

CIB WEEKLY REPORT



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What to watch next week

Local market movers

CSO is going to publish the most recent inflation and trade balance statistics next week. Following the weak IP data released today, the trade balance is highly likely to register yet another deficit in September. Inflation may have accelerated further in October, according to our calculation headline y-o-y CPI went up from 5.5% to around/slightly above 6% (6.1%). The drastic rise on fuel prices could have added 0.5%points to the headline index, but consumer durable prices and clothing prices are likely to show strong rises as well. Inflation is likely to increase even further in November, nearing the 7% threshold. External pressures, the relatively weak FX rate, loose fiscal policies and strong wage outflows will keep inflation higher for longer, CPI is not likely to return to the 2-4% target range until Q3 2022.

External developments

US PPI and CPI figures are likely to confirm that inflationary pressures remain extremely strong in the economy. The German ZEW index is expected to drop below 20 reflecting some further deterioration in sentiment. Euro zone IP data will confirm that persistent supply side bottlenecks are holding back the industry.

Summary of recent macro and market developments

Disappointing IP and trade performance, strong retail sales growth

Global supply side bottlenecks have continued weighing on the Hungarian industry. Industrial output fell by 0.3% m-o-m (swda) in September, and by 1.7% (wda) compared to the same month of 2020. The number was both below the 0% market consensus and even our below consensus call of -1%. Industrial output was still 12.8% up in Q1-Q3.

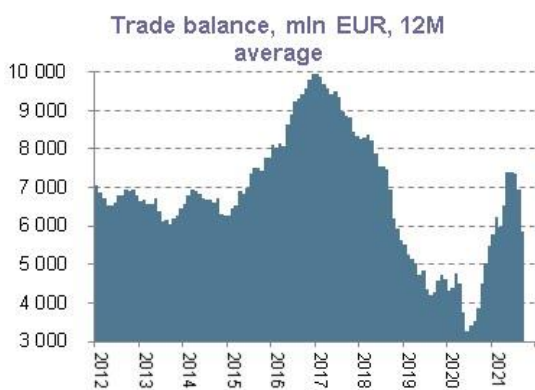
Details figures are not yet available, but it is highly likely that the vehicle manufacturing and the electrical-optical segments (with a 40% weight in total IP), that suffer the most from global supply side problems, are to blame for the weak data.

Industrial output was below Q2 levels in the July-September period; hence it is very likely that the sector could not contribute positively to Q3 GDP growth. Moreover, supply side tensions are likely to remain much more persistent, hence the struggles of the sector may continue in the next few quarters.

On the other hand, households' consumption is likely to remain robust on the back of tight labor market conditions, strong wage outflows and pre-election fiscal transfers (retail sales grew by 5.8% y-o-y in August) and could partly offset the negative GDP impact of the industrial sector.

Slower export growth alongside with booming imports (reflecting strong domestic demand and higher inflation) pushed the trade balance into the red in August (EUR -

751 mln). The 12M average decreased below EUR 6 bln from the 7.5 bln peak in April. Flash September trade statistics will be released next week and will likely show yet another monthly deficit. The situation is not tragic yet, but the tendency is clear: booming domestic demand alongside with problems at the export side result in the deterioration of our external balances.

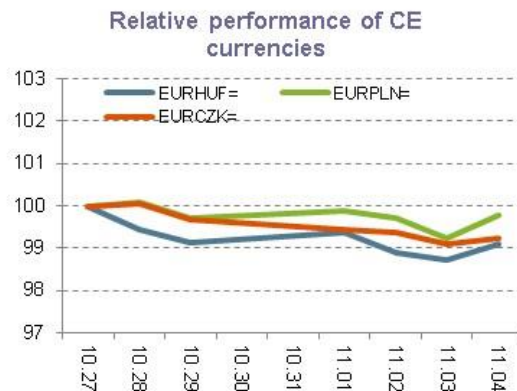
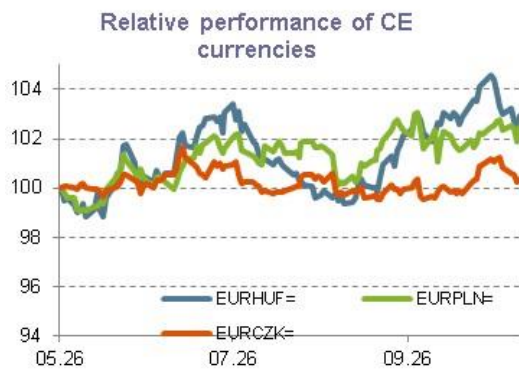


Source:CSO

EUR/HUF hovers around 360

Although the US dollar started to strengthen after the FED announced late Wednesday it would begin tapering its asset purchases program in November, the Hungarian unit showed a more stable picture against the main currencies. EUR/HUF moved in a very narrow range between 359-361, while the forint's performance against the dollar was also solid, the pair was fluctuating close to the 311 level at the halftime of Friday's trading session. On the other hand, as a result of the higher than expected Polish and Czech rate hike, the forint has underperformed

its regional peers this week. Looking ahead, we do not expect any meaningful appreciation, the EUR/HUF cross rate may fluctuate at 355-365 range in the remaining part of the year as well as the most of the time in this year. At the same time, in the government securities market, yields at the medium and long-end segment of the curve declined over the past few days in line with the developed market direction.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	1,77	248	2,72	343	2,64	334	-0,71
3Y	2,62	332	2,72	342	2,87	357	-0,70
5Y	3,22	373	2,83	334	2,80	332	-0,51
10Y	3,92	410	0,00	18	2,70	288	-0,18
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	1,45	211	1,01	168	1,69	236	-0,67
3Y	2,36	308	1,20	193	1,99	271	-0,73
5Y	2,73	332	1,66	225	2,11	270	-0,59
10Y	3,34	361	1,91	218	2,12	239	-0,27

Macroeconomic and market forecasts

EXCHANGE RATES, QUARTERLY AVERAGE						
	2020 Q2	2020 Q4	2021Q2	2021 Q4	2022Q2	2022Q4
EUR/HUF	352	361	355	354	353	351
CHF/HUF	331	335	323	321	311	321
USD/HUF	320	303	294	307	299	290
EUR/CHF	1,06	1,08	1,10	1,10	1,13	1,14
EUR/USD	1,10	1,19	1,21	1,15	1,18	1,21
GBP/USD	1,24	1,32	1,40	1,37	1,41	1,45
GBP/HUF	397	399	412	420	422	422

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%	2,10%	2,40%	2,40%
HU 3M BUBOR	0,74%	0,75%	0,96%	2,25%	2,50%	2,50%
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%

	Unit	2017	2018	2019	2020	2021*	2022*
GDP growth, y/y - CIB forecast (*)	%	4,3	5,1	4,9	-5,1	7,0	5,0
GDP growth, y/y - Market consensus	%	-	-	-	-6,0	7,0	5,1
Industrial production, y/y	%	4,6	3,5	5,6	-6,1	11,5	5,5
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	4,7	3,7
CPI, y/y, average - Market consensus	%	-	-	-	3,4	4,5	3,6
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,7	5,7	3,3
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

Week 46

MONDAY 11/08/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Trade balance, prelim., EUR m	September	-751		

TUESDAY 11/09/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	CPI, y/y	October	5,5%	6%	
HU	9:00	CPI, m/m	October	0,2%	0,7%	
DE	9:00	ZEW index	November	22,3	19	
HU	11:00	Budget balance, HUF bln	October	-2292		
US	14:30	PPI, y/y	October	8,6%	8,6%	
US	14:30	PPI, m/m	October	0,6%	0,5%	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	1,32%		

WEDNESDAY 11/10/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	CPI, y/y	October	5,4%	5,8%	
US	14:30	CPI, m/m	October	0,4%	0,5%	
US	14:30	Initial jobless claims, thousands	weekly	269		

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 10 bln	1,75%		

THURSDAY 11/11/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	IP, prelim., y/y	September	5,1%		
EZ	11:00	IP, prelim., m/m	September	-1,6%	0,4%	

FRIDAY 11/12/2021

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



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MONDAY 11/01/2021

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

TUESDAY 11/02/2021

Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Manufacturing PMI, flash	October	52,1		53,1
HU	9:00	PPI, y/y	September	14,4%		14,0%
HU	9:00	PPI, m/m	September	0,4%		2,4%

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	1,18%		1,32%

WEDNESDAY 11/03/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	Unemployment rate	September	7,5%		7,4%
US	13:00	ADP, change in private sector employment, thousands	October	568	380	571
US	15:00	Industrial orders, m/m	September	1,2%	-0,2%	0,2%
US	19:00	Fed interest rate decision	November	0,25%	0,25%	0,25%

THURSDAY 11/04/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Industrial orders, m/m	September	-7,7%	0,4%	1,3%
EZ	11:00	PPI, y/y	September	13,4%		16,0%
EZ	11:00	PPI, m/m	September	1,1%		2,7%
US	13:30	Initial jobless claims, thousands	weekly	281		269

AUCTIONS

			Amount	Previous	Forecast	Result
HU	11:30	5Y T-bond	HUF 20 bln	3,12%		3,13%
HU	11:30	10Y T-bond	HUF 20 bln	3,78%		3,82%
HU	11:30	20Y T-bond	HUF 15 bln	4,09%		4,28%

FRIDAY 11/05/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	IP, prelim., y/y	September	2%	-0,9%	-0,90%
DE	8:00	IP, prelim., m/m	September	-3,5%	1%	-1,10%
HU	9:00	Retail sales, y/y	September	4,1%		5,80%
HU	9:00	IP, prelim., y/y	September	2,5%	0%	-2,3%
HU	9:00	IP, prelim., m/m	September	-2,7%		-0,3%
EZ	11:00	Retail sales, y/y	September	0,0%		
EZ	11:00	Retail sales, m/m	September	0,3%		
US	13:30	Unemployment rate	October	4,8%	4,7%	



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