

OTP Morning Brief



- *Europe's stock markets bounced back*
- *In Hungary, inflation could remain near 5% next year, the MNB's governor said*
- *Sharp intraday turnaround in US stock markets as the Omicron variant appeared in the USA*
- *The HUF strengthened; Hungary's bond yields rose sharply*
- *The euro area releases unemployment data, and the MNB holds 1W deposit tender today*

Europe's stock markets bounced back; the MNB's governor sees Hungary inflation near 5% next year

Reassuring reports about vaccines have led to a rebound from the previous days' ailing in Europe: the Stoxx Europe 600 (+1.7%), the FTSE100 (+1.5%), Italy's stock index (+2.2%), the CAC40 (+2.4%), and the DAX (+2.5%) all made impressive gains. However, the WHO has warned it could take weeks before scientists can tell more about the new strain of the virus. In the general optimism, all sectors of the Stoxx600 climbed higher, particularly the automotive, technology, and tourism&leisure stocks. In the latter, WizzAir headed the rise, sky-rocketing 7%. Wrong-footing economists who had projected 1% expansion, Germany's retail sales contracted by 0.3% from the previous month in October, mainly due to shrinking sales of food, beverages, and tobacco. Hungary's detailed GDP data for the third quarter revealed that production, particularly industry, was to blame for the weaker-than-expected growth. Within that, it was the vehicle manufacturing and electronics sectors that dragged down production, owing to supply problems. Meanwhile, the expansion of services continued. The combination of strong demand, simultaneous supply problems, as well as rising energy prices sent the growth rate of Hungary's industrial producer prices to a decade-high of 26.6% in October. According to detailed data, this has not yet passed through into consumer prices, but it may do so in the coming months. In Hungary, inflation could remain near 5% next year, so the interest rate hikes will continue, and the central bank phases out its government bond purchases, the MNB's Governor György Matolcsy said yesterday.

In the CEE region, Poland's WIG excelled with 1.0% growth, the BUX gained 0.8%, and the Czech PX closed 0.4% higher. In Hungary, Mol was in the best shape (+1.2%) benefiting from the then rising oil prices; MTelekom rose by 1.1%, Richter added 1%, and OTP advanced 0.6%.

The appearance of the Omicron variant in the USA caused sharp turnaround in the US stock market

US trading took a U-turn during the day on news that the Omicron variant was identified in the United States. The Dow dropped 462 points, reversing a 520-point intraday rise, indicating that the volatility triggered by the new virus variant has continued. Within the SP500, the telecommunications (-2.0%), consumer discretionary (-1.9%) and industrial (-1.4%) sectors were the weakest performers. Travel stocks fell particularly sharply: airlines and cruise companies plunged 7-8%; Boeing descended 4.8%. The decline was also exacerbated by Jerome Powell's words that the Fed should prepare that, in contrast with central bankers current expectations, inflation would not slow in the second half of 2022. The Beige Book added to inflation concerns, revealing that most companies are facing rising costs and labour shortages, but they can easily pass on price rises to consumers. Some stock prices may have fallen because many investors are realizing the losses in order to optimize taxes at the year-end. According to ADP employment data, the US private sector added 534,000 jobs, topping expectations of 525,000. ISM's manufacturing PMI rose to 61.1 points in November, from 60.8 in the previous month, broadly in line with the market consensus; it has been marking expansion (above-50 mark) for 18 months now. The 82.4 gauge of the price sub-index continues to point to a significant rise, but it has decreased from 85.7 in the previous month. Construction expenditure's growth rate in October missed expectations, but the upward revision in the previous month offset the lag. Of the key indices, the Nasdaq subsided 1.8%, the Dow slipped 1.3%, and the S&P500 declined 1.2%. Pandemic worries brought down oil prices: Brent slumped 2.8% and WTI closed 1.3% lower.

The HUF firmed; Hungary's bond yields rose steeply; the MNB holds 1W deposit tender again

The HUF strengthened together with the CEE region's currencies yesterday; the EUR/HUF fell 0.5% to near 363. The zloty (PLN) firmed 0.8% against the euro after the National Bank of Poland's governor pointed out that the central bank wanted a strong zloty, and there was still room for raising interest rates. The roller-coaster in the FI market continued: while EUR and USD long-term yields rose only slightly (or fell in the USA in the evening), in Hungary the fall in yields was followed by an increase this time. By the time Hungary's benchmark yields were fixed, the belly of the curve rose by 5-10 bps, and the 10Y-20Y segment jumped by 15 bps (the 10Y yield level hit 4.48%). But the worst was yet to come: Speaking in parliament, the MNB's governor György Matolcsy said that inflation could average around 5% next year, therefore the tightening will continue, and the central bank's government bond purchases may be phased out in the near future. Based on the recent rapid contraction in the central bank's weekly government bond purchases (last week the MNB bought only HUF 29 bn against the target level of HUF 40 billion) the announcement should not have caused surprise – yet long-term yields grew sharply in the secondary market. 3Y-5Y bond yields increased by an additional 4-8 bps, and the long-term yields grew by 10-15 points; the 10Y yield hit 4.6%.

There was muted demand at yesterday's switch auctions of the ÁKK, where the debt manager offered 2029/A, 2030/A and 2031/A bonds in exchange for securities maturing in 2023. Bids for the 2029 bond made up only half of the amount on offer (HUF 10 billion), bids for the 2030 bond barely reached the announced amount (HUF 15 billion), and only the 2031 bond saw a bid/cover ratio of 2.0. This prompted the ÁKK not to accept any offer for the shortest bond, and to reduce the allotted amount by 60% in the case of 2030 maturity; only the 2031 tenor was sold as planned (HUF 15 bn). The ÁKK raised a total of HUF 24 billion, instead of HUF 40 bn.

Today's highlights

Asia's markets moved mixed this morning. In China, real property developers are set to issue bonds locally; the favourable development suggests that, China's leaders are easing the pressure on the sector, which is struggling with liquidity problems. India's stock market (+0.7%) posted the nicest gain, Hong Kong's Hang Seng inched up 0.2%, and mainland China's index stagnated. Japan's Nikkei (-0.7%) marked the worst performance, while Singapore's index edged 0.2% lower. Index futures point to mixed opening in Europe today.

All eyes are once again on the MNB in Hungary today, to see the interest rate at the central bank's one-week deposit tender (this rate determines short-term market yields) between 9:30 and 9:45 this morning. In recent weeks, the MNB first raised the key interest rate to 2.1%, then raised the interest rate on one-week deposits by 40 basis points, and afterwards by 80 basis points above this level, to 2.9%. On Tuesday this week, raising the interest rate on collateralized loans from 3.05% to 4.1% created the opportunity to further increase the one-week deposit rate. The market is still pricing a total increase of 40 basis points until the rate-setting meeting on 14 December, and then 30 basis points each month. The key question is what the MNB's decision is based on: there is either a targeted short-term interest rate level that it wants to achieve as soon as possible, or its concern is how far the EUR/HUF is from its all-time high of 370. In the first case, another 40-point hike may follow today, and in the second case, there will be no or only a small increase. Separately, the ÁKK plans to sell 5Y (HUF 25bn), 10Y (HUF 20bn), and 20Y (HUF 10bn) bonds at today's auction.

Investors will watch the euro area's unemployment data, and the usual weekly US jobless claims figures. Hungary publishes trade balance statistics.

	Stocks				Bonds				Commodity & FX			
	Product name	Close	Daily change (%)	YTD (%)	Product name	Yield	Daily change*	YTD*	Product name	Close	Daily change (%)	YTD (%)
Global	S&P500	4513	-1.2	20.2	VIX	31.1	14.5	37	WTI	65.6	-0.9	35.1
	DOW	34022	-1.3	11.2	US 2Y	0.55	-1.4	43	Brent	68.87	-2.4	33.0
	Nasdaq C.	15254	-1.8	18.4	US 10Y	1.40	-4.1	49	Gold	1781.6	0.5	-6.0
	DAX	15473	2.5	12.8	GER 2Y	-0.72	2.4	-1	Silver	22.30	-2.0	-15.6
	CAC40	6882	2.4	24.0	GER 10Y	-0.35	0.6	23	EUR/USD	1.1320	-0.2	-7.3
	FTSE 100	7169	1.5	11.0	PT10Y	0.35	2.6	33	EUR/GBP	0.8526	0.0	-4.6
	FTSE MIB	26372	2.2	18.6	IT 10Y	1.01	4.1	47	EUR/NOK	10.2529	0.1	-2.2
	Stoxx600	471	1.7	18.0	SP 10	0.43	2.8	38	USD/CAD	1.2818	0.3	0.7
	- Banks	140	2.2	29.1	iTRAXX	56.2	-2.8	17	AUD/USD	0.7104	0.0	-7.7
	Nikkei 225	27753	-0.7	1.1	JPY 2Y	-0.12	0.1	1	USD/JPY	112.78	-0.3	9.2
	SSEC	3575	-0.1	2.9	JPY 10Y	0.06	-0.4	4	GBP/USD	1.3279	-0.2	-2.9
Regional	RTS	1687	2.5	21.6	RUS10	8.4	1.0	248	USD/RUB	74.265	0.3	-0.2
	WIG20	2217	1.0	11.8	POL 10	3.2	11.2	197	EUR/PLN	4.62	-0.7	1.4
	PX50	1363	0.4	32.7	CZ10	2.5	3.9	126	EUR/RON	4.948	0.0	1.8
Hungary	BUX	51860	0.8	23.3	3M DKJ	2.78	0.0	250	EUR/HUF	362.80	-0.6	0.1
	OTP	17890	0.6	33.9	1Y	2.98	2.0	259	USD/HUF	320.51	-0.4	7.9
	MOL	2446	1.2	11.7	3Y	4.15	4.0	345	CHF/HUF	348.28	-0.6	3.9
	MTelekom	418	1.1	10.0	5Y	4.23	9.0	287.0	PLN/HUF	78.51	0.2	-1.2
	Richter	8635	1.0	16.1	10Y	4.48	15.0	240.0	GBP/HUF	425.59	-0.6	4.8

* In the case of bond yields, the change is in basis points instead of percentage (VIX and iTRAXX not included).

Sources: Bloomberg, OTP Research

Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2021 11.29.	9 : 00 HU	Unemployment rate (%)	Oct	3.9		3.9
	11 : 00 EZ	EC Economic Sentiment Index (points)	Nov	117.5	117.5	118.6
	14 : 00 DE	CPI (preliminary, YoY, %)	Nov	5.2		4.5
	16 : 00 US	Pending home sales (MoM, %)	Oct	7.5	1.0	-2.4
30.	2 : 00 CN	NBS Manufacturing PMI (points)	Nov	50.1	49.6	49.2
	2 : 00 CN	NBS Non-manufacturing PMI (points)	Nov	52.3		52.4
	8 : 00 TR	GDP (first estimate, YoY, %)	Q3	7.4	7.5	21.7
	8 : 45 FR	GDP (detailed, QoQ, %)	Q3	3.0		3,0*
	9 : 00 HU	Gross wages (YoY, %)	Sept	9.1		9.1
	9 : 00 IT	GDP (detailed, QoQ, %)	Q3	2.6		2,6*
	9 : 00 ES	Retail sales (YoY, %)		-0.7		-0.1
	11 : 00 EZ	CPI (flash, YoY, %)	Nov	4.9	4.4	4.1
	11 : 00 EZ	Core CPI (flash, YoY, %)	Nov	2.6	2.1	2.0
	12 : 00 PT	GDP (detailed, QoQ, %)	Q3	2.9		2.9
	13 : 00 HU	MNB gov't bond purchase auction	-	10.0		15.0
	15 : 00 US	Case-Shiller Home Price Index (YoY, %)	Sept	19.1	19.3	19.6
	15 : 45 US	Chicago PMI (points)	Nov	61.8	68.4	68
	16 : 00 US	Consumer confidence (point)	Nov	109.5	110.7	112
	16 : 00 US	J. Powell testimony (Senate banking committee)	-	-	-	-
	16 : 00 US	J. Yellen testimony (Senate banking committee)	-	-	-	-
1.	2 : 45 CN	Caixin Manufacturing PMI (points)	Nov	49.9	50.5	50.6
	8 : 00 DE	Retail sales (MoM, %)	Oct	-0.3	1	-2
	9 : 00 HU	Manufacturing PMI (points)	Nov	52.2		52.9
	9 : 00 HU	GDP (detailed, YoY, %)	Q3	6.1		6,1*
	9 : 00 HU	GDP (detailed, QoQ, %)	Q3	0.7		0,7*
	9 : 00 HU	Industrial producer prices (YoY, %)		18.5		14.0
	9 : 45 IT	Markit/IHS Manufacturing PMI (prelim.)	Nov	62.8	61.1	61.1
	14 : 15 US	ADP non-farm employment (MoM, '000s)		534.0	525	570
	16 : 00 US	Construction expenditure (MoM, %)	Oct	0.2	0.4	-0.1
	16 : 00 US	ISM Manufacturing PMI (points)		61.1	61.0	60.8
	20 : 00 US	Beige Book	Nov	-	-	-
2.	9 : 00 AT	GDP (detailed, QoQ, %)				3,3*
	9 : 00 HU	Trade balance (detailed, monthly, EUR mn)				1.0
	10 : 00 IT	Unemployment rate (%)	Oct			9.2
	11 : 00 EZ	Unemployment rate (%)			7.3	7.4
	14 : 30 US	Continuing jobless claims ('000s)	weekly			2049
	14 : 30 US	Initial jobless claims ('000s)				199
	15 : 00 HU	1W deposit w fixed interest rate tender (IR %, HUFbn)	-			2,9/7723.3
3.	2 : 45 CN	Caixin Services PMI				53.8
	8 : 45 FR	Industrial production (MoM, %)				-1.3
	9 : 00 HU	Retail sales (YoY, SA, %)	Oct			5.8
	9 : 30 EZ	C. Lagarde speech (Reuters Next Summit)				-
	9 : 45 IT	Markit/IHS Services PMI (prelim.)	Nov			52.4
	11 : 00 EZ	Retail sales (MoM, %)			0.1	-0.3
	14 : 30 US	Average earnings (YoY, %)	Nov		5.0	4.9
	14 : 30 US	Average earnings (MoM, %)			0.4	0.4
	14 : 30 US	Unemployment rate (%)			4.5	4.6
	14 : 30 US	Non-farm payroll (MoM, '000s)	Nov		563	531
	16 : 00 US	Factory orders (MoM, %)			0.5	0.2
	16 : 00 US	ISM non-Manufacturing PMI (points)	Nov		65.2	66.7

* preliminary data

Sources: Refinitiv, OTP Research

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