics. Retail sales may have remained weak in March, but the industrial sector is expected to show resilience. The PMI could climb back above the 50-point threshold.

External developments

Euro zone data releases may confirm that the economic recovery has started, although this is going to be a weaker than the US rebound. Final April PMIs will show strengthening activity both in manufacturing and services, though the tertiary sector remains weighed down by the lockdown measures. German IP and industrial orders may have recovered following the decline in the previous month. US NFP data will reflect the impact of the gradual reopening of the economy and the massive fiscal

stimulus. The unemployment rate could inch down further in April, and non-farm payrolls may show yet another month of close to 1 mln new jobs. The ISM indices could move further up in April.

Summary of recent macro and market developments

The central bank remains on the sidelines, the labor market recovery has started

The NBH's rate-setting meeting was a non-event. The policy rates remained on hold, and after a revision of the QE program, the Monetary Council decided to proceed with bond purchases. The statement contained no new pieces of information either: the Council will monitor incoming inflation, and stands ready to react in case second round inflation effects materialize.

The central bank -in line with the March Inflation Report- forecasts 4-6% real GDP growth and 3.8-3.9% average inflation in 2021.

The statement repeated the well-known messages:

- „Inflation is likely to be highly volatile in the coming months...In the coming months, spikes in inflation will occur due to base effects, rising fuel prices, a further increase in excise duties and demand-supply frictions as the economy restarts.”
- However, „inflation is likely to return to the central bank tolerance band from the summer months as temporary effects fade.”
- The key factors to watch are “developments in inflation expectations following the restart of the economy”, „potential second-round effects” and „risk aversion” vis-a-vis emerging markets.
- “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.”

- „If warranted by an increase in upside risks to inflation, the MNB will be ready to use the appropriate instruments.
- After reviewing the QE program, the central bank confirmed that the bond purchase program will continue “by maintaining a lasting presence in the market, taking a flexible approach” and as long as deemed necessary. The MC will perform the next revision when stocks reach HUF 3,000 bln.

To sum it up: given the upside risks to the inflation outlook and higher than usual uncertainties cautiousness remains justified. We think that the gap between the policy rate and the 1W depo rate will remain in place as long as risks do not subside. Hence, Bubor rates are expected to remain around current levels for the foreseeable future. Yields at the medium and long end segment of the curve will eye core market developments for direction. The central bank’s aim is to keep yields rising abruptly and to avoid an unwelcome tightening of financial conditions. The QE program is an effective tool to smooth market fluctuations, but we do not think that yields will revisit early 2021 lows.

The latest labor market statistics were released, too. The number of employed rose both on a y-o-y and m-o-m comparison (+41K and +66K, respectively), the unemployment rate declined from 4.5% to 4% in March. The rate has been below that level only twice since the COVID outbreak (in August after the first wave and in November before the 2nd wave).

Q1 unemployment rate was 4.5%. The average number of employed was 39K below 2020 Q1 levels -mainly as a result of the lower number of public workers and the decrease in the number of people working abroad.

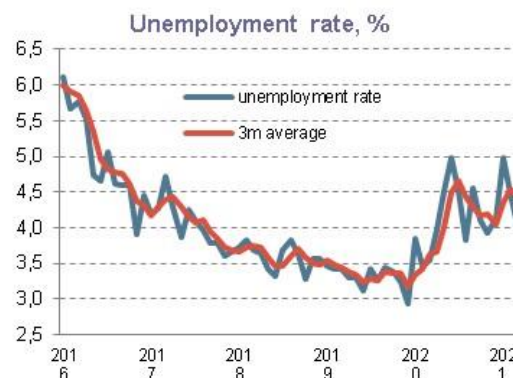
The figures confirm that the hit from the latest COVID wave was less severe: the economy has managed to adapt to the new situation and the lockdown measures were less strict compared to Q1 last year.

Nonetheless official statistics still underestimate the impact due to methodological and technical problems. According to CSO, the number of unemployed is already below 200K, but according to NSZF, the number of job seekers remain well above this level (~290K) which implies an unemployment rate of 6.2%. Nonetheless, even the number of registered job seekers started to come down gradually in March and April.

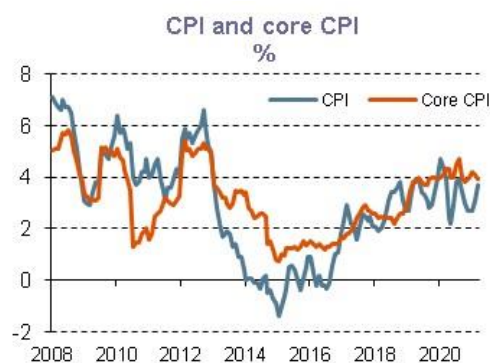
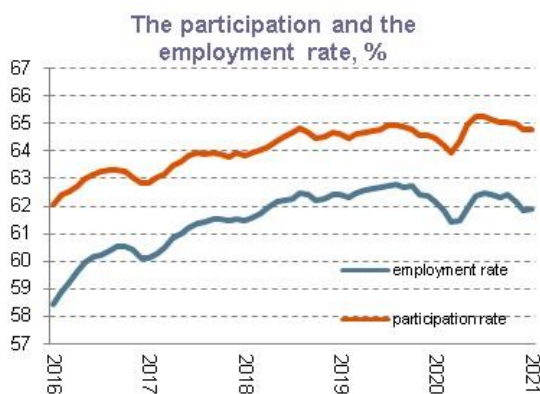
We expect more improvement due to the reopening of the economy in the upcoming period: demand for labor will jump in sectors that had been most hit by lockdown measures (hospitality, restaurants, hotels), and in tandem with the gradual reopening of EU economies, the number of people working abroad may start to recover, too. In some sectors employers may even face a shortage of skilled labor.

If Europe can avoid the 4th wave and containment measures can be permanently lifted, after peaking in the spring, the unemployment rate may continue moving slowly south, and average 2021 unemployment rate can be below our current 4.5% projection.

Wage outflows remained strong (+9.7% y-o-y) in the January-February period driven by double digit wage rises in the public sector (+13.7% y-o-y). private sector rose more moderately and were up 8.7% y-o-y. Nominal wage growth is expected to moderate in the private sector this year, but an abrupt change of direction is not expected. Our baseline scenario pencils in 6.5% nominal wage growth, but the actual increase may be somewhat higher given the expected further recovery of the labor market and the possible labor shortage in some sectors.



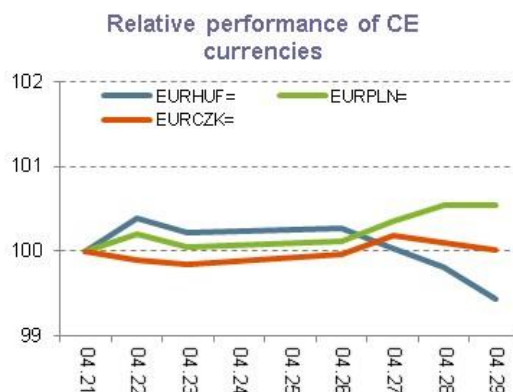
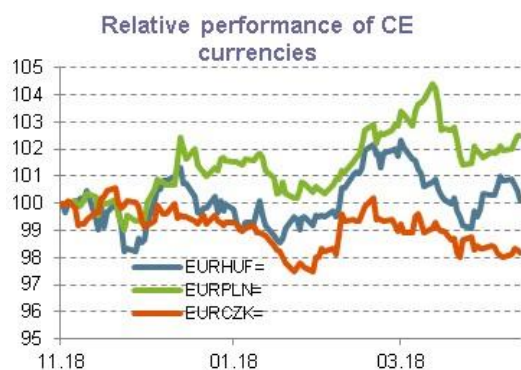
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EUR/HUF close to 360, again

After the weakening wave from the middle of April, the forint started to strengthen and tested the EUR/HUF 360 again. The breakthrough was successful, hence at the end of our research report, the forint was slightly below the 360 level against the euro. Besides the positive external impetus, the NBH's message on Thursday supported the recovery of the HUF, too. Moreover, on Wednesday, the post-FOMC meeting statement was seen as dovish by markets therefore the dollar remained under pressure and it was HUF supportive. However, domestic drivers may have played a bigger role in FX rate shifts as reflected in the relative performance of regional currencies. The Hungarian unit outperformed the regional currencies this week, the PLN/HUF has dropped 1,2% so far and the strengthening against the Czech koruna was also more than 1,3%. There have been moderate Bubor rates movements in recent days, while in the government

securities market the yields move up at the long-end segment of the curve.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,70	135	0,11	76	-0,16	49	-0,65
3Y	1,32	202	0,30	100	1,00	170	-0,70
5Y	1,80	237	0,84	142	1,31	188	-0,57
10Y	2,79	300	1,63	184	1,74	195	-0,21
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,67	131	0,11	75	-0,03	60	-0,63
3Y	1,41	213	0,35	107	0,94	166	-0,72
5Y	1,81	245	0,79	143	1,31	194	-0,63
10Y	2,67	299	1,46	178	1,74	206	-0,32

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 19

MONDAY 05/03/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Retail sales, y/y	March	-6,6%	-1,6%	
DE	8:00	Retail sales, m/m	March	2,7%	3,3%	
HU	9:00	Manufacturing PMI, final	April	48,7		

TUESDAY 05/04/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	Trade balance, USD bn	March	-71,1	-71,8	
US	16:00	Industrial orders, m/m	March	-0,8%	2,0%	
AUKCIÓK		#N/A	#N/A			
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,54%		

WEDNESDAY 05/05/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	PPI, y/y	March	1,5%		
EZ	11:00	PPI, m/m	March	0,5%		
US	16:00	ISM index	April	63,7	64,0	

THURSDAY 05/06/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Retail sales, y/y	March	-5,9%		
HU	9:00	IP, prelim., y/y	March	3,9%		
HU	9:00	IP, prelim., m/m	March	4,8%		
EZ	11:00	Retail sales, y/y	March	-2,9%		
EZ	11:00	Retail sales, m/m	March	3,0%		
US	14:30	Initial jobless claims, thousands	weekly	553		
AUCTIONS						
HU	11:30	5Y T-bond	HUF 30 bln	1,73%		
HU	11:30	10Y T-bond	HUF 25 bln	2,69%		
HU	11:30	15Y T-bond	HUF 20 bln	3,00%		

FRIDAY 05/07/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	IP, prelim., y/y	March	-6,4%	5,7%	
DE	8:00	IP, prelim., m/m	March	-1,6%	2,5%	
DE	8:00	Trade balance, prelim., EUR m	March	18200		
DE	8:00	C/A balance, EUR m	March	18800		
HU	9:00	Trade balance, prelim., EUR m	March	849		
US	14:30	Unemployment rate	April	6,0%	5,8%	



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Week 18

MONDAY 04/26/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Economic sentiment index	April	-16,7		-6,8
DE	10:00	Ifo index	April	100,4		99,5
US	14:30	Durable goods orders, m/m	March	-1,2%	2,0%	0,5%

TUESDAY 04/27/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	14:00	NBH rate decision, base rate	April	0,6%	0,6%	0,6%
US	15:00	Case-Shiller house price index, y/y	February	11,22%		11,97%

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,58%		0,54%

WEDNESDAY 04/28/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Unemployment rate	March	4,5%		4,5%
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	0,68%		0,65%

THURSDAY 04/29/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Gross wages, y/y	February	9,5%		9,8%
HU	9:00	Trade balance, final, EUR m	February	856		849
EZ	11:00	Consumer confidence index	April	-10,8		-8,1
DE	14:00	CPI, y/y	April	1,7%		2,0%
DE	14:00	CPI, m/m	April	0,5%		0,7%
US	14:30	Initial jobless claims, thousands	weekly	547		553
US	14:30	Personal consumption, m/m	Q1	2,3%		10,7%
US	14:30	GDP growth rate, y/y, 1st estimate	Q1	4,3%	6,1%	6,4%

FRIDAY 04/30/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	PPI, y/y	March	8,1%		9,6%
HU	9:00	PPI, m/m	March	1,2%		1,9%
DE	10:00	GDP growth rate, q/q, 1st estimate	Q1	-3,7%		-3,0%
DE	10:00	GDP growth rate, y/y, 1st estimate	Q1	0,3%		-1,7%
EZ	11:00	Unemployment rate	March	8,3%		8,1%
EZ	11:00	CPI, y/y	April	1,3%		1,6%
EZ	11:00	CPI, m/m	April	0,9%		0,6%
EZ	11:00	GDP growth rate, q/q, 1st estimate	Q1	-4,9%		-1,8%
EZ	11:00	GDP growth rate, y/y, 1st estimate	Q1	-0,7%		-0,6%
US	14:30	Personal income, m/m	March	-7,1%	20,0%	21,1%



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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

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