

CIB WEEKLY REPORT



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What to watch next week

Local market movers

CSO is going to publish detailed Q1 GDP figures next week from which we will get more insight into the structure of the surprisingly strong first quarter growth. Final March trade balance statistics and April retail sales figures are also due out next week.

External developments

Final May PMIs and flash May inflation figures will take center stage in the euro zone next week. The PMI's will confirm that the euro zone economy is gaining strong momentum heading into summer. Inflation will accelerate further and may come out close to 2%. Although price pressures are likely to strengthen further in the coming period, upside inflation risks are much less pronounced in the euro zone than in the US.

On the other side of the Atlantic, May labor market reports

will be in the spotlight, but the most recent ISM indices will be published, too. The latter will likely show strong momentum in the economy. Both the ADP and NFP reports may confirm the ongoing labor market recovery.

Summary of recent macro and market developments

GDP surprised at the strong side, NBH flags rate hikes

The Monetary Council failed to give any clear guidance about by how much the Council is planning to raise rates and compared to vice governor Virág's interview the statement was a little bit less hawkish. (For details of the interview please refer to our report published last Friday). The document did not mention explicitly that June will mark the start of the normalization process, and the phrase „data-driven tightening cycle” was also left out from the written document. It doesn't mean, however, that the central bank has changed its mind, in our view, a June rate hike is a done deal.

Regarding the macroeconomic prospects, the statement repeated what the vice governor had said earlier:

- Q1 GDP growth surpassed the NBH's expectations. FY 2021 GDP growth could be around 6% (The March NBH forecast was 4-6% for this year.)
- Inflation will remain volatile, spikes will occur, upside risks have strengthened even further.
- “The projection in the June Inflation Report will be key in assessing the outlook for inflation and developments related to the economic recovery.”
- “The Monetary Council reiterates that they are ready to tighten monetary conditions in a proactive manner to the extent necessary in order to ensure price stability and to mitigate inflation risks.”

Regarding the forward guidance the document said that:

- The MNB will continue to use the (QE) programme by maintaining a lasting presence in the market, taking a flexible approach to changing the quantity and 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 Monetary Council will have many options to consider in June but backtracking from the rate hike does not seem to be one of them. Not taking a move may trigger a new wave of HUF depreciation and would be a big hit to credibility. A symbolic policy rate increase with unchanged 1W depo would be a disappointment to the market, too. Therefore, a simultaneous raise of both the policy rate and the 1W depo rate seems to be the most likely outcome. The question is whether the gap between the two rates remains in place (as suggested by the MC statement), or it will be closed, and the policy rate becomes the effective anchor (as the vice-governor hinted in his interview). In any case, the bare minimum would be to catch up with market rates and raise either or both of the two rates to Bubor levels (+10-15 bps in case of the 1W depo).

Following the quasi pre-announced June rate hike, the data driven central bank will make moves taking into account incoming new information. If our inflation scenario holds, we think that a few small rate increases will be enough, and the policy rate will not be raised markedly above 1% in 2021.

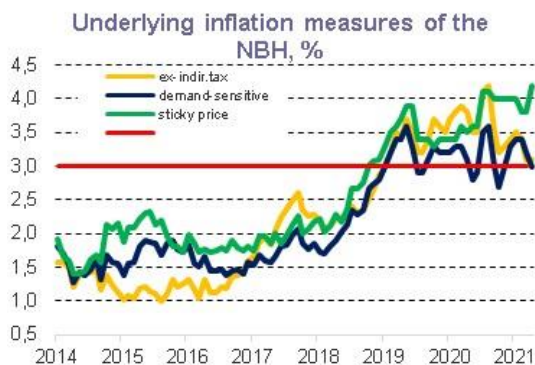
Our calculations show inflation peaking closer to 5.5% (as

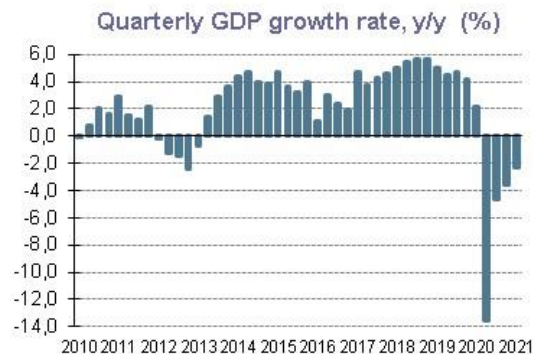
opposed to 5%) in May, and the retreat from the peak will be also slower than previously expected. December y-o-y CPI may be above 4% and the same stands for average 2021 CPI. Nonetheless, we think that both demand- and supply-side pressures will slowly and gradually ease during the next 6-9 months, therefore CPI may return to the target band in 2022.

April labor market statistics were released, too. After the surprise drop in March, the unemployment rate moved up from 4% to 4.4% in April, the 3M average rate was 4.3%. The number of inactive people picked up again, the number of employed was down more than 50K m-o-m. The deterioration reflects the impact of the restriction measures introduced during the 3rd wave of the pandemic.

Despite the deterioration in April, the 3M averages still confirm, that the labor market was relatively resilient to the current wave of the pandemic (even though, official statistics still paint a too rosy picture due to methodological reasons.)

The almost full reopening of the economy will support the labor market recovery in the upcoming period, in some industries the shortage of skilled labor will become a headache soon (hospitality sector, construction).





Source: CSO, NBH

EUR/HUF below 350

The massive appreciation in the forint's exchange market has stopped but since the breakthrough of the EUR/HUF 350 threshold on May 20, the Hungarian unit has been able to maintain levels last seen around 9 month ago. EUR/HUF exchange rate has typically fluctuated in the 347-351 range. At the time of closing our research report, the market was moving in the lower part of this band, near 348. The global effects had a neutral effect on the domestic currency: risk appetite was stagnant, and in regional comparison, CZK/HUF and PLN/HUF exchange rate also hardly changed compared to a week ago. Although, the amount of the short positions against the forint decreased in the last month, we do not expect the rally to continue, further movements depends on the NBH's decision in June. Slight upward trend (1-2 bps) was observed in the BUBOR curve, while long segment of government bond yields fell by 10-15 basis points along most of the curve, largely correcting the jump at the middle of May.

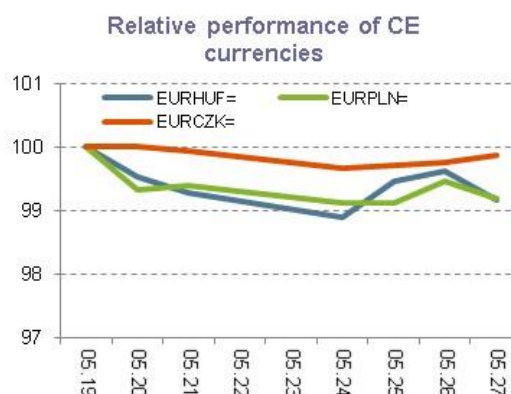


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CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,78	142	0,30	94	0,21	85	-0,64
3Y	1,72	240	0,59	127	1,12	180	-0,68
5Y	2,00	257	1,30	187	1,48	205	-0,57
10Y	2,92	312	1,91	211	1,74	194	-0,20
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,73	136	0,13	76	0,07	70	-0,63
3Y	1,50	221	0,42	113	1,05	175	-0,71
5Y	1,92	252	0,97	157	1,43	203	-0,60
10Y	2,83	308	1,54	179	1,83	208	-0,25



Source: Reuters

Macroeconomic and market forecasts

Under revision

Week 23

MONDAY 05/31/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	PPI, y/y	April	9,6%		
HU	9:00	PPI, m/m	April	1,9%		
DE	14:00	CPI, y/y	May	2,0%		
DE	14:00	CPI, m/m	May	0,7%		

TUESDAY 06/01/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Manufacturing PMI, flash	May	50,8		
HU	9:00	Trade balance, final, EUR m	March	1013		
HU	9:00	GDP growth rate, final y/y	Q1	-2,3%		
HU	9:00	GDP growth rate, final q/q	Q1	1,9%		
DE	9:55	Unemployment rate	May	6,0%	6,0%	
EZ	11:00	Unemployment rate	April	8,1%	8,1%	
EZ	11:00	CPI, y/y	May	1,6%	1,8%	
EZ	11:00	CPI, m/m	May	0,6%		

AUKCIÓK

#N/A

#N/A

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

WEDNESDAY 06/02/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ		PPI, y/y	April	4,3%		
EZ		PPI, m/m	April	1,1%		

THURSDAY 06/03/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	Initial jobless claims, thousands	weekly	406		

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HU	11:30	5Y T-bond	HUF 30 bln	2,08%		
HU	11:30	10Y T-bond	HUF 25 bln	3,09%		
HU	11:30	15Y T-bond	HUF 20 bln	3,19%		

FRIDAY 06/04/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Retail sales, y/y	April	-2,0%		
EZ	11:00	Retail sales, y/y	April	12,0%		
EZ	11:00	Retail sales, m/m	April	2,7%		
US	14:30	NFP, change in non-farm payrolls, thousands	May	266	650	
US	14:30	Unemployment rate	May	6,1%	5,9%	
US	14:30	Industrial orders, m/m	April	1,1%	0,6%	



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Week 22

MONDAY 05/24/2021

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

TUESDAY 05/25/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Economic sentiment index	May	-6,8		-2,6
DE	10:00	Ifo index	May	99,5		102,9
HU	14:00	MNB interest rate decision	May	0,6%	0,6%	0,6%
US	15:00	Case-Shiller house price index, y/y	March	11,97%		13,19%
US	16:00	New home sales, mln unit	March	1,021	0,95	863

AUKCIÓK

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

WEDNESDAY 05/26/2021

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

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 10 bln	0,69%		0,78%

THURSDAY 05/27/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Unemployment rate	April	4,0%		4,4%
US	14:30	Initial jobless claims, thousands	weekly	444		406
US	14:30	Durable goods orders, m/m	April	0,8%	0,8%	-1,3%
US	14:30	Personal consumption, q/q	Q1	10,7%		11,3%
US	14:30	Core PCE index, q/q	Q1	2,3%		2,5%

FRIDAY 05/28/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Gross wages, y/y	March	9,8%		8,7%
EZ	11:00	Consumer confidence index	May			-5,1
US	14:30	Trade balance, USD bn	April	-90,6	-92,0	
US	14:30	Personal income, m/m	April	21,1%	-15,0%	
US	15:45	Chicago PMI	May	72,1	69,5	



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