

# OTP Morning Brief

- Europe's indices rose strongly
- US inflation slowed, rate hike expectations subsided
- CEE currencies fared well, global bond yields dropped
- The USA publishes the weekly jobless claims data today

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## Europe's indices made strong gains as US inflation slowed

Word on softening US inflation helped Europe's stock indices reverse Tuesday's fall and close Wednesday's session with gains. The best performers were the real estate (3.6%), travel & leisure (3.1%), and retail (3.1%) sectors, while healthcare (-0.9%), utilities (-0.5%) and telecommunications (-0.4%) the weakest ones. The UK's FTSE 100 (0.3%), France's CAC40 (0.5%), the Stoxx Europe 600 (0.9%), Italy's FTSE MIB (1.0%) and Germany's DAX (1.2%) all increased. The share price of the UK-based Aviva insurance company jumped by 12%, on the strength of cheering first-half-year earnings figures. The shares of the Dutch retail chain Ahold surged by 7.9%, owing to a strong Q2 result, and because the company shelved plans to list its Bol.com retail business, citing weak equity market conditions. The share price of Vestas soared 8.4% as the wind turbine company confirmed its profit guidance for this year, even though its Q2 results fell short of expectations.

The optimism was also felt in the CEE region, where the BUX (+3.5%), Prague's PX (+0.5%), and Warsaw's WIG20 (+0.6%) all closed higher. Of Hungary's blue chips, OTP (5.1%) proved to be the strongest one ahead of today's earnings report, but MOL (4.8%) also excelled, after announcing that crude oil supplies on the Friendship pipeline could resume in few days' time. Richter (0.4%) and MTelekom (2.5%) also increased.

## OTP Group's results in the first half-year of 2022

OTP Group's operations stabilized in Ukraine and Russia; both posed positive results in 2Q. The liquidity position is stable, the capital adequacy levels significantly exceed the local regulatory minimum. Lending activity remained cautious.

The financial closure of the Albanian acquisition was completed on 18 July, and the Slovenian transaction is expected to end in September 2022. OTP Group's after-tax profit hit HUF 42.7 billion in the first half-year. In the second quarter, the amount of negative adjustment items exceeded HUF 86 billion, thus a total of HUF 208 billion weighed on its H1 after-tax profit. In Q2, the two most significant items are the windfall tax (HUF 68 billion), as well as the negative impact (HUF 10 billion) owing to the extension of the interest rate cap on mortgage loans with variable interest rates. The six-month adjusted after-tax profit amounted to HUF 251 billion. Its size was predominantly shaped by the total risk costs of almost HUF 105 billion (including HUF 44 bn in Russia and HUF 71 bn in Ukraine). In H1, credit risk cost rate was 0.86%. Adjusted ROE hit 17% (Q2: 21.7%) in the first half-year, while the cost/income ratio dropped to 47.3%.

In the second quarter, adjusted after-tax profit was HUF 162 billion; operating profit grew by 9% QoQ, and the quarterly consolidated net interest margin improved by 14 bps QoQ (to 3.57%). FX-adjusted performing loan (Stage 1+2) volumes expanded by 3% QoQ in the second quarter, bringing

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the YTD growth rate to 6% (+HUF 997 billion); it was 8% without the Russian and Ukrainian volumes. Loan volume dynamics were particularly strong in Hungary, Romania, Bulgaria, Serbia, Slovenia and Croatia, while the loan book in Ukraine and Russia contracted QoQ. The quality of the consolidated loan portfolio remained stable, the ratio of Stage 3 loans inched up to 5.3% QoQ, and their own coverage ratio rose to 65.4%. OTP Core's adjusted after-tax profit was HUF 75 billion (-20% QoQ) in 2Q. Despite the dynamically improving net interest income, and fee and commission income, the Q2 operating profit fell by 9% QoQ; the quarterly net interest margin increased by 8 bps. The lower quarterly operating profit was caused by QoQ stagnant revenues and an 11% increase in operating costs. In Hungary, performing loan portfolios surged by 6% QoQ, thus the performing portfolios grew by 6% in the first six months of the year, largely boosted by the government's and the MNB's loan programs (subsidized 'baby loan', CSOK housing loan, green mortgage loan, renovation loan, Funding for Growth Go!, Széchenyi Card scheme). In Q2, it was primarily the dynamics of corporate loans that were the engines of growth. The 2% QoQ decline in consumer loans in Q1 was followed by a 5% rebound in Q2. In terms of housing loans, the Green Home Program remained popular, while demand for market-priced housing loans has halved year-on-year.

The consolidated CET1 ratio improved by 0.2 pps QoQ, to 16.4%, and safely exceeds the regulatory minimum requirement (at the end of 2022, the Tier 1 minimum requirement is 10.7%, while it is 8.8% for CET1).

## Surprise drop in US inflation; rate hike expectations subsided

After a weak start to the week, America's key indices rose steeply on Wednesday, as US consumer prices increased slower than had been feared. The rate of inflation slowed to 8.5% YoY in July, from the more than 40-year high of 9.1% in June, whereas the market had forecast 8.7%. Prices stagnated in month-over-month comparison. The slowdown owes a lot to the 7.7% MoM drop in fuel prices, which may continue in August as a result of the decline in oil prices. Food prices rose by 1.1% compared to the previous month, but many soft commodity prices fell in recent weeks, which may later be reflected in consumer prices. Annual core inflation stagnated at 5.9%, falling short of forecasts (6.1%), partly thanks to a 7.8% MoM drop in airline fare prices. Simultaneously with the dollar's soaring, the easing of the chip shortages, and the decline in transport costs, the goods inflation may also drop in the future. However, rents rose by 0.7% MoM, indicating that this inflationary component may remain sticky. Overall, inflation may fall rapidly if the above processes persist, while core inflation is likely to decrease more slowly, so its rate may exceed headline inflation over time. As a result, the probability of a 75 basis point hike in September has significantly subsided, and the market is currently pricing a 50 bps increase as the most likely outcome.

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Disney's share price grew by nearly 7% in after-hours trading, owing to a better-than-expected earnings report. Attendance at its theme parks increased, and the number of subscribers to its streaming services also rose sharper than expected; yet the management lowered its forecast for subscriber numbers for 2024. All sectors increased, particularly consumer discretionary (2.9%), basic materials (2.9%), and IT (2.8%). The Dow (1.6%), the S&P500 (2.1%) and the Nasdaq (2.9%) all increased.

## **CEE currencies fared well, bond yields mostly fell**

As a result of easing rate hike expectations, the CEE region's currencies appreciated. The EUR/HUF traded at 401 in the morning, but ended below 395. The CZK strengthened by 0.7% and the PLN gained 0.5%. Hungary's bond yields barely moved (1-2 bps). At Wednesday's switch auction, the ÁKK offered HUF 5 billion worth of bonds maturing in 2031 in exchange for 2023 tenors; it accepted HUF 7.5 billion of the 25 billion bids. The average yield was 7.82%.

As the price pressure eased in the USA, German and US 2Y yields dropped 4-5 bps. Germany's 10Y yield fell to a lesser extent (by 3.1 bps), but the US 10Y yield even rose by 1.1 basis points, making the yield curve less inverse.

In the benign sentiment, Brent (0.8%) and WTI (1.2%) oil prices grew.

## **Today's highlights**

The uptrend continued in Asian trading. Shanghai (+1.2%), Singapore (+0.4%), Hong Kong's Hang Seng (+1.6%), and India (+1.0%) all posted gains. Japan's Nikkei was closed today. Foxconn, which supplies for Apple, grew by 2.3% as its earnings beat expectations; even though its management was cautious on the outlook. Index futures point to gains in most markets in Europe.

Today the USA releases the weekly jobless claims statistics. In Hungary, the MNB holds its weekly deposit tender.

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	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	4210	2.1	-11.7	VIX	19.7	-9.3	15	WTI	91.9	1.6	46.0
	DOW	33310	1.6	-15.3	US 2Y	3.21	-7.2	248	Brent	97.40	1.1	25.2
	Nasdaq Comp.	12855	2.9	-29.5	US 10Y	2.79	-1.1	129	TTF Natural Gas	205.0	7.9	208.3
	DAX	13701	1.2	-13.7	GER 2Y	0.53	4.1	116	Arany	1792.13	-0.1	-2.0
	CAC40	6523	0.5	-8.8	GER 10Y	0.89	-3.7	107	EUR/USD	1.0299	0.8	-9.4
	FTSE 100	7507	0.3	1.7	PT10Y	1.91	-6.1	141	EUR/GBP	0.8430	-0.3	0.3
	FTSE MIB	22702	1.0	-17.0	IT 10Y	2.99	-6.1	181	EUR/NOK	9.8021	-1.3	-2.1
	Stoxx600	439.9	0.9	-9.8	SP 10	2.00	-2.8	141	USD/CAD	1.2775	-0.9	1.1
	- Banks	102	1.9	-17.0	iTRAXX	97.5	-5.1	105	AUD/USD	0.7079	1.6	-2.5
	Nikkei 225	27819	0.0	-3.4	JPY 2Y	-0.09	0.0	-1	USD/JPY	132.90	-1.7	15.5
SSEC	3273	1.3	-10.1	JPY 10Y	0.19	0.0	12	GBP/USD	1.2227	1.2	-9.6	
Regional	RTS	1118	0.2	-29.9	RUS10	9.1	0.4	8	EUR/CZK	4.906	0.1	-0.9
	WIG20	1694	0.6	-25.3	POL 10	5.4	-2.3	47	EUR/PLN	4.68	-0.4	1.9
	PX50	1250	0.5	-12.4	CZ10	4.0	1.4	34	EUR/RON	4.906	0.1	-0.9
Hungary	BUX	44131	3.3	-13.0	3M DKJ	8.51	2.0	635	EUR/HUF	395.00	-0.5	6.9
	OTP	9370	5.1	-43.6	1Y	9.82	0.0	625	USD/HUF	383.53	-1.3	18.1
	MOL	2948	4.8	17.0	3Y	10.05	0.0	586	CHF/HUF	405.20	-0.6	13.7
	MTelekom	322	2.5	-21.7	5Y	9.17	1.0	482	PLN/HUF	84.35	-0.1	4.7
	Richter	8230	0.4	-5.7	10Y	7.96	1.0	345	GBP/HUF	467.01	-0.5	6.1

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

Sources: Refinitiv, OTP Research

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Date		Cd.	Event/Data	Period	Fact	Cons.	Prev.
2022 8. 8.	9 : 00	HU	Trade balance (preliminary, monthly, EUR mn)	Jun	-471.0	-	-95.0
	10 : 30	EZ	Sentix Investor confidence (points)	Aug	-25.2	-24.7	-26.4
	11 : 00	HU	Fiscal balance (monthly, billion HUF)	Jul	255.7	-	-155.0
9.	9 : 00	HU	Core inflation (YoY, SA, %)	Jul	16.7	14.8	13.8
	9 : 00	HU	Inflation (YoY, %)	Jul	13.7	13.1	11.7
	14 : 30	US	Non-farm productivity growth (preliminary, QoQ, %)	Q2	10.8	9.5	12.6
	14 : 30	US	Non-farm productivity growth (preliminary, YoY, %)	Q2	9.5	-	8.2
	14 : 30	US	Non-farm Unit Labor Costs (preliminary, QoQ, %)	Q2	-4.6	-4.7	-7.3
10.	14 : 30	US	CPI (YoY, %)	Jul	8.5	8.7	9.1
	14 : 30	US	CPI (MoM, SA, %)	Jul	0.0	0.2	1.3
	14 : 30	US	core-CPI (YoY, %)	Jul	5.90	6.1	5.9
	14 : 30	US	core-CPI (MoM, SA, %)	Jul	0.3	0.5	0.7
	20 : 00	US	Federal budget balance (USDbn)	Jul	-211	-194	-89
11.	14 : 30	US	Continuing jobless claims ('000s)	weekly		1416	1416
	14 : 30	US	Initial jobless claims ('000s)	weekly		263	260
	15 : 00	HU	1W deposit w fixed interest rate tender (IR %, HUFbn)	weekly			10,75/9330,4
12.	8 : 00	UK	GDP (preliminary, QoQ, %)	Q2		-0.2	0.8
	8 : 00	UK	GDP (preliminary, YoY, %)	Q2		2.8	8.7
	9 : 00	HU	Industrial production (second estimate, YoY, %)	Jun			1,5*
	11 : 00	EZ	Industrial production (MoM, %)	Jun		0.2	0.8
	16 : 00	US	Michigan Consumer confidence (preliminary, points)	Aug		52.2	51.5
		HU	S&P Credit Rating decision	-		-	BBB (stabil)

\* preliminary data

Sources: Refinitiv, OTP Research

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