

CIB WEEKLY REPORT



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What to watch next week

Local market movers

September wage and unemployment statistics are likely to confirm the ongoing labor market recovery with slower but still robust wage growth and an unemployment rate slightly below 4%. The September PMI may reverse August's gains reflecting persistent supply chain problems and slower European growth.

External developments

The EZ ESI index is likely to drop mirroring changes in the flash PMIs. The labor market statistics could paint a positive picture, inflation is expected to remain elevated. August orders, housing, income and consumption figures are on the agenda in the US alongside with the most recent ISM index. However, the key event of the upcoming period is going to be the publication of the September employment report the week after.

Summary of recent macro and market developments

The NBH delivered a below consensus 15 bps rate increase, hikes set to continue

The central bank proceeded with gradual monetary policy normalization in September. They increased the policy rate by 15 bps to 1.65% and adjusted the interest rate corridor accordingly. They continued tapering by reducing the amount of weekly purchases from HUF 50 bln to 40 bln. Moreover, they announced the gradual winddown of FX swaps.

The 15bps hike was less than the market had expected (consensus 25 bps) but the negative impact of the below consensus move was partly offset by the QE and swap announcement and the hawkish tone of the statement. Vice governor Virág cited “Delta-related uncertainties” as the main argument for the smaller increase.

The statement said that:

- Inflation is expected to rise further in the autumn months and to stay above 5 percent during the remainder of the year.
- Inflation will start to fall from the beginning of 2022 before returning to the central bank tolerance band in the second quarter. The consumer price index is expected to stabilise around the 3 percent central bank target in the second half of 2022.
- Some of the inflation risks, indicated in June, materialised in the summer months; however, risks to the outlook remain on the upside.

The forward guidance matched the previous one word by word, but the fact that reaching the target is delayed on the one hand, and Delta uncertainties do prevail on the other hand, implies a lengthier, less front-loaded cycle.

The guidance said that:

- The Monetary Council will continue the cycle of

interest rate hikes until the outlook for inflation stabilises around the central bank target in a sustainable manner and inflation risks become evenly balanced on the horizon of monetary policy.

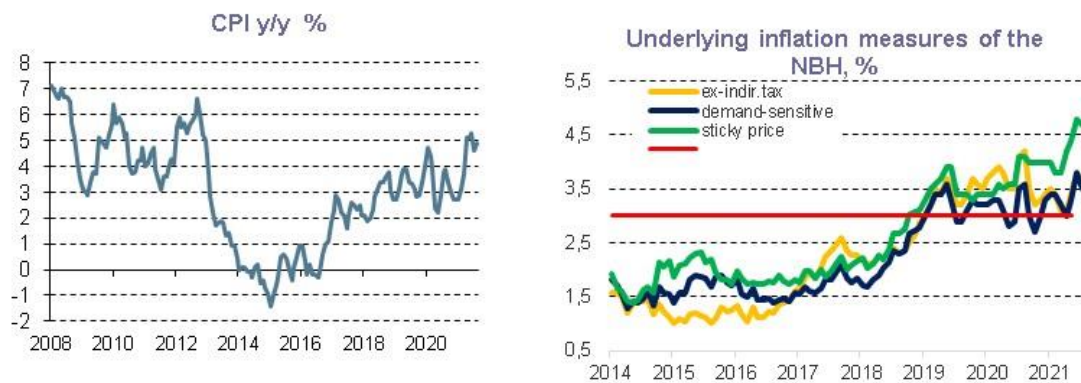
Regarding the size of future moves, the vice governor confirmed that they are planning monthly increases, the 15 bps move can be considered indicative and the MC will evaluate the situation next in December, in line with the publication of the updated staff forecasts.

So, the bottom line is that we can expect two 15 bps moves in October-November. The tightening cycle is highly likely to continue in December and even in Q1 2022, but the pace will depend on incoming new information on the inflation and growth front. The base rate may finish the year at ~2% and if the inflation outlook does not improve markedly (which is not very likely) the policy rate may peak at ~2.2-2.4% in Q1.

Reducing the target amount of monthly bond purchases is another step in the normalization process, but it is important to note, that QE will remain an important tool and will be used flexibly to smooth market movements. Actually, the statement explicitly said that “if warranted by the maintenance of market stability, the MNB will stand ready to temporarily raise the volume of weekly purchases at any given time”.

The updated staff forecasts brought no surprises.

The GDP growth forecast for this year was raised from 6.2% to 6.5-7%, and the projection pencils in 5-6% growth for 2022. Average 2021 inflation is expected to be 4.6-4.7% compared to 4.1% in June followed by 3.4-3.9 inflation in 2022. All forecasts are broadly in line with the most recent market consensus estimates.



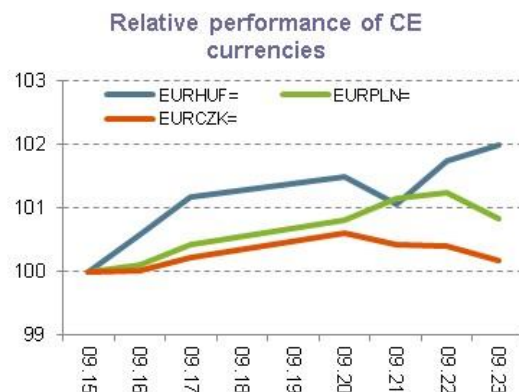
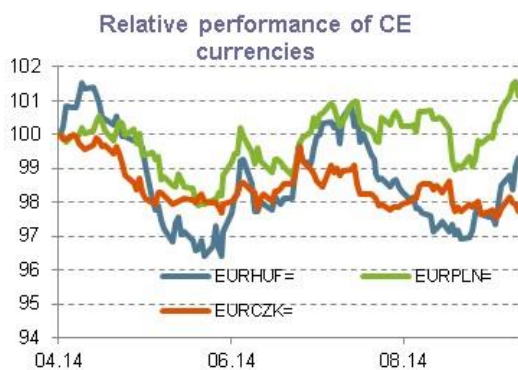
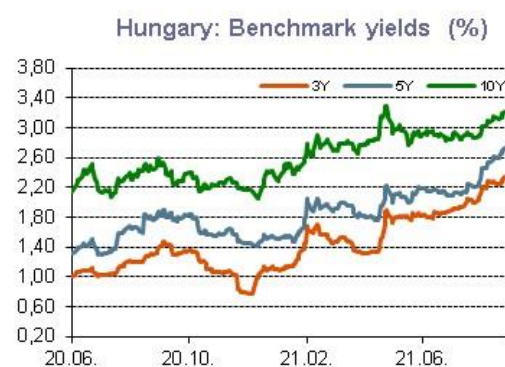
Summary table of baseline scenario

	2020	2021	2022	2023
	Actual		Projection	
Inflation (annual average) ¹				
Core inflation	3,7	3,5 - 3,6	3,4 - 3,6	2,9 - 3,2
Core inflation excluding indirect tax effects	3,7	3,5 - 3,6	3,4 - 3,6	2,9 - 3,2
Inflation	3,3	4,6 - 4,7	3,4 - 3,8	2,8 - 3,2
Economic growth				
GDP	-5,0	6,5 - 7,0	5,0 - 6,0	3,0 - 4,0

HUF lost some ground following the below-consensus rate hike

Following three consecutive 30 bps rate hikes, the NBH started to slow the pace of a tightening cycle and raised the base rate by 15 bps. The smaller than expected increase was particularly surprising because the slowdown came despite the fact that the new forecast showed a higher inflation path compared to previous projections. As a result, the forint depreciated against the euro by around 1.5% by late Thursday, compared to levels a week earlier and the pair fluctuated around 356, while the USD/HUF rose above the 300 threshold again. Although the strengthening dollar did not help the CEE region, the significant weakening wave of the forint against the main currencies led to underperformance versus the Polish zloty and the Czech koruna this week. In spite of the negative impacts of the recent moves of the Hungarian currency, we still think that the space for further depreciation is limited. Depending on shifts in global risk appetite and the further domestic monetary steps, the

EUR/HUF exchange rate may fluctuate in the 345-355 range in the remaining part of the year. Interest rate movements in the BUBOR maturities reflected an adjustment of 10 to 15 bps directly after the NBH's interest rate decision, and then stabilized at these levels. In the government securities market, the yields at the very long-end segment of the curve (15-20 years) moved up by 8-10 bps, while the rest of the curve remained stable after the Hungarian central bank announced to continue tapering its bond purchasing stimulus for a second month, reducing the weekly target to 40 bln from 50 bln HUF.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	1,56	224	0,55	123	1,56	223	-0,68
3Y	2,27	301	0,96	170	1,82	256	-0,74
5Y	2,66	327	1,47	208	1,96	257	-0,61
10Y	3,14	344	2,01	232	1,99	229	-0,30
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	1,11	176	0,47	113	1,19	185	-0,66
3Y	2,02	279	0,70	146	1,50	226	-0,77
5Y	2,30	297	1,22	189	1,75	243	-0,68
10Y	2,97	335	1,66	205	1,83	222	-0,38

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	6,8	5,0
GDP growth, y/y - Market consensus	%	-	-	-	-6,0	6,4	5,0
Industrial production, y/y	%	4,6	3,5	5,6	-6,1	13,1	7,5
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	4,6	3,3
CPI, y/y, average - Market consensus	%	-	-	-	3,4	4,4	3,5
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,7	4,9	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	%	3,8	3,6	3,5	4,4	4,2	3,9

EXCHANGE RATES, QUARTERLY AVERAGE						
	2020 Q2	2020 Q4	2021Q2	2021 Q4	2022Q2	2022Q4
EUR/HUF	352	361	355	351	352	350
CHF/HUF	331	335	323	315	309	321
USD/HUF	320	303	294	301	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	416	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%	2,00%	2,00%	2,00%
HU 3M BUBOR	0,74%	0,75%	0,96%	2,05%	2,05%	2,05%
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%



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MONDAY 09/27/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Consumer confidence index	September	-19,7		
US	14:30	Durable goods orders, m/m	August	-0,1%	0,6%	
TUESDAY 09/28/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Unemployment rate	August	3,9%	3,5%	
US	14:30	Trade balance, USD bn	August	-86,4	-87,0	
US	15:00	Case-Shiller house price index, y/y	July	18,61%		
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	1,11%		
WEDNESDAY 09/29/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Gross wages, y/y	July	3,5%	8,0%	
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 10 bln	1,53%		
THURSDAY 09/30/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	PPI, y/y	August	14,8		
HU	9:00	PPI, m/m	August	3,5		
EZ	11:00	Unemployment rate	August	7,6%		
DE	14:00	CPI, y/y	September	3,9%	4,0%	
DE	14:00	CPI, m/m	September	0,0%		
US	14:30	Initial jobless claims, thousands	weekly	351		
FRIDAY 10/01/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Manufacturing PMI, flash	August	55,9		
HU	9:00	Trade balance, final, EUR m	July	-193		
EZ	11:00	CPI, y/y	September	3,0%		
EZ	11:00	CPI, m/m	September	0,4%		
0	14:30	Personal income, m/m	August	1,1%	0,2%	



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MONDAY 09/20/2021						
Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	PPI, y/y	August	10,4%		12,0%
DE	8:00	PPI, m/m	August	1,9%		1,5%
HU	8:30	C/A balance, EUR m	Q2	541	-0,471	-775
TUESDAY 09/21/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	14:00	NBH rate decision, base rate	September	1,50%	1,75%	1,65%
US	14:30	Building permits, mln unit	August	1,630	1,595	1,728
US	14:30	Housing starts, mln unit	August	1,534	1,545	1,615
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	1,10%		1,11%
WEDNESDAY 09/22/2021						
Country	Time	Data	Period	Previous	Forecast	Result
EZ	16:00	Consumer confidence index	September	-5,3	-5,7	-4,0
US	16:00	Existing home sales, mln unit	August	5,99	5,81	5,88
US	20:00	Fed interest rate decision	September	0,25%	0,25%	0,25%
THURSDAY 09/23/2021						
Country	Time	Data	Period	Previous	Forecast	Result
DE	9:30	Manufacturing PMI, flash	September	62,6	61,4	58,5
DE	9:30	Services PMI, flash	September	60,8	60,4	56,0
DE	9:30	Composite PMI, flash	September	60,0	59,5	55,3
EZ	10:00	Manufacturing PMI, flash	September	61,4		58,7
EZ	10:00	Services PMI, flash	September	59,0	59	56,3
EZ	10:00	Composite PMI, flash	September	59,0	58,8	56,1
US	14:30	Initial jobless claims, thousands	weekly	332		351
US	14:30	Manufacturing PMI, flash	September	61,1		60,5
US	14:30	Services PMI, flash	September	55,1		54,4
US	14:30	Composite PMI, flash	September	55,4		54,5
US	16:00	Leading index	August	0,9%	0,6%	0,9%
AUCTIONS						
			Amount	Previous	Forecast	Result
HU	11:30	5Y T-bond	HUF 20 bln	2,53%		2,53%
HU	11:30	10Y T-bond	HUF 20 bln	3,07%		3,05%
HU	11:30	15Y T-bond	HUF 15 bln	3,28%		3,52%
FRIDAY 09/24/2021						
Country	Time	Data	Period	Previous	Forecast	
DE	10:00	Ifo index	September	97,5		
US	16:00	New home sales, mln unit	August	1,0%	0,8%	

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