

CIB WEEKLY REPORT



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What to watch next week

Local market movers

NO major data release are scheduled for next week. CSO is going to publish detailed May industrial output statistics.

External developments

Final June HICP and May IP figures are on the agenda in the euro zone.

June high frequency indicators (IP, retail sales), regional manufacturing indices (Philly Fed, New York Fed) and June PPI and CPI figures will be released in the US. The focus will be on the inflation statistics, which are expected to show that peak inflation has been reached.

Summary of recent macro and market developments

Inflation accelerated in June

Contrary to market expectations inflation accelerated further in June, consumer prices rose 0.6% m-o-m, the headline y-o-y index went up from 5.1% to 5.3%. The June reading was both above the market consensus of 4.8% and the central bank's 4.9% projection, and surpassed our 5.1% forecast, too.

The surprise compared to our calculation came from clothing and services prices. In case of clothing the seasonal decline did not start in June, in case of services, the 2% m-o-m index was driven by transportation costs (cancellation of free parking) and rising prices in the hospitality sector (up 4.7% m-o-m) mirroring the reopening of the economy.

Inflation also accelerated in the consumer durable goods segment (+0.4% m-o-m and +3.7% y-o-y) as a result of strong demand on the one hand, and supply side bottlenecks on the other. Corporates seem to react to the mix of booming demand, weak FX rate and supply side tensions by passing on increased costs to consumers and shortening the repricing period (in some segments daily repricing has become the norm already).

We will see a volatile inflation pattern in H2 (due to the base effect), but y-o-y inflation will remain above 4% throughout the period, it will even move close to 5% in some months. Average 2021 inflation will be above 4%.

Although one-off factors clearly made a major contribution to the jump of headline CPI this year, the evolution of core inflation confirms that underlying inflationary pressures are also strengthening. Both CSO's core CPI and the NBH's tax-adjusted core index rose from 3.4% to 3.8%, while demand-sensitive core inflation jumped from 3.3% to 3.8%.

The base effect will support the deceleration of headline inflation in 2022 and supply side tensions are likely to

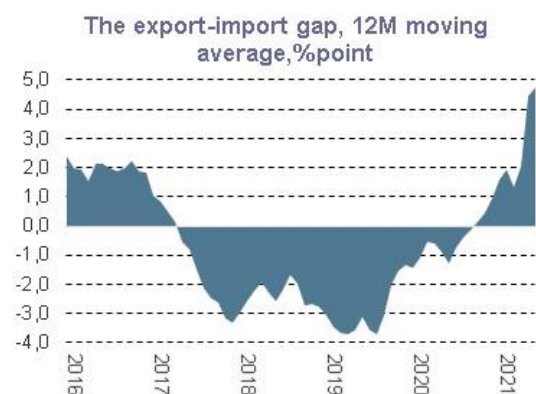
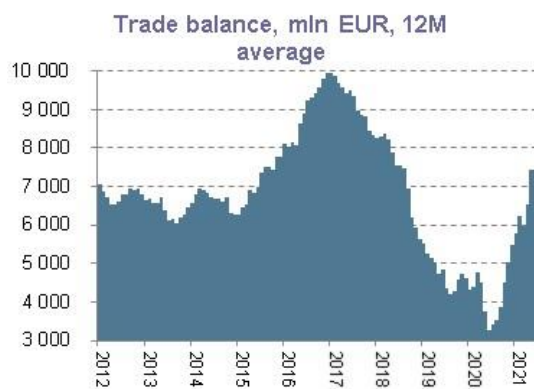
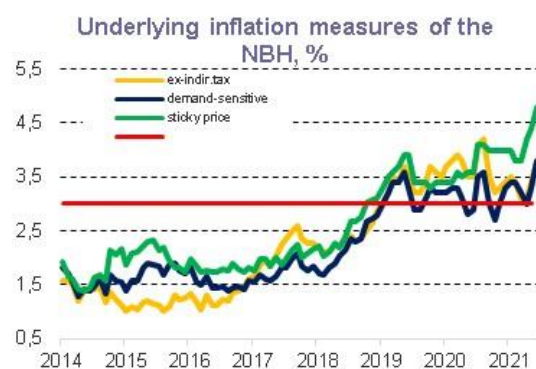
gradually ease pushing headline CPI back to the tolerance band. However, strong, above-potential growth, loose fiscal policies, tight labor market conditions and strong wage outflows are all factors that pose risks to the medium term inflation outlook. Inflation expectations can easily become unanchored, second round inflation effects may materialize, which in turn may result in higher for longer inflation.

The central bank seems to be well aware of these risks, hence the permanent flow of hawkish messages. Vice governor Virág's comments reaffirmed the view that the NBH plans a front-loaded tightening cycle and will proceed with rate hikes in July. Meanwhile the governor continued putting pressure on the government to adjust the fiscal stance.

FRA's are currently pricing in 30 bps rate increase in one-month time. In our view it's the bare minimum that the central bank must deliver this month followed by a few additional moves later. The size of the rate hikes beyond July, however, will depend on incoming new information. The policy rate may finish the year at 1.35-1.5%.

CSO also published flash May IP and trade figures. Following the 3.2% m-o-m decline in April, industrial output increased by 3.4% m-o-m in May. Output was 18% up from 2020 in the January-May period. Details are not yet available, but it seems that domestic sales drove the recovery and export sales lagged behind.

The most recent export figures and fresh German IP and orders statistics confirm that supply side bottlenecks weigh on the manufacturing (and especially on the auto) sector. Hungarian exports were down 4.4% m-o-m in EUR terms, while imports fell by 1.9%. Hence, the trade surplus shrank below EUR 100 mln, and the 12M rolling average surplus also failed to move higher. Nonetheless, the surplus of the first 5 months of the year still reached EUR 3 bln.



EUR/HUF headed north, again

The Hungarian unit showed some stability on Monday, but a relatively fast depreciation started on Tuesday, and EUR/HUF jumped as high as 358.5 yesterday (following the release of above-consensus inflation). Although the weakening came to a halt later, EUR/HUF traded only slightly below 358 in early Friday trading; the pair was

basically back to early May levels.

The hawkish messages from the central bank, the actual start of the tightening cycle and the de facto announcement of more rate hikes evidently failed to give a lasting boost to the FX rate (despite the fact that there is a growing consensus that fighting upside inflation risks will require a stronger FX rate).

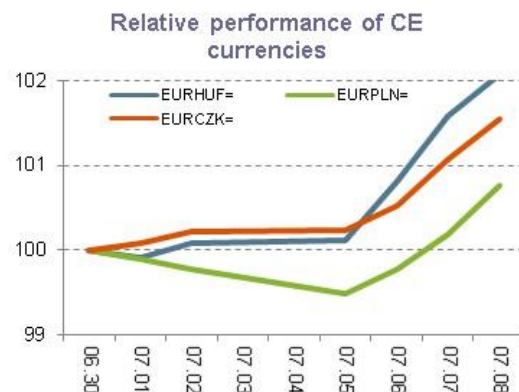
External factors clearly played a role in the HUF's slide. Rising global risk aversion weighed on EM currencies; the PLN and the CZK also lost some value this week. The relative underperformance of the forint, however, suggests that domestic factors were also in play (above-consensus inflation, uncertainties surrounding EU-funds)

Global sentiment will likely remain shaky in the upcoming period, hence external factors are not likely to give a boost to the Hungarian currency. The key event, that can determine the forint's fate, is the July rate-setting meeting of the central bank. The experiences of the last few weeks, however, suggest that a really aggressive move would be needed to trigger a lasting wave of appreciation. Delivering what already had been priced in will only be enough to stabilize but not to strengthen the FX rate.

The rally of core bonds failed to filter through to the Hungarian market. At the long end segment of the curve yields dipped a few basis points/remained flat, but the spreads over Bunds widened. Both the FX rate developments and yield movements show that there is some confusion on the market about the general stance of economic policies. The central bank tightens monetary conditions at the short-end to curb inflation but easing continues uninterrupted at the long-end segment of the curve.

QE will remain a permanent item in the toolkit, the central bank has just come out with a new green loan facility, and although the NHP program was shut down, it was immediately replaced by a new government lending

scheme for corporates with similarly alluring conditions. The government does not plan any major fiscal adjustment in 2021-2022, the high growth-high inflation-high deficit scenario is certainly not something that would justify considerably lower long yields on the short run.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,87	154	0,43	110	1,24	190	-0,67
3Y	1,78	251	0,59	131	1,27	200	-0,73
5Y	2,16	277	1,22	184	1,63	224	-0,61
10Y	2,94	326	1,62	195	1,79	211	-0,32
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	0,81	145	0,26	90	0,43	107	-0,64
3Y	1,63	232	0,54	123	1,12	181	-0,69
5Y	2,01	258	1,17	175	1,50	207	-0,58
10Y	2,91	312	1,74	195	1,78	199	-0,20

Macroeconomic and market forecasts

	Unit	2017	2018	2019	2020	2021*	2022*
GDP growth, y/y - CIB forecast (*)	%	4,3	5,1	4,9	-5,1	5,9	5,0
GDP growth, y/y - Market consensus	%	-	-	-	-6,0	4,7	5,1
Industrial production, y/y	%	4,6	3,5	5,6	-6,1	9,8	6,5
Trade balance	EUR mln	8078	5520	4334	5700	7200	6800
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	4,2	3,3
CPI, y/y, average - Market consensus	%	-	-	-	3,4	4,0	3,3
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,7	4,2	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	-7,5	-6,5
Unemployment rate (eop)	%	3,8	3,6	3,5	4,4	4,3	3,9

EXCHANGE RATES, QUARTERLY AVERAGE						
	2020 Q2	2020 Q4	2021Q2	2021 Q4	2022Q2	2022Q4
EUR/HUF	352	361	355	352	352	350
CHF/HUF	331	335	323	316	309	321
USD/HUF	320	303	294	303	294	289
EUR/CHF	1,06	1,08	1,10	1,11	1,14	1,14
EUR/USD	1,10	1,19	1,21	1,16	1,20	1,21
GBP/USD	1,24	1,32	1,40	1,38	1,43	1,45
GBP/HUF	397	399	412	418	418	418

INTEREST RATE FORECASTS						
(eop)	2020.06	2020.12	2021.06	2021.12	2022.06	2022.12
NHB base rate	0,75%	0,60%	0,90%	1,35%	1,35%	1,35%
HU 3M BUBOR	0,74%	0,75%	0,95%	1,40%	1,40%	1,40%
Fed Funds rate	0,25%	0,25%	0,25%	0,25%	0,25%	0,25%
ECB refi rate	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
SNB 3M Libor target	-0,75%	-0,75%	-0,75%	-0,75%	-0,75%	-0,75%



CIB BANK

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MONDAY 07/12/2021							
Country	Time	Data	Period	Previous	Forecast	Result	
		No major data release	#N/A				
TUESDAY 07/13/2021							
Country	Time	Data	Period	Previous	Forecast	Result	
US	14:30	CPI, m/m	June	0,6%	0,4%		
US	14:30	CPI, y/y	June	5%			
US	14:30	Core inflation, y/y	June	3,8%			
AUKCIÓK							
			Amount	Previous	Forecast	Result	
HU	11:30	3M T-bill	HUF 15 bln	0,50%			
WEDNESDAY 07/14/2021							
Country	Time	Data	Period	Previous	Forecast	Result	
HU	9:00	IP, final, y/y	May	39,1%	39,1%		
EZ	11:00	IP, prelim., m/m	May	0,8%	0,3%		
US	14:30	PPI, y/y	June	6,6%			
US	14:30	PPI, m/m	June	0,8%	0,5%		
AUKCIÓK							
			Amount	Previous	Forecast	Result	
HU	11:30	12M T-bill	HUF 10 bln	0,96%			
THURSDAY 07/15/2021							
Country	Time	Data	Period	Previous	Forecast	Result	
US	14:30	IP, final, m/m	June	0,8%	0,8%		
US	14:30	Capacity utilization	June	75,2%	75,65		
US	14:30	Philly Fed index	July	30,7	29,8		
US	14:30	Initial jobless claims, thousands	weekly	373			
FRIDAY 07/16/2021							
Country	Time	Data	Period	Previous	Forecast	Result	
EZ	11:00	HICP, y/y, final	June	1,9%	1,9%		
EZ	11:00	Core HICP, y/y, final	June	0,9%	0,9%		
US	14:30	Retail sales, m/m	June	-1,3%	0%		
US	16:00	UM consumer confidence index, flash	July	85,5	87,8		

MONDAY 07/05/2021						
Country	Time	Data	Period	Previous	Forecast	Result
		No major data release	#N/A			
TUESDAY 07/06/2021						
Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Industrial orders, m/m	May	1,2%	1,4%	-3,7%
HU	9:00	Retail sales, y/y	May	10,6%		5,8%
DE	11:00	ZEW index	July	79,8	75,4	63,3
EZ	11:00	Retail sales, y/y	May	23,3%	8,2%	9%
EZ	11:00	Retail sales, m/m	May	-3,9%	4,4%	4,6%
US	16:00	Services ISM index	June	64,0	63,5	60,1
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	0,57%		0,50%
WEDNESDAY 07/07/2021						
Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	IP, prelim., m/m	May	-0,3%	0,5%	-0,3%
HU	9:00	IP, prelim., y/y	May	58,8%	43,3%	39,1%
HU	9:00	IP, prelim., m/m	May	-3,2%		3,4%
US	20:00	Fed FOMC minutes	June			
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 10 bln	0,92%		0,96%
THURSDAY 07/08/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	CPI, y/y	June	5,1%	4,8%	5,3%
HU	9:00	CPI, m/m	June	0,5%		0,6%
US	14:30	Initial jobless claims, thousands	weekly	371	350	373
FRIDAY 07/09/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Trade balance, prelim., EUR m	May	321		
HU	11:00	Budget balance, HUF bln	June	-1313		



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