

OTP Morning Brief



- *Europe's and America's stock markets closed the week in the red for the second time in a row*
- *The BUX slightly outperformed last week*
- *Crude oil prices stagnated*
- *Hungary's bond yields fell, and the EUR/HUF stagnated on Friday. But yields overall rose, and the HUF strengthened last week*
- *This week the USA and Hungary release CPI data, and Poland makes interest rate decision*

Stock markets ended the second consecutive week in the red; the BUX slightly outperformed

After the initial momentum, Europe's stocks fell on Friday, due to Omicron fears, the Fed's expected tightening, and weaker-than-expected employment data in the USA. The whole week was rather volatile in Europe, where markets rose on Monday and Wednesday, otherwise declined. On Friday, they fell 0.6%, dragged down by the commodities (-2.5%) and technology (-1.2%) sectors, while oil & gas, and utility sector inched up. The former was supported by the OPEC's statement that the organization was ready to react to a decline in oil demand. In individual names, Dassault Aviation's share price took off 6.5% after France signed an agreement with the United Arab Emirates for 80 Rafale fighter jets, the company's largest order ever. Evolution AB, a gaming company also surged 6.5% after a share repurchase deal. Orphan Biovitrum plunged 24% as the US-based Advent International private equity firm and Singapore Sovereign Wealth Fund withdrew their bid for the Swedish pharmaceutical company. Germany's DAX fell 0.6%, France's CAC40 lost 0.4%, the UK's FTSE100 and the FTSEMIB each eased 0.1% on Friday. The STOXX (-0.3%) and the DAX (-0.6%) closed the second consecutive week in the red since the Omicron variant appeared. France's CAC40 (+0.4%) and FTSE MIB (0.3%) could eke out small gains, while the FTSE100 advanced as much as 1.1%.

The BUX (-1.0%) was not immune to the adverse international sentiment on Friday. Richter (-1.4%) headed the fall, OTP slid 1.2%, MOL lost 1.0% and MTelekom declined 0.5%. Most of its regional peers also fell: Russia's RTS slumped 1.3%, Poland's WIG20 subsided 1.0%, while the Czech PX50 closed flat. In terms of weekly performance, the 0.1% tiny loss made the BUX an outperformer. The engine of the index's growth was OTP (+1.4%); Hungary's remaining blue chips fell: MTelekom lost 1.9%, Mol slid 1.6%, and Richter closed 1.2% lower.

US indices also closed in red on Friday. The Nasdaq headed the decline as investors concluded that the weaker-than-expected employment data would not deter the Fed from accelerating the tapering of its asset purchase programme; uncertainty about the Omicron variant has not receded. According to statistics released on Friday, non-farm jobs rose by just 210,000 in November (missing market expectation of 550,000 by a large margin), chiefly due to a modest 23,000 increase in the leisure & hospitality sector and a 20,000 contraction in retail employment. Both data suggest that even before the effect of the Omicron variant, rising Covid cases had limited employment growth in certain sectors. However, the unemployment rate declined further, from 4.5% to 4.2%; it seems very close to full employment. At the same time, the ISM said that activity in the U.S. services sector hit a record high in November. The market assessed both figures as having a good chance of supporting the Fed's hawkish tone. Last week Fed chairman Jerome Powell said that the Fed might phase out its bond-buying programme sooner, which could cause interest rate hikes to start earlier than previously expected. The Dow Jones (-0.2%), the S&P (-0.8%) and the Nasdaq Composite (-1.9%) all fell on Friday. The S&P (-1.2%) and the Nasdaq (-2.6%) closed in the red for the second week in a row, while the Dow (-0.9%) has fallen for the fourth consecutive week.

Crude oil prices nearly stagnated on Friday as worries about the Omicron variant could dampen global demand for oil. However, OPEC's statement that it will react in the event of a drop in demand has given stability to prices. Brent (-2.8%) and WTI (-3.9%) finished the week in the red. Gold (1.2%) and silver (0.7%) rose on Friday but they closed last week in negative territory (-0.2% and -2.9%, respectively).

Hungary's bond yields fell on Friday, the EUR/HUF stagnated; but yields rose and the HUF strengthened last week

Although the CEE region's currencies started Friday's trading on a weak note, the koruna, the zloty, and the forint closed with negligible losses by the end of the day. Over the past week, they all appreciated (CZK: 0.5%, PLN: 2.4%, HUF 1.3%) as the USD's previous strengthening halted and because interest rates in the CEE region increased (the MNB raised its one-week deposit rate by another 20 bps, to 3.1% on Thursday). The Polish currency benefited from better-than-expected GDP data, as well as a statement from the central bank governor, who emphasized that the National Bank of Poland wanted a strong currency, and that there was still room for raising interest rates. The crazy roller-coaster in the government securities market continued. The weaker-than-expected U.S. employment report and fears of Omicron made investors seek bonds, thus bringing U.S. 10Y yields down by nearly 10 bps, to 1.36% on Friday. That is consistent with nearly 20 bps drop in a week, even though the Fed's chair Jerome Powell said that the Fed could accelerate tapering its asset purchases in December and that rising inflation is not temporary. Germany's Bund yields made subtle moves: the 10Y yield sank 2 bps on Friday and 5 bps last week, to near -0.4%. Hungary's bond yields fell by 6-10 bps on Friday, and after benchmark fixing, they slipped by 4-6 bps when the US Employment Report was published. In week/week terms, 10Y-20Y yields rose sharply (by 20-30 bps) after the MNB's Governor György Matolcsy said on Wednesday that the MNB's government bond purchase program could be phased out in the near future.

The week's highlights

Asia's stock markets traded mixed this morning as uncertainty around the Omicron variant lingered, and investors waited before Wednesday's U.S. inflation data. China's SSEC (+0.2%) was seen heading higher and Japan's Nikkei225 added 0.3%. U.S. index futures were up 0.1-0.7%, and WTI gained more than 2%.

Hungary will publish November inflation data on Wednesday. The market consensus expects 7.3% YoY price growth; our own forecast is 7.2%. However, there is a lot of uncertainty, partly because the statistical office usually collects data until the 20th of each month, but a fuel price cap takes effect on 15 November. Therefore, the full impact of the price fixing may not be seen before December. The other reason for the uncertainty is related to the recent release of higher-than-expected inflation indicators in the euro area, which is unfavourable for Hungary's imported inflation. We expect inflation to peak in November; thereafter, a slow disinflation could begin, causing inflation to be around 5% in 2022. The CPI figures will be published one day before Thursday's one-week deposit tender of the MNB, so the data may also affect one-week deposit rates. In our baseline scenario, a further 20 bps increase could follow on Thursday; in our view, only a surprise inflation data could change that.

The MNB will hold a reverse FX swap tender on Tuesday. Toward the end of the fourth quarter, the MNB said it would hold reverse FX swap tenders on 7, 21, 30 and 31 December, and would launch a new one-month discount bond auction on the 20th. With these instruments, the MNB intends to prevent FX swap market anomalies, and the HUF's weakening, which stemmed from non-residents' usual closures of FX positions at the end of the quarter and the year.

Poland's central bank will hold rate-setting meeting on Wednesday. Its decision could affect the exchange rate of the CEE region's currencies and perhaps the MNB's interest rate policy as well. Inflation is rising rapidly in Poland, too, due to re-pricing at the summer re-opening, soaring commodity and energy prices, supply bottlenecks, and a relatively weak PLN. Therefore, Poland's central bank raised the key interest rate surprisingly strongly, from 0.1% to 0.5% in September and by 75

bps, to 1.25% in November, whereas analysts had expected only 25–50 bps move. Inflation rose further in October, when the headline index hit 7.7% and core inflation was at 4.5%. Poland is in line with its peers' developments in terms of inflation, but its interest rates are lagging far behind them. (The Czech central bank has hiked rates by 125 basis points to 2.75% since Poland's last interest rate decision, and Hungary raised the effective money market interest rate from 1.8% to 3.1%.) The vast majority of analysts expect a 50-point increase in next week's decision, FRAs are pricing in at least a 75-point increase. Since the Polish central bank has pointed out that it wants a strong zloty and there is room for interest rate hikes, and past experience is that if a central bank wants to strengthen its currency in the current environment, it must raise by more than is priced in, the National Bank of Poland is likely to make a significant rise.

The USA will release inflation data for November on Friday. CPI figures are expected to reflect further acceleration in prices; moreover, recent inflation data exceeded expectations across the board. In the previous month, the headline index rose to 6.2%, and core inflation increased to 4.6%, a thirty-year high. In addition to energy prices, second-hand cars and food prices have also pushed up inflation, but companies can pass on their rising costs as labour shortages sent wages higher. The strong price pressures made the Fed announce at a recent meeting that it would begin to hold back its asset purchase programme, but further acceleration in inflation could spur central bankers to speed up the current pace of tapering, in line with what Jerome Powell's had said in Senate; the Fed chair also said that it was time to drop the 'temporary' attribute from the description of inflation. As a result, the first rate hike could take place earlier than the previous prediction, the second half of 2022.

	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	4538	-0.8	20.8	VIX	30.7	9.7	35	WTI	66.3	-0.4	36.6
	DOW	34580	-0.2	13.0	US 2Y	0.59	-2.5	47	Brent	69.88	0.3	34.9
	Nasdaq C.	15085	-1.9	17.0	US 10Y	1.34	-10.1	43	Gold	1782.0	1.2	-6.0
	DAX	15170	-0.6	10.6	GER 2Y	-0.75	-0.5	-4	Silver	22.45	0.7	-15.0
	CAC40	6766	-0.4	21.9	GER 10Y	-0.39	-1.9	18	EUR/USD	1.1315	0.1	-7.4
	FTSE 100	7122	-0.1	10.2	PT10Y	0.27	-3.3	25	EUR/GBP	0.8549	0.6	-4.3
	FTSE MIB	25939	-0.3	16.7	IT 10Y	0.91	-3.9	37	EUR/NOK	10.3840	1.0	-0.9
	Stoxx600	463	-0.6	16.0	SP 10	0.35	-3.3	30	USD/CAD	1.2843	0.3	0.9
	- Banks	138	-0.8	27.6	iTRAXX	57.9	1.0	21	AUD/USD	0.7021	0.3	-8.7
	Nikkei 225	27947	-0.3	1.8	JPY 2Y	-0.12	0.2	1	USD/JPY	112.80	-0.3	9.2
Regional	SSEC	3616	0.2	4.1	JPY 10Y	0.04	-1.0	2	GBP/USD	1.3236	-0.5	-3.2
	RTS	1668	-1.3	20.2	RUS10	8.4	0.0	253	USD/RUB	73.889	0.3	-0.7
	WIG20	2180	-1.0	9.9	POL 10	3.2	-2.4	200	EUR/PLN	4.60	0.0	0.8
Hungary	PX50	1363	0.0	32.7	CZ10	2.5	-0.6	125	EUR/RON	4.949	0.0	1.8
	BUX	50905	-1.0	21.1	3M DKJ	2.81	0.0	253	EUR/HUF	364.43	0.0	0.5
	OTP	17380	-1.2	30.1	1Y	2.99	0.0	260	USD/HUF	321.97	-0.1	8.4
	MOL	2410	-1.0	10.0	3Y	4.11	-7.0	341	CHF/HUF	351.03	0.2	4.7
	MTelekom	414	-0.5	8.9	5Y	4.21	-6.0	285.0	PLN/HUF	79.27	0.0	-0.3
	Richter	8525	-1.4	14.6	10Y	4.49	-8.0	241.0	GBP/HUF	426.25	-0.6	5.0

* 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	12. 6.	8 : 00	DE	Industrial orders (MoM, %)	Oct		-0.5	1.3
		10 : 00	IT	Retail sales (MoM, SA, %)	Oct			0.8
		10 : 30	EZ	Sentix Investor confidence (points)	Dec		15.9	18.3
	7.	4 : 00	CN	Export (YoY, %)	Nov		17.2	27.1
		8 : 00	DE	Industrial production (MoM, %)	Oct		0.8	-1.1
		9 : 00	HU	Industrial production (preliminary, YoY, %)	Oct		-0.3	-2.3
		10 : 00	HU	International reserves (preliminary, EURbn)	Nov			37.6
		11 : 00	DE	ZEW Economic Sentiment (points)	Dec		25.3	31.7
		13 : 00	HU	MNB gov't bond purchase auction	-			10.0
	8.	9 : 00	HU	Inflation (YoY, %)	Nov		7.3	6.5
		9 : 00	HU	Core inflation (YoY, SA, %)	Nov		5.1	4.7
		9 : 00	HU	Guest nights in tourist acc. (YoY, %)	Oct			70.3
		11 : 00	HU	Fiscal balance (monthly, billion HUF)	Nov			-630.0
		13 : 00	PL	Interest rate decision (%)	Dec			1.3
		16 : 00	CA	Interest rate decision (%)	Dec		0.3	0.3
	9.	8 : 00	DE	Export (MoM, SA, %)	Oct		0.8	-0.7
		9 : 00	HU	Trade balance (preliminary, monthly, EUR mn)	Oct			-128
		14 : 30	US	Initial jobless claims ('000s)	weekly			222
		14 : 30	US	Continuing jobless claims ('000s)	weekly			1956.0
		15 : 00	HU	1W deposit w fixed interest rate tender (IR %, HUFbn)	-			3,1/8236
	10.	10 : 00	IT	Industrial production (MoM, SA, %)	Oct		0.4	0.1
		14 : 30	US	core-CPI (MoM, SA, %)	Nov		1	1
		14 : 30	US	core-CPI (YoY, %)	Nov		4.9	4.6
		14 : 30	US	CPI (MoM, SA, %)	Nov		0.7	0.9
		14 : 30	US	CPI (YoY, %)	Nov		6.8	6.2
		16 : 00	US	Michigan Consumer confidence (preliminary, points)	Dec		67.0	67.4
		20 : 00	US	Federal budget balance (USDbn)	Nov			-165.0

* preliminary data

Sources: Refinitiv, OTP Research

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