

# CIB WEEKLY REPORT



## Contents

- **What to watch in the week ahead**
- **Summary of recent macro and market events**
- **Forecast tables**
- **Macro diary**

## What to watch next week

### Local market movers

No major data releases are scheduled for next week.

### External developments

Euro zone PMIs and the German Ifo index will likely confirm that the euro zone economy is losing momentum. Both the services and manufacturing indices are expected to move lower, but the composite index will remain above the 50-point threshold.

US income, consumption and orders figures are expected to signal an economy expanding at a solid rate. The PCE indices, on the other hand, will show persistent inflation pressures.



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## Summary of recent macro and market developments

### **NBH raised the policy rate by 30 bps and increased the 1W depo rate by 70 bps**

In a widely expected move, the central bank stepped on the accelerator this week, and sped up the tightening cycle. Although the policy rate was raised by 30 bps only (double the 15-bp rise in October), the NBH announced new liquidity measures and most importantly an additional 40 bps increase of the 1W depo rate. Since the 1W depo is the facility to which banks have unlimited access, the 1W depo rate has become the effective rate, again. So the policy rate stands at 2.1% and the effective 1W depo rate at 2.5% currently. (The 1W depo rate is set each Thursday.)

Concerning the liquidity measures, the HUF swap facility will be terminated, the swap facilities providing FX liquidity will be used actively in the future as well, and a new discount bill will be introduced soon -another tool via which the central bank can withdraw liquidity from the market.

The statement and the tone of the press briefing was very much hawkish:

- Underlying inflationary pressures are strengthening, there is a broad base acceleration of inflation due to external and internal factors. Incoming information suggest that the inflation outlook has deteriorated since the publication of the September staff forecast, reaching the inflation target is delayed.
- External pressures are likely to be persistent, demand led domestic pressures are on the rise, strong wage outflows pose another risk and inflation expectations are also moving higher.
- All these developments justify a tightening cycle that is bigger and lengthier than previously thought. As a result, the real interest rate will start

to rise, the central bank aims at a real rate above pre-COVID levels.

According to the central bank, the war against inflation must be fought on 2 fronts:

- In an effort to stabilize inflation expectations, the central bank must engage in a long, predictable policy rate hiking cycle (monthly steps, the size will be reviewed next in December), while
- short term tensions on the “commodity and money markets” will be treated by the flexible use of the 1W depo rate.

Although neither the statement nor vice governor Virág mentioned explicitly the FX rate, the phrase „short term tensions on money markets” clearly refers to the FX rate, more precisely the need for a stable/stronger FX rate that can partly offset strengthening external inflationary pressures.

These considerations fully match our thoughts of last week. As we wrote:

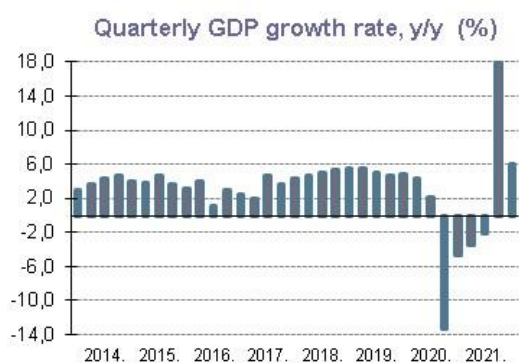
“It’s an illusion that either rate hikes or other liquidity measures (winding down QE, withdrawing liquidity provided previously via the swap facility) will have a major impact on short term inflation developments (strongly influenced by supply side factors). However, a stronger FX rate may stabilize imported inflation on the one hand, and a bold interest rate increase may influence inflation expectations (currently above 6%) positively, on the other hand.”

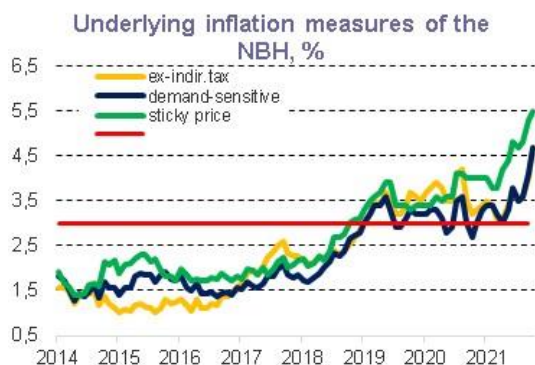
It is now also clear that the NBH doesn’t want to follow its regional peers and remains more conservative in terms of the size of policy rate hikes. We expect one more 30 bps rate increase in December and the continuation of the tightening cycle until at least Q2 2022. The size of the rate increases beyond December will depend on incoming new information, but now we foresee the policy rate peaking at

3.3-3.5%.

The gap between the policy rate and the 1W depo rate will remain in place (it can even widen in case the HUF doesn't react positively to the rate increase of this week) during the next 3-6 months.

Flash Q3 GDP growth came out at lower than expected. GDP grew by 0.7% q-o-q swda, and the y-o-y growth rate was 6.1% compared to the 7.4% market consensus. The Hungarian economy expanded by 7.1% in Q1-Q3. Details are not yet available, but the monthly IP statistics suggest that the industry could not contribute positively to overall growth this quarter, while supply side constraints might have held back the construction sector. The key engine of growth could have been the services sector, but the below consensus GDP reading suggest that the performance of this sector might have been less robust than expected. Downside risks to the short term growth outlook have strengthened recently: the struggles of the industrial and export sectors are very likely to continue, while the very strong 4<sup>th</sup> COVID wave may have a negative impact on consumption as well (despite the fact that no strict containment measures have been announced so far). We will officially revise our GDP forecasts once the details are out, but currently we see FY GDP growth in the 6.5-6.8% range (as opposed to our current official forecast of 7%).





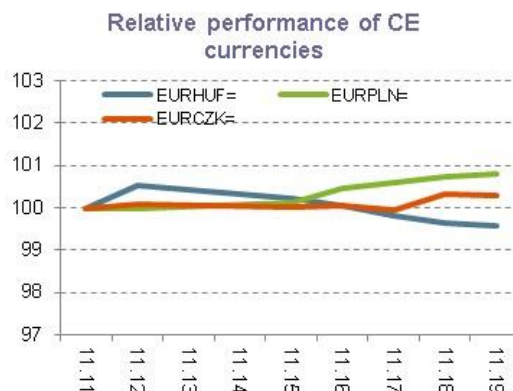
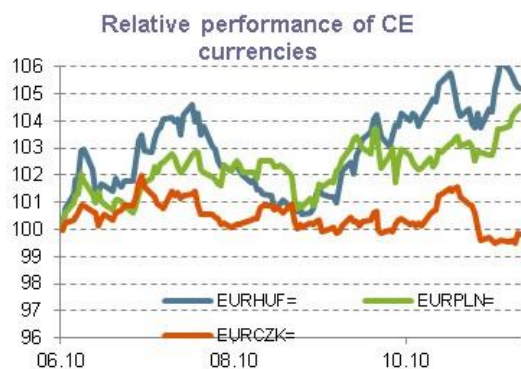
Source:CSO

### EUR/HUF approaching all time highs despite the rate hike

Mixed movements were observed in the domestic exchange market. The 30 bps base rate hike on Thursday was not enough for the forint to move away from the physiologically and technically important 366 level. However, the NBH also announced that they will keep the 1W deposit higher than the benchmark to effectively smooth market tensions. In line with that, on Thursday the central bank raised its new key interest rate by 70 bps and the forint strengthened against the main currencies and became the best performer in the CEE region. The higher than expected 1W depo rate hike confirmed that the central bank is not comfortable with EUR/HUF above 365. The rate increase pushed EUR/HUF lower but at the time of closing our report, the pair remains above 365. This time external factors (massive firming of the USD, fluctuations in global risk appetite) were the main drivers of the HUF weakening, though.

In tandem with the rate hike a parallel shift was observed in the BUBOR curve while in the government securities market, medium-term yields continued to jump, and the yield curve flattened. The 3-10-year yield spread dropped from 128 bps on November 2 to 30 bps by mid-November.





### CE3 GOVERNMENT BOND YIELDS

	HU		PL		CZ		EU
SPOT (bid)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	2,84	359	2,97	372	2,93	368	-0,75
3Y	3,90	469	3,18	396	3,19	398	-0,79
5Y	4,13	470	3,35	392	2,98	356	-0,57
10Y	4,18	444	3,37	363	2,74	301	-0,26
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	1,69	238	1,42	210	1,99	267	-0,68
3Y	2,56	329	1,59	231	2,25	297	-0,72
5Y	2,98	354	1,98	254	2,31	287	-0,56
10Y	3,53	377	2,04	228	2,27	251	-0,24

# Macroeconomic and market forecasts

Under revision

Week 47						
MONDAY 11/15/2021						
Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	Trade balance, prelim., EUR m	September	4,8		7,3
TUESDAY 11/16/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	GDP growth, flash, y/y	Q3	17,9%	7,6%	6,1%
HU	9:00	GDP growth, flash, q/q	Q3	2,7%		0,7%
EZ	11:00	GDP growth, flash, y/y	Q3	3,7%		3,7%
EZ	11:00	GDP growth, flash, q/q	Q3	2,2%		2,2%
HU	14:00	MNB interest rate decision	November	1,80%	2,10%	2,10%
US	14:30	Retail sales, m/m	October	0,7%	1,1%	1,7%
US	15:15	IP, prelim., m/m	October	-1,3%	0,8%	1,6%
US	15:15	Capacity utilization	October	75,2%	75,8%	76,4%
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	1,57%		2,22%
WEDNESDAY 11/17/2021						
Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	CPI, y/y	October	3,4%	4,1%	4,1%
EZ	11:00	CPI, m/m	October	0,8%		0,8%
US	14:30	Building permits, mln unit	October	1,586	1,630	1,65
US	14:30	Housing starts, mln unit	October	1,573	1,555	1,52
THURSDAY 11/18/2021						
Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	Initial jobless claims, thousands	weekly	269	260	268
US	16:00	Leading index	October	0,7%	0,8%	0,9%
AUCTIONS						
			Amount	Previous	Forecast	Result
HU	11:30	5Y T-bond	HUF 20 bln	3,13%		3,86%
HU	11:30	10Y T-bond	HUF 20 bln	3,82%		4,02%
HU	11:30	15Y T-bond	HUF 15 bln	4,24%		4,14%
FRIDAY 11/19/2021						
Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	PPI, y/y	October	14,2%	16,2%	18,40%
DE	8:00	PPI, m/m	October	2,3%	1,9%	3,80%



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MONDAY 11/22/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	8:00	Consumer confidence index	November	-15,2		
US	16:00	Existing home sales, mln unit	October	6,29	6,20	
TUESDAY 11/23/2021						
Country	Time	Data	Period	Previous	Forecast	Result
EZ	10:00	Manufacturing PMI, flash	November	58,3		57,4
EZ	10:00	Services PMI, flash	November	54,6		54
EZ	10:00	Composite PMI, flash	November	54,2		53,3
US	14:30	Manufacturing PMI, flash	November	58,4		
US	14:30	Services PMI, flash	November	58,7		
US	14:30	Composite PMI, flash	November	57,6		
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	2,22%		
WEDNESDAY 11/24/2021						
Country	Time	Data	Period	Previous	Forecast	Result
DE	10:00	Ifo index	November	97,7	96,8	
US	14:30	Initial jobless claims, thousands	weekly	367		
US	16:00	New home sales, mln unit	October	0,8	0,81	
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 10 bln	2,75%		
THURSDAY 11/25/2021						
Country	Time	Data	Period	Previous	Forecast	Result
		No major data release	#N/A			
FRIDAY 11/26/2021						
Country	Time	Data	Period	Previous	Forecast	Result
		No major data release	#N/A			





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