

CIB WEEKLY REPORT



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What to watch next week

Local market movers

The key domestic event of the forthcoming week is going to be the NBH rate-setting meeting, although since the reactivation of the “double interest rate system”, the 1W depo rate has become the effective policy rate again. Nonetheless, the MC is widely expected to proceed with the tightening cycle and to raise the policy rate further. Moreover, they may announce the acceleration of the withdrawal of unconventional policy measures. The updated staff forecasts will be released, too. The inflation projections for 2021-2022 will be raised quite significantly. We expect smaller changes in case of the GDP growth forecasts.

The monetary policy framework has become more complex recently and the outlook for rates more is more uncertain, but the central bank repeatedly stressed that

they intend to react to longer term inflation risks by the policy rate, while short term market stresses will be managed by the more flexible 1W depo rate.

The public remarks of both the governor and vice governor also underlined that the central bank has engaged in a long, gradual tightening cycle, rates will rise as long as inflation does not stabilize on target.

The CB already raised the 1W depo rate to 3.3%, the policy rate was set at 2.1% in November.

Incoming new information confirmed that the inflation trajectory had shifted further up, and upside risks had intensified. These developments may argue for a more aggressive stance towards raising the policy rate. On the other hand, however, remarks about a long-lasting tightening cycle and the reactivation of the 1W depo rate suggest that the central bank remains in favor of a more gradual approach in case of the policy rate.

Vice governor Virág gave a lengthy interview to a Hungarian daily last week, the key takeaway messages being:

- They will bring forward as many rate hikes as possible by raising the 1W depo rate.
- Every single 1W depo move will eventually be reflected in the policy rate.
- Once the current turbulent period is over, the gap between the 1W rate and the policy rate will close.
- They do not intend to raise the 1W rate on a weekly basis.
- The policy rate hiking cycle continues.

The consensus expectation for next week's decision is for yet another 30-bps hike. However, the range of the forecasts is extremely wide, there are calls for a much bigger, 100 bps increase, too. Virág's remarks, however,

suggest that the central bank plans to close the gap between the two rates gradually and not in one step. Hence, our call is for a 30 bps (or a little bigger) rate hike.

With regards to the updated IR forecasts, governor Matolcsy already pre-announced the new CPI figures: inflation could be between 4.7-5% in 2022. Basically, it is in line with our current projection of 5-5.1%.

External developments

Both the ECB and the FOMC gather for the last monetary policy meeting of 2021 next week. The updated macro projections will be released, too.

With regards to the ECB, there is a visible divide among the policy makers concerning the speed of normalization. Although inflation forecasts will be raised quite significantly compared to the September one, we do not expect the Bank to accelerate the withdrawal of monetary stimulus. Especially because many of the decision makers believe that inflation will return to below target next year and downside risks to growth has strengthened recently. Therefore, they will likely proceed according to the earlier announced plan and review the outlook for inflation in Q1 2021 when they have more clarity about the persistency of the inflation shock. Still, from a communication point of view, next week's meeting will be a huge challenge.

Contrary to the ECB, the Fed is widely accepted to accelerate its tapering amid mounting inflation risks and still robust activity. (The current pace is USD 15 bln per month). Hence, QE may finish earlier than expected (April), followed by the first rate hike in Q3.

Besides the monetary policy gatherings, a bunch of important data will be released on both side of the Atlantic. Flash November PMIs and the German Ifo index will take center stage in the euro zone, while the most recent IP, retail sales, housing and PPI figures are on the agenda in the US.

Summary of recent macro and market developments

Inflation went up further in November, the struggles of the industrial sector continue

Inflation accelerated further in November, the headline y-o-y index went up from 6.5% to 7.4% and core CPI also moved above the 5% threshold. The underlying inflation measures of the central bank also show broad based inflationary pressures in the economy.

Consumer prices rose 0.7% m-o-m, clothing prices posted above average growth due to seasonal factors, but the 1.2% rise of consumer durables and price developments of market based services confirm that strong external inflationary pressures alongside with the weak FX rate and strong demand triggers a broad based acceleration of prices; second-round effects have started to materialize in the economy. The administrative cap on fuel prices will only show up in the statistics in December.

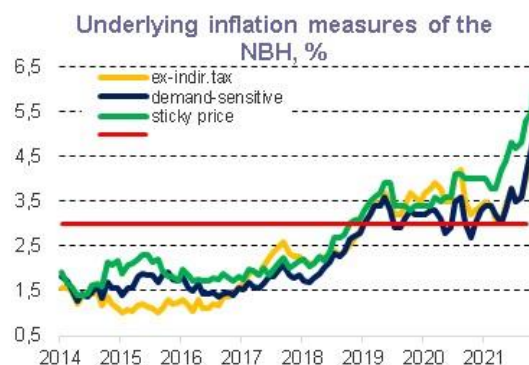
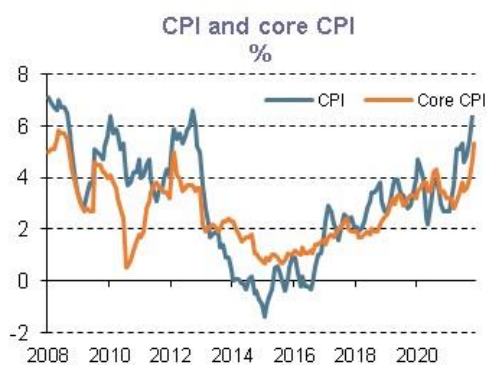
Headline CPI may move down marginally in December, (but will remain above 7%), and the slow gradual deceleration is likely to continue in early 2022. Nonetheless the outlook for inflation has further deteriorated recently and upside risks still dominate. Strong imported inflation alongside with the weak FX rate, among robust domestic demand triggers a broad-based re-pricing in the economy. Moreover, inflation expectations are on an upward trajectory, too. Therefore, headline CPI is not likely to return below 5% until late summer 2022 and average 2022 inflation may be around 5%.

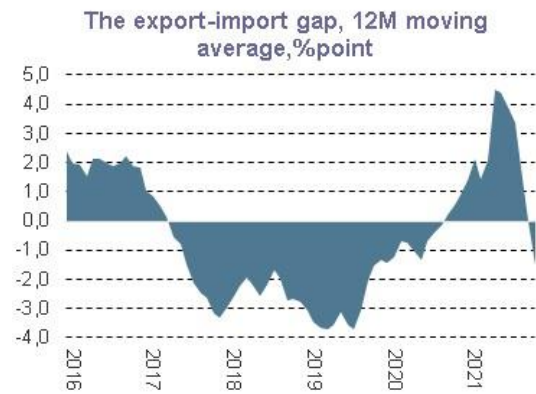
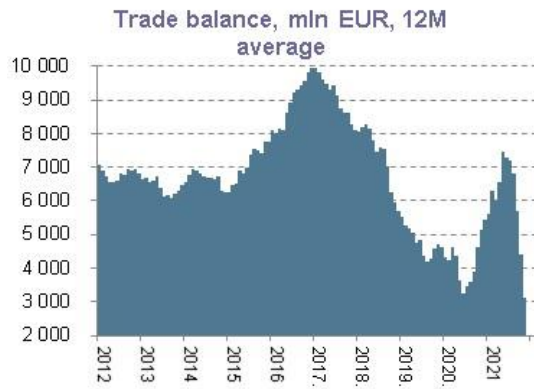
The industrial and exports sectors have remained weighed down by supply side problems. Following 4 months of declines, industrial output managed to rise 0.3% m-o-m (swda) in October. Output, however, was still 2.7% down y-o-y. The global shortage of chips continues holding back vehicle production, but output fell in the electrical/optical/computer subsector, too. Global shortages are likely to remain with us in the upcoming

period; hence a meaningful revival of industrial activity is not likely until H2 2022.

Flash October trade balance statistics mirrored the developments of the previous months. Weak exports and booming imports result in the rapid deterioration of the trade balance. Exports went up by a mere 0.9% y-o-y (in EUR terms), while imports were 14% higher compared to the same period of 2021. The monthly trade deficit came out at EUR 335 bln. The shortfall of the last 4 months amounted to EUR 1423 mln), the 12M rolling average declined from EUR 7.5 bln in April to EUR 3 bln.

Exports are expected to remain depressed during the next couple of months, the sector is likely to remain weighed down by global supply side tensions (mainly affecting the vehicle manufacturing sector), that are unlikely to ease significantly until H2 2022. Meanwhile imports may remain robust reflecting strong domestic demand (further boosted by pre-election fiscal measures). Hence, the deterioration of Hungary's external balances could continue.





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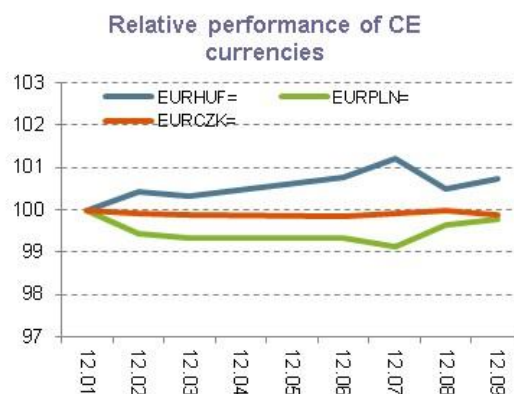
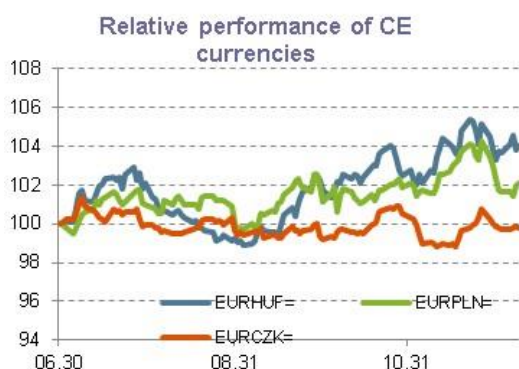


Stabilizing FX rate

Despite the negative flow of weak domestic macro data (the disappointing industrial production, the fastest inflation in 14 years, the massive deficit both in the budget and trade balance), the forint showed a stable picture against the major currencies mainly thanks to the additional (20 bps) 1W deposit rate hike (fifth in a month) which was an expected reaction from the central bank to the high inflation figures. The EUR/HUF exchange rate hovered in the range of 364-368 and the pair fluctuates around 365.50 (almost the same level as the end of last week) at the time of closing our report. The performance of the Hungarian unit fit into the regional trend, the EUR/CZK and EUR/PLN cross rate also hardly changed compared to a week ago. Although the 1W depo rate is the effective interest rate, the NBH's meeting for next Tuesday will be of paramount importance, which will deliver further information about the inflation expectations

and the normalization process.

Regarding the domestic bond market, a significant (15-20 bps) decrease was observed in yields at the +3-year segments, despite the fact that the developed market moved into the opposite direction. Nonetheless, the spread over 10-years Bund is still relatively high, more than 450 bps.



CE3 GOVERNMENT BOND YIELDS							
SPOT (bid)	HU		PL		CZ		EU
	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	3,06	379	2,72	345	2,69	342	-0,73
3Y	4,21	493	2,85	357	2,78	350	-0,72
5Y	4,24	482	3,14	372	2,56	314	-0,58
10Y	4,47	481	3,06	340	2,45	279	-0,34
60-DAY AVG	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)	spread (bp)	yield (%)
1Y	2,04	274	1,97	267	2,35	306	-0,70
3Y	2,98	371	2,12	284	2,54	327	-0,73
5Y	3,36	390	2,46	301	2,52	307	-0,55
10Y	3,83	406	2,39	262	2,44	267	-0,23



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	6,7	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	10,3	5,5
CPI, y/y, average - CIB forecast	%	2,4	2,8	3,4	3,3	5,1	4,9
CPI, y/y, average - Market consensus	%	-	-	-	3,4	5,0	4,5
CPI, y/y, end of period - CIB forecast	%	2,1	2,7	4,0	2,7	7,2	3,7
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 51

MONDAY 12/13/2021

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

TUESDAY 12/14/2021

Country	Time	Data	Period	Previous	Forecast	Result
EZ	11:00	IP, prelim., y/y	October	5,2%	3,4%	
EZ	11:00	IP, prelim., m/m	October	-0,2%	1,5%	
HU	14:00	NBH rate decision, base rate	December	2,10%	2,45%	
US	14:30	PPI, y/y	November	8,6%	9,2%	
US	14:30	PPI, m/m	November	0,6%	0,5%	

AUKCIÓK

			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	2,56%		

WEDNESDAY 12/15/2021

Country	Time	Data	Period	Previous	Forecast	Result
US	14:30	Retail sales, m/m	November	1,7%	0,8%	
US	16:00	NAHB index	December	83	84	
US	20:00	Fed interest rate decision	December	0,25%	0,25%	

THURSDAY 12/16/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	9:30	Manufacturing PMI, flash	December	57,4	57,3	
DE	9:30	Services PMI, flash	December	52,7	52,1	
DE	9:30	Composite PMI, flash	December	52,2		
EZ	10:00	Manufacturing PMI, flash	December	58,4	57,7	
EZ	10:00	Services PMI, flash	December	55,9	54,5	
EZ	10:00	Composite PMI, flash	December	55,4	54,2	
EZ	13:45	ECB interest rate decision	December	0,0%	0,0%	
US	14:30	Initial jobless claims, thousands	weekly	184		
US	14:30	Housing starts, mln unit	November	1,52	1,57	
US	14:30	Building permits, mln unit	November	1,65	1,67	
US	15:15	Capacity utilization	November	76,4%	76,8%	
US	15:45	Manufacturing PMI, flash	December	58,3		
US	15:45	Services PMI, flash	December	57,2		
US	15:45	Composite PMI, flash	December	58,0		

AUCTIONS

			Amount	Previous	Forecast	Result
HU	11:30	5Y T-bond	HUF 20 bln	4,28%		
HU	11:30	10Y T-bond	HUF 20 bln	4,60%		
HU	11:30	15Y T-bond	HUF 15 bln	4,14%		

FRIDAY 12/17/2021

Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	PPI, y/y	November	18,4%		
DE	8:00	PPI, m/m	November	3,8%		
DE	10:00	Ifo index	December	96,5	95,8	



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Week 50

MONDAY 12/06/2021						
Country	Time	Data	Period	Previous	Forecast	Result
DE	8:00	Industrial orders, m/m	October	1,3%	-0,5%	-6,9%
TUESDAY 12/07/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	IP, prelim., y/y	October	-1,7%	-0,5%	-2,7%
HU	9:00	IP, prelim., m/m	October	-0,3%		0,3%
DE	11:00	#N/A	December	31,7	26,1	29,9
EZ	11:00	GDP growth rate, final y/y	Q3	3,7%	3,7%	3,9%
EZ	11:00	GDP growth rate, final q/q	Q3	2,2%	2,2%	2,2%
US	14:30	Trade balance, USD bn	October	-80,9	-66,7	-67,1
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	3M T-bill	HUF 15 bln	2,81%		2,56%
WEDNESDAY 12/08/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	CPI, y/y	November	6,5%	7,3%	7,4%
HU	9:00	CPI, m/m	November	1,1%	0,5%	0,7%
HU	11:00	Budget balance, HUF bln	November	-2922		-3931,3
AUKCIÓK						
			Amount	Previous	Forecast	Result
HU	11:30	12M T-bill	HUF 10 bln	3,01%		3,07%
THURSDAY 12/09/2021						
Country	Time	Data	Period	Previous	Forecast	Result
HU	9:00	Trade balance, prelim., EUR m	October	-128		-335
US	14:30	Initial jobless claims, thousands	weekly	222		184
FRIDAY 12/10/2021						
Country	Time	Data	Period	Previous	Forecast	
US	14:30	CPI, y/y	November	6,2%		
US	14:30	CPI, m/m	November	0,9%	0,7%	



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