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Weekly Report Hungary

28 June 2012



New NBH law will satisfy the IMF conditions

IMF director Ms Lagarde indicated this week that the new central bank law will meet the organization's claims, so if the parliament adopts it, the negotiations about a credit line could begin. The final vote on the amendment is currently scheduled on July 12th, because the government would like to consider the ECB's opinion, promised to come in the start of July. Though the start of the talks could support Hungarian assets, we think HUF would be overvalued according to the real effective exchange rate under 280 nominal EUR/HUF rate, so we do not expect further appreciation.

Macroeconomics: retail sales dropped heavily in April (pp. 3-4)

Retail sales dropped by -1.0% in April month on month, which means -2.7% YoY index. The monthly fall was the most noticeable one within the past two years. Both food and non-food products' turnover decreased in April; for the first time in 2012. So now it seems that the easing of PIT scheme could not yet offset the demand-tightening effects of raising the general VAT bracket and excise duties. Besides, the general uncertainty about future perspectives, caused mainly by the government's unorthodox fiscal policy, makes households even more cautious, which is another constraint on consumption growth.

FX markets: EUR/HUF was moving in a tight 285-288 range, we do not expect more country-specific appreciation (pp. 5-6)

From the middle of last week the EUR/HUF pair has been moving in the very short range, between 285 and 288. It is some kind of consolidation after the huge rally, when NBH Governor agreed with Mr. Varga on the topic of new NBH law amendment. In this issue there was some new development in this week: the IMF director, Ms Lagarde indicated in her response letter that the new NBH law will satisfy the IMF conditions. It means that after the final parliamentary vote of the proposal, the EU/IMF negotiations could start. But we still think this is just the start of the negotiations, and we expect long and rocky road ahead while the government finally sign the EU/IMF agreement. To analyze the real FX rates, we concluded: if we assume 280 EUR/HUF rate, we find only one temporary period (2011 spring, after the Szell Kalman Plan) when the REER was stronger (see chart above). So below 280 EUR/HUF we consider the rate as overvalued, and would hurt the competitiveness.

Fixed income markets: yield curve has sunk below 8% (pp. 7-9)

Though risk avoidance takes place all around the world, investors see the probability of Hungary's reaching the EU/IMF-deal almost 100%, which makes the HUF as well as HGBs quite resistant. As a result, the whole yield curve has dropped below 8%, for the first time since the beginning of May. All in all, we think HGBs have the potential to keep their recent strengths in the coming couple of weeks, but the downside risks are considerable.

Money markets: MC left the base rate unchanged (pp. 10-11)

The decrease in MM prices has stopped, last week Hungarian FRAs and SWAPs increased by 4-9 bps. We expect the continuation of this process. The NBH left the base rate unchanged at Tuesday's rate setting meeting. According to the official statement the MPC will cut the rates only in the context of falling risk premium and the improvement of inflation outlook, but we see further concerns from both sides.

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Macroeconomics: retail sales dropped heavily in April

PERIOD	INDICATOR	FACT	OTP	CONSENSUS	PRIOR	REVISION
18 Jun	Apr	Construction (yoy, %)	-4.8	-	-	-12.6
19 Jun	Apr	Gross wages (yoy, %)	2.5	-	-	2.7
25 Jun	Apr	Retail sales (yoy, %)	-2.7	-	-	0.9
26 Jun		Rate decision (%)	7.00	7.00	7.00	7.00
28 Jun	May	Unemployment rate (ILO, %, 3-months)		-	-	11.5
29 Jun	Q1	Current account (EUR bn)		-	0.132	0.149
29 Jun	May	PPI (yoy, %)		-	-	7.1

Source: Reuters

Retail sales dropped by -1.0% in April month on month, which means -2.7% YoY index. The monthly fall was the most noticeable one within the past two years. The year-to-date yearly index was -0.7%, and the volume of trade was -1.4% lower than in December. Both food and non-food products' turnover decreased in April; for the first time in 2012.

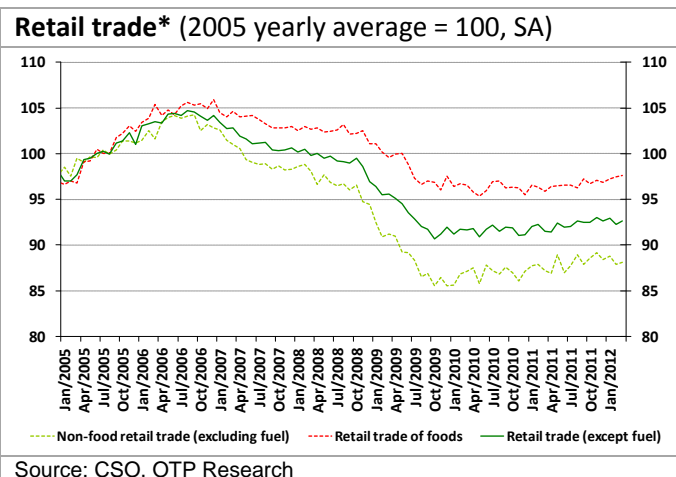
So now it seems that **the easing of PIT scheme** (which has led to enormous gross wage growth in the first quarter, as we highlighted before) **could not yet offset the demand-tightening effects of raising the general VAT bracket and excise duties.** Besides, the general uncertainty about future perspectives, caused mainly by the government's unorthodox fiscal policy, makes households even more cautious, which is another constraint on economic growth. As some analysts pointed out previously: the additional income left at the households does not equal the additional GDP growth if the saving rate of the economic actors moves upward, owing to the deepening uncertainty.

However, **Hungary desperately needs more robust growth.** To complete our current forecast with facts: **the yearly average growth of the Hungarian economy is likely to be -0.5% between 2006 and 2013** – clearly the lowest rate in the region (to be more concrete: the single below-zero average rate, apart from Croatia). **This figure was +4.0% a decade earlier, between 1996 and 2006.**

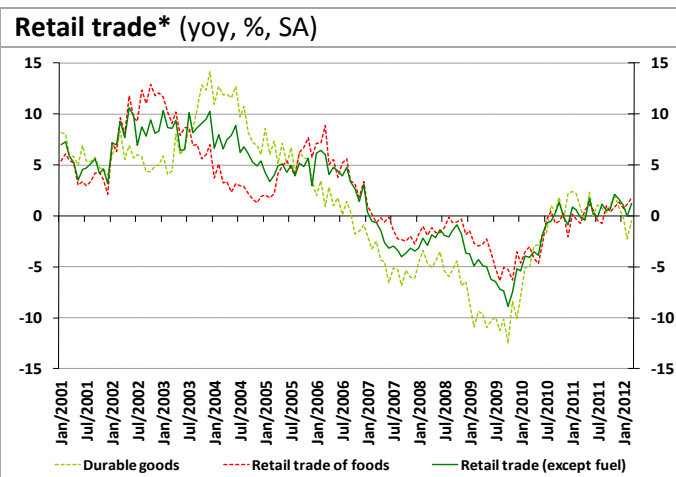
In the lack of considerable GDP growth, the fight against public debt may lead to a vicious circle. Under these circumstances, the budget should be tightened again and again, which takes its toll on growth potential, which leads to more austerity measures etc. Furthermore, at a time when the economy is in recession, the primary budget needs to have surplus to reduce government debt as % of GDP.

As the domestic factors do not really point to growing economy in the next couple of years, Hungary depends heavily on external demand. And the latter is quite unpredictable right now, given the problems on the EZ's periphery.

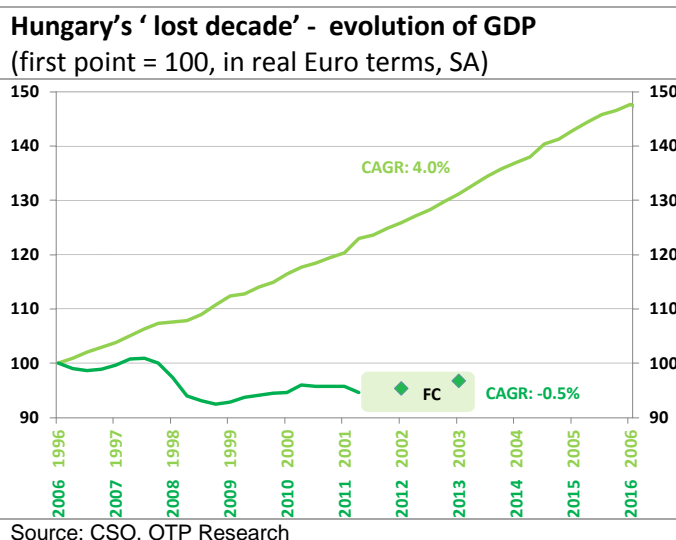
The National Bank of Hungary's MPC left the base rate unchanged at 7.0% (for further details please see the money market chapter).



Source: CSO, OTP Research



Source: CSO, OTP Research



Source: CSO, OTP Research

*does not contain April data

At the press conference after Tuesday's rate setting meeting, NBH Governor Mr. Simor announced the staff's new forecasts: they reduced significantly the GDP growth rate to -0.8% (previous 0.1%) and 0.8% (previous 1.5%) for 2012 and 2013, respectively. Meanwhile they forecasted the average CPI for 2012 at 5.3% (previous 5.6%) and for 2013 at 3.5% (previous 3.0%). It means that under the very sluggish baseline GDP growth the NBH see higher CPI for 2013. It is the consequence of the direct effects: the tax hikes, the new fiscal measures and the labor market arrangements which increased the cost of production. The last factor has longer-term effects, compared to the previous ones, but the NBH still expects the CPI growth rate to fall back to target level (3%) after the direct effects drop out from the index. It is the result of the very weak domestic demand and the negative output gap: these effects will offset the previously mentioned direct effect for the end

of 2013. We forecast 3.6% for average CPI for 2013, quite close to NBH's fresh forecast. We are not sure about the level of the output gap, because of the potential GDP growth rate or even the potential GDP level was deteriorated significantly in the past years as a consequence of very low investment ratio. In some sectors the investment ratio is lower than the amortization ratio, means the net effect is negative and the capital stock is decreasing. This process undermines the potential GDP growth, so the output gap could be lower than market participants assume and this could cause slower disinflation effect. The NBH will publish the entire Inflation Report on Thursday.

There are one further main publication scheduled for the rest of this week; **the Q1 2012 current account balance**. Reuters analysts' consensus suggests that the surplus decreased a bit, compared to the previous quarter, but still shows healthy surplus.

Medium-term macroeconomic forecast

Main macroeconomic indicators	Fact						Forecast	
	2006	2007	2008	2009	2010	2011	2012F	2013F
Gross domestic product	3,9%	0,1%	0,9%	-6,8%	1,3%	1,6%	-0,4%	1,4%
Household consumption	1,9%	-1,0%	-0,2%	-5,7%	-2,7%	0,2%	-2,2%	0,6%
Household consumption expenditure	1,9%	1,0%	-0,6%	-6,4%	-2,1%	0,0%	-1,7%	1,0%
Government consumption	0,4%	-4,2%	-0,2%	2,6%	1,1%	-2,4%	-1,5%	-1,0%
Gross fixed capital formation	-2,7%	3,8%	2,9%	-11,0%	-9,7%	-5,5%	-0,5%	-4,3%
Export	19,1%	15,0%	5,7%	-10,2%	14,3%	8,4%	5,0%	7,9%
Import	15,1%	12,8%	5,5%	-14,8%	12,8%	6,3%	2,8%	5,3%
Budget balance (GDP%, ESA 95)	-9,4%	-5,1%	-3,7%	-4,5%	-4,3%	4,2%	-2,5%	-2,5%
CA balance (EUR bn)*	-6,6	-7,2	-7,8	-0,1	1,2	1,4	3,5	4,2
in % of GDP	-7,4%	-7,3%	-7,3%	-0,2%	1,2%	1,4%	3,5%	3,9%
Gross nominal wages**	6,5%	7,3%	6,9%	0,5%	1,4%	3,3%	5,0%	4,3%
Real gross wages	2,5%	-0,7%	0,8%	-3,6%	-3,3%	-0,6%	-0,7%	0,7%
Disposable income***	2,3%	5,1%	5,0%	0,7%	3,2%	6,3%	2,3%	4,7%
Real disposable income	-1,5%	-2,6%	-1,0%	-3,4%	-1,6%	2,3%	-3,2%	1,1%
Employment (y-o-y, %)	0,7%	-0,1%	-1,2%	-2,5%	0,0%	0,8%	1,5%	0,3%
Unemployment rate (yearly avr)	7,5%	7,4%	7,8%	10,0%	11,2%	10,7%	11,0%	11,3%
Inflation (yearly avr)	3,9%	8,0%	6,1%	4,2%	4,9%	3,9%	5,7%	3,6%
Inflation (dec/dec)	6,5%	7,4%	3,5%	5,6%	4,7%	4,1%	5,3%	3,2%
Base rate (eop)	8,00%	7,50%	10,00%	6,25%	5,75%	7,00%	7,00%	6,00%
12M T-Bill (avr)	7,3%	7,4%	9,0%	8,6%	5,6%	6,16%	7,50%	5,59%
Real interest rate (avr, ex post)	3,3%	-0,5%	2,8%	4,2%	0,7%	2,2%	1,7%	1,9%
EUR/HUF (avr)	264,3	251,3	251,5	280,6	275,3	279,3	295,8	285,0
EUR/HUF (eop)	252,3	253,4	264,8	270,8	278,8	311,1	290,0	280,0

Source: CSO, NBH, OTP Research

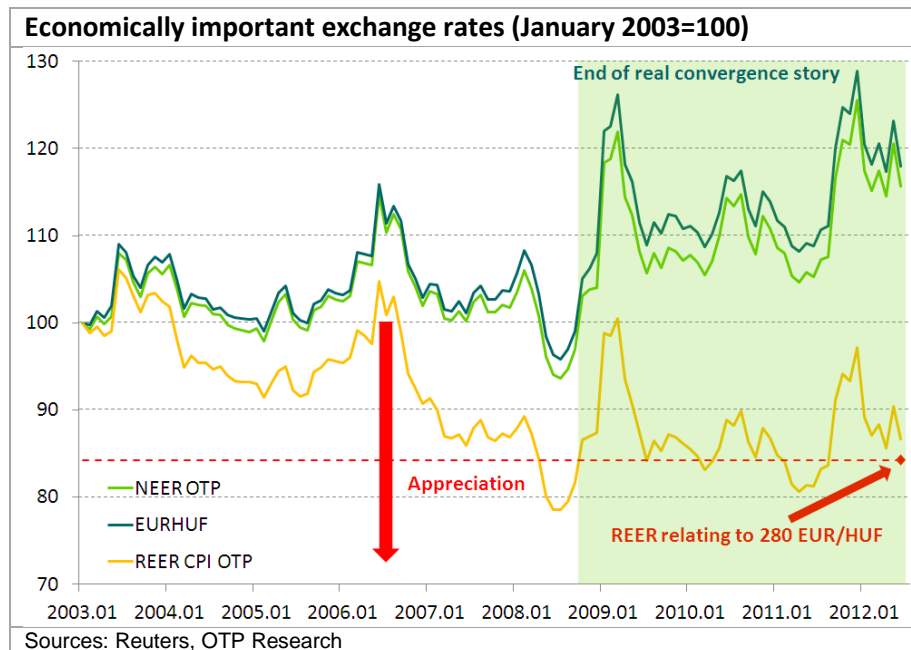
*: Official deficit of current account balance for year 2010 (excluding errors and omissions)

** : The following data were used in wage calculations: payroll adjusted for the 'whitening' of economy and for the changed seasonality of bonuses (in the private sector) and accrual-based wage data (in the public sector)

***: Disposable income derived from Financial Accounts

FX markets: EUR/HUF was moving in a tight 285-288 range, we do not expect more country-specific appreciation

From the middle of last week the EUR/HUF pair has been moving in the very short range, between 285 and 288. It is some kind of consolidation after the huge rally, when NBH Governor agreed with Mr Varga on the topic of new NBH law amendment.



In this issue there was some new development in this week: the IMF director, Ms Lagarde indicated in her response letter that the new NBH law will satisfy the IMF conditions. It means that after the final parliamentary vote of the proposal, the EU/IMF negotiations could start.

But we still think this is just the start of the negotiations, and we expect long and rocky road ahead while the government finally sign the EU/IMF agreement. Probably the topic of Hungarian potential GDP growth and some kind of 'growth program' including the correction of the very serious investment shock experienced in the last few years would be in the focus of the IMF conditions. Furthermore, to reach more sustainable external balance, Hungary has to reduce the accumulated foreign debt. To fulfil this conditions Hungary has to become 'supercompetitive' producer in the export markets and has to attract much more foreign capital. To fulfil these IMF conditions, the government must change some elementary idea of the economic policy.

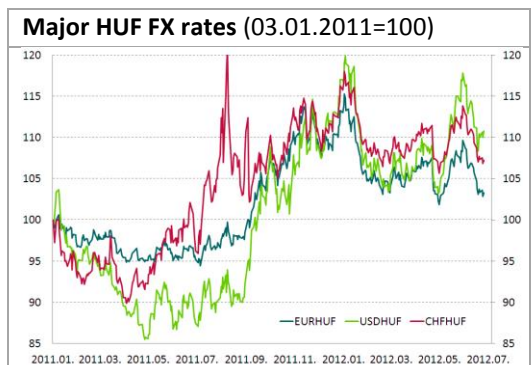
After the strong rally, we investigate the real exchange rates to determine what EUR/HUF rate would imply overvaluation. From broader perspective we could see that after the 2008 crisis has begun the so-called 'real-convergence story' has finished: the GDP and other economic activity indicators actually diverge from the core euro zone (see page 3) and as a consequence of this background the long-term real appreciation process has ended, and the REER moves in a range since then. If we assume 280 EUR/HUF rate, we find only one temporary period (2011 spring, after the Szell Kalman Plan) when the REER was stronger (see chart above). **So below 280 EURHUF we consider the rate as overvalued, and would hurt the competitiveness.**

FX BID			
	Value	Weekly chg. (%)	YTD chg. (%)
EURHUF	286,0	↓ -0,1	↓ -9,1
CHFHUF	238,1	↓ -0,1	↓ -8,0
USDHUF	228,9	↑ 1,6	↓ -5,9
JPYHUF	287,7	↑ 1,5	↓ -8,9
PLNHUF	67,33	↑ 0,2	↓ -4,2
RONHUF	64,37	↑ 0,3	↓ -11,7
CZKHUF	11,02	↓ -1,5	↓ -10,4
RUBHUF	6,96	↑ 0,5	↓ -7,9
RSDHUF	2,46	↓ -1,4	↓ -16,4
HRKHUF	38,02	↑ 0,1	↓ -9,0

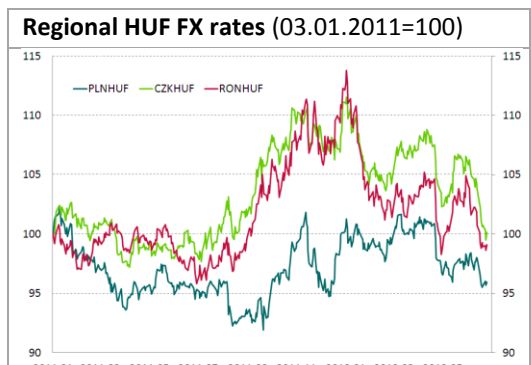
MID VOLATILITY			
	Value	Weekly chg.	YTD chg.
EURHUF 1W	13,00	↓ -2,2	↓ -0,6
EURHUF 1M	12,50	↓ -2,0	↓ -1,5
EURHUF 3M	12,90	↓ -1,6	↓ -1,6

MID RISK REVERSAL			
	Value	Weekly chg.	YTD chg.
10D 1M	4,00	↓ -0,2	↓ -3,7
10D 3M	6,05	↓ -0,5	↓ -4,4
25D 1M	2,03	↓ -0,4	↓ -2,0
25D 3M	3,53	↓ -0,2	↓ -2,5

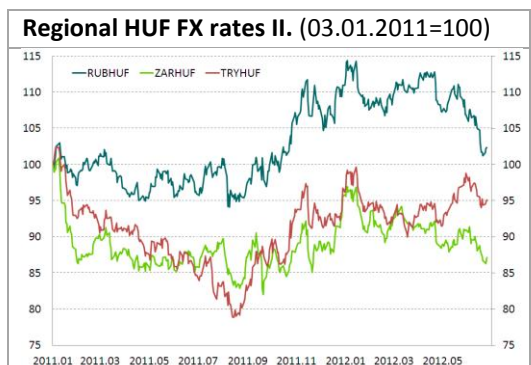
Source: Reuters



Sources: Reuters, OTP Research



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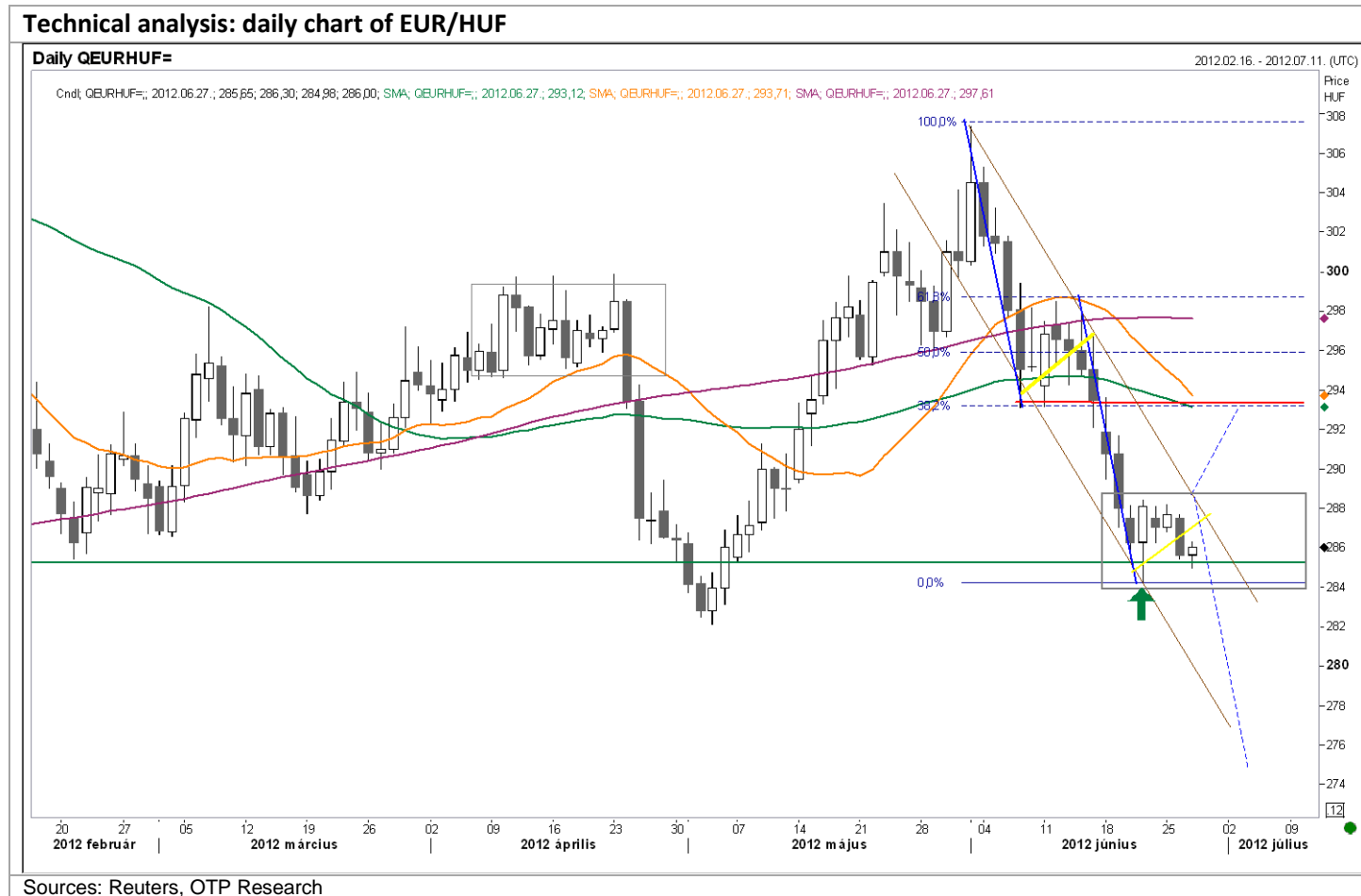
Technical analysis – the daily chart of the EUR/HUF

In our last letter, we highlighted the weekly support zone around 285. Let us check how the cross behaves at this level on the daily chart this time.

After two identically long falling waves had run their course, the pair arrived at support and currently hugs this level. The pair created a reversal candle last Thursday here; the longer lower shadow indicates responsive buying activity. Sadly for the players looking for a directional movement, this candle has neither been confirmed (by a daily close above its high), nor invalidated (by fresh lows followed by a daily close below its low). Thus the two levels the break of which would be indicative are: 288.50 and 284.25. A breakout and close above the first one would suggest the coming of a price correction up to 293; while a break below the latter one would signal the beginning of a next leg lower. Note that between the falling waves, the price consolidated for 4-5 days – assuming symmetry, the next push lower should begin soon.

Another way to turn around for the pair (besides the confirmation of the reversal candle) would be to hit only slightly lower lows below the 284.25 low. Keep in mind that a turnaround would support the evolution of a new weekly trading range between approximately 285 and 305.

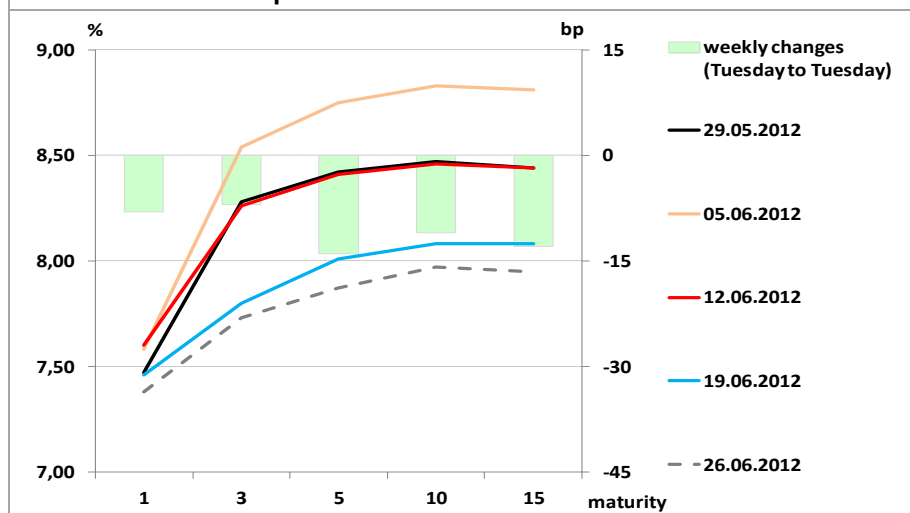
Short-term trend	↓	down
Long-term trend	→	range
Secondary resistance		293,0
Primary resistance		288,5
Primary support		284,0
Secondary support		280,0



Government securities: yield curve has sunk below 8%

Though risk avoidance is general all around the world, investors see the probability of reaching the EU/IMF-deal almost 100%, which makes the HUF, as well as HGBs, quite resistant. As a result, the whole yield curve has dropped below 8%, for the first time since the beginning of May (the time of the political breakthrough with the EC).

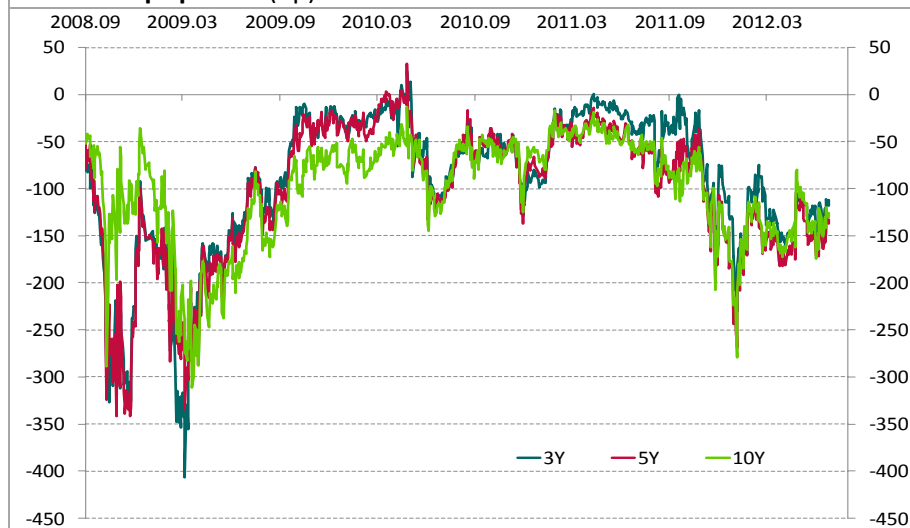
Yield curve over the past weeks



Sources: Reuters, OTP Research

It is worthy of note that the **asset swap spreads** (which are good indicators of the budget-specific risk) have remained at quite high levels (in absolute terms), despite the recent trust in Hungarian assets.

Asset swap spreads (bp)



Sources: Reuters, OTP Research

We see the current buying wave as a result of strong trust in the EU-IMF deal. We think the road to reaching an agreement could be long and rocky from this point, and if the EU-summit held at this weekend does not bring the expected political breakthrough, it is likely to put pressure on emerging market assets. On the other hand, rate-cutting cycle is unlikely to start before Q1 2013 – this supports the HUF and hence the HGBs. Besides, we should not disregard the current market mood: there will surely be a deal, so let us go long in the Hungarian market. **All in all, we think HGBs have the potential to keep their recent strength in the coming couple of weeks, but the downside risks are considerable.**

GOVERNMENT SECURITIES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
3M	7,11	↓ -2	↓ -45	
6M	7,07	↓ -6	↓ -54	
12M	7,38	↓ -8	↓ -58	
3Y	7,73	↓ -7	↓ -134	
5Y	7,87	↓ -14	↓ -178	
10Y	7,97	↓ -12	↓ -179	
15Y	7,95	↓ -13	↓ -182	

SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
GERHUN 3Y	752	↓ -2	↓ -127	
GERHUN 5Y	727	↓ -9	↓ -162	
GERHUN 10Y	643	↓ -4	↓ -150	
3Y-5Y	14	↓ -7	↓ -44	
5Y-10Y	10	↑ 3	↓ -1	
3Y-10Y	24	↓ -4	↓ -45	

FOREIGNER'S STOCK			
	Value (HUF bn)	Wly chg. (HUF bn)	YTD chg. (HUF bn)
Foreign stock	4283	↑ 61	↑ 486

DURATION			
	Value (year)	Wly chg. (year)	YTD chg. (year)
Duration	4,07	↓ -0,05	↓ -0,05

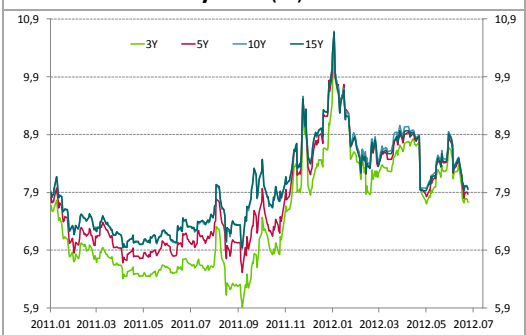
MID REPHUN			
	Value	Weekly chg.	YTD chg.
2013 4.5%	99,84	↑ 0,47	↑ 1,18
2014 6.75%	100,80	↑ 1,60	↓ -1,16
2016 3.5%	87,56	↑ 1,85	↑ 0,80
2020 3.875%	80,12	↑ 3,27	↓ -0,62

MID CORPORATE BONDS				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
MFB '13 4 ¹ / ₈ %	7,37	↑ 2	↓ -252	
MOL '15 3 ⁷ / ₈ %	6,17	↑ 35	↓ -219	
OTPJZB '14 4%	9,80	↓ -5	↑ 267	

CDS MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
3Y EURO	445	↓ -9	↓ -95	
5Y EURO	469	↓ -5	↓ -82	

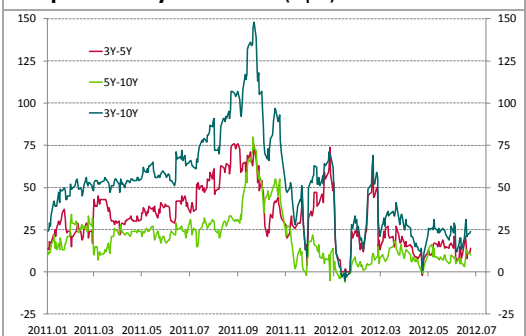
Source: Reuters

ÁKK benchmark yields (%)



Sources: Reuters, OTP Research

Slope of the yield curve (bps)



Sources: Reuters, OTP Research

Auction results

In the overall supportive mood (thanks mainly to the expected amendment of the central bank law), **government securities fared well recently: in nine of the latest eleven tenders since 7 June, ÁKK raised the accepted amount compared to the offered amount, by a combined HUF 68.5 bn** (of which HUF 35 bn matures within a year). The two exceptions were the 5Y bond auction two weeks ago, and this the week 6W liquidity T-Bill auction.

We think the strong interest will be maintained in the next couple of weeks, unless the external environment deteriorates sharply (e.g. as a consequence of the discouraging achievements of the EU-summit).

Summary of last week's auctions

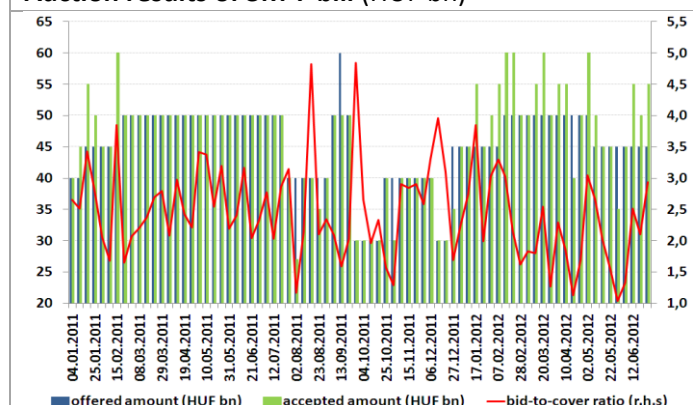
	D120926	D130529
offered amount (HUF bn)	45,0	45,0
total bids (HUF bn)	94,7	118,5
accepted amount (HUF bn)	50,0	55,0
maximum yield (%)	7,17	7,41
average yield (%)	7,14	7,39
minimum yield (%)	7,00	7,34
non-competitive tenders (HUF bn)	-	-

Source: ÁKK

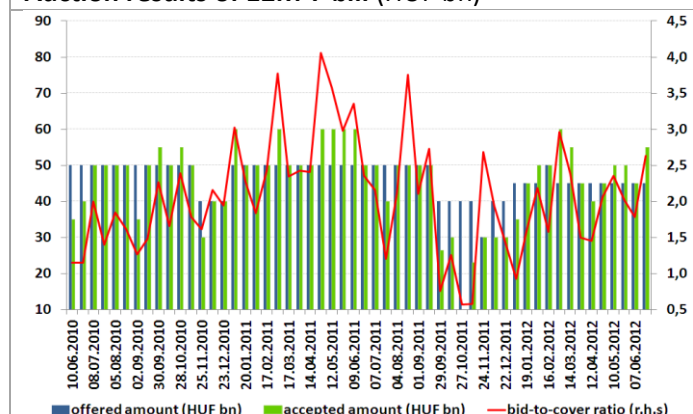
Summary of the current week's auctions

	D120815	D121003	2015/C	2017/A	2028/A
offered amount (HUF bn)	45,0	45,0	18,0	12,0	8,0
total bids (HUF bn)	74,0	132,3	61,4	44,4	26,7
accepted amount (HUF bn)	45,0	55,0	25,0	18,0	12,0
maximum yield (%)	7,10	7,14	7,65	7,85	7,94
average yield (%)	7,06	7,10	7,63	7,84	7,92
minimum yield (%)	7,02	7,01	7,60	7,80	7,87
non-competitive tenders (HUF bn)	-	-	9,0	6,2	4,0

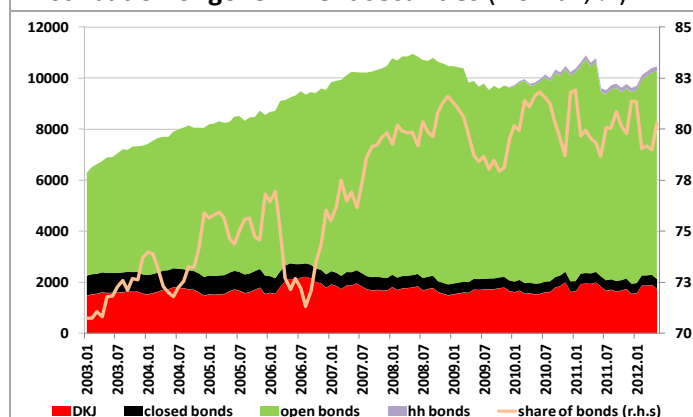
Source: ÁKK

Auction results of 3M T-bill (HUF bn)


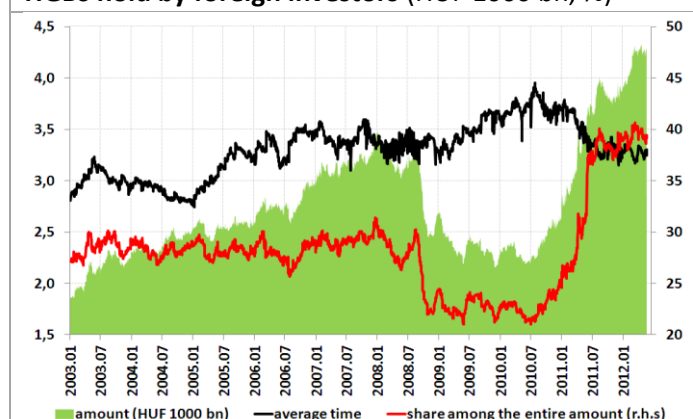
Sources: ÁKK, OTP Research

Auction results of 12M T-bill (HUF bn)


Sources: ÁKK, OTP Research

Distribution of government securities (HUF bn, %)


Sources: ÁKK, OTP Research

HGBs hold by foreign investors (HUF 1000 bn, %)


Sources: ÁKK, OTP Research

Date	Auction	Government bonds		Government loans		
		redemption*	coupon*	capital*	coupon*	
04.06.2012	M					
05.06.2012	Tu	3M				
06.06.2012	W		T-Bills: 61.5; KKJ: 1.6			
07.06.2012	Th	12M, 5Y floating				
08.06.2012	F					
11.06.2012	M			REPHUN: 25.9		
12.06.2012	Tu	3M	2012/B: 266.0	2012/B: 19.3		
13.06.2012	W		T-Bills: 54.0; KKJ: 1.0			
14.06.2012	Th	3Y, 5Y, 10Y				
15.06.2012	F					
18.06.2012	M					
19.06.2012	Tu	3M				
20.06.2012	W		T-Bills: 54.7; KKJ: 0.7	2013/C: 3.8; 2014/B: 0.5		
21.06.2012	Th	12M				
22.06.2012	F			2015/B: 4.6		
25.06.2012	M			2019/A: 37.6; 2022/A: 22.3		
26.06.2012	Tu	3M				
27.06.2012	W		T-Bills: 256.9; KKJ: 1.2			
28.06.2012	Th	3Y, 5Y, 10Y				
29.06.2012	F				IMF: 91.7	
02.07.2012	M			2015/K: 0.3; 2016/A: 0.3; 2016/B: 0.3		
03.07.2012	Tu	3M				
04.07.2012	W		T-Bills: 50.6; KKJ: 1.0	REPHUN: 13.1		
05.07.2012	Th	12M, 5Y floating				
06.07.2012	F				EU: 16.3	
09.07.2012	M					
10.07.2012	Tu	3M				
11.07.2012	W		T-Bills: 54.2; KKJ: 1.9			
12.07.2012	Th	3Y, 5Y, 10Y		REPHUN: 0.6		
13.07.2012	F					
16.07.2012	M					
17.07.2012	Tu	3M				
18.07.2012	W		T-Bills: 54.2; KKJ: 1.2	REPHUN: 10.5		
19.07.2012	Th	12M				
20.07.2012	F					
23.07.2012	M					
24.07.2012	Tu	3M				
25.07.2012	W		T-Bills: 39.7; KKJ: 1.4			
26.07.2012	Th	3Y, 5Y, 10Y				
27.07.2012	F					
30.07.2012	M			REPHUN: 20.3 + 15.0		
31.07.2012	Tu	3M				
01.08.2012	W		T-Bills: 50.0; KKJ: 1.2		IMF: 14.7	
02.08.2012	Th	12M, 5Y floating		REPHUN: 0.8		
03.08.2012	F			REPHUN: 8.6		
06.08.2012	M					
07.08.2012	Tu	3M				
08.08.2012	W		T-Bills: 60.0; KKJ: 1.7			
09.08.2012	Th	3Y, 5Y, 10Y				
10.08.2012	F				IMF: 183.3	
13.08.2012	M			2014/I: 0.2		
14.08.2012	Tu	3M				
15.08.2012	W		T-Bills: 50.0; KKJ: 1.4			
16.08.2012	Th	12M				
17.08.2012	F					
20.08.2012	M					
21.08.2012	Tu	3M				
22.08.2012	W		T-Bills: 230.9; KKJ: 1.7	2014/D: 44.5		
23.08.2012	Th	3Y, 5Y, 10Y				
24.08.2012	F			2015/C: 5.3		
27.08.2012	M			2013/J: 1.5		
28.08.2012	Tu	3M				
29.08.2012	W		T-Bills: 45.0; KKJ: 1.3			
30.08.2012	Th	12M, 5Y floating				
31.08.2012	F					
Sum		1241**	1345.0	253.3	275.0	31.0

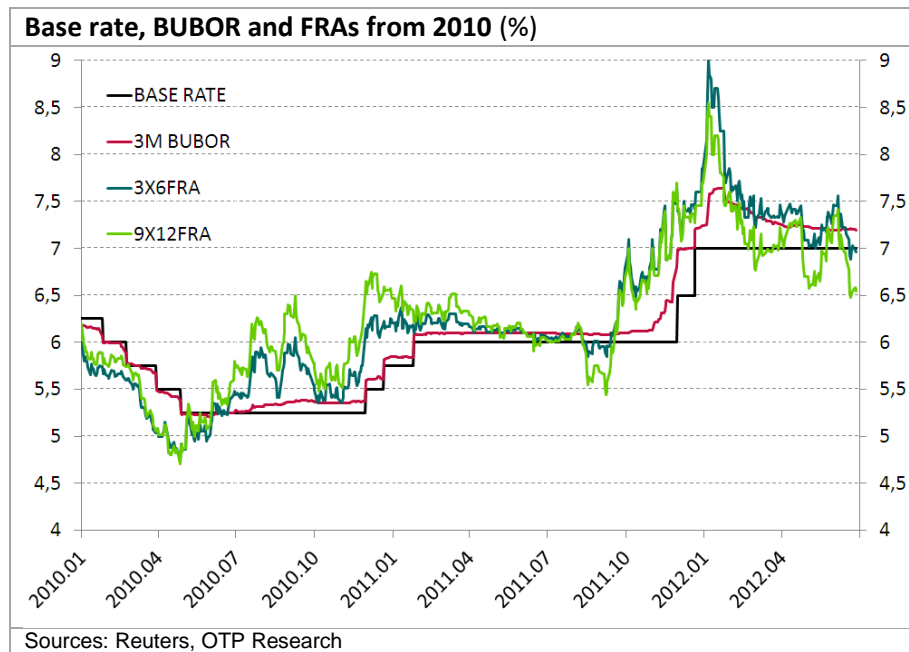
HUF bn; *estimation, based on the latest available information, under the assumption of 300 EUR/HUF, 1.25 EURUSD, 80 USDJPY, 0.80 EURGBP and 1.20 EURCHF exchange rates **with KKJ

Sources: ÁKK, OTP Research

According to the Government Debt Management Agency's HUF issuance plan, HUF 585 bn 3-month bills, HUF 315 bn 12-month bills, HUF 21.0 bn interest-bearing T-Bills (KKJ) and HUF 320 bn bond issuing are scheduled for June-August 2012.

Money markets: MC left the base rate unchanged

As we predicted earlier, the decrease in MM prices has stopped, last week Hungarian FRAs and SWAPs increased by 4-9 bps. We expect the continuation of this process, as FRAs are still pricing base rate cuts for this year, which will not happen in our opinion.



The NBH left the base rate unchanged at Tuesday's rate setting meeting. The 7.00% base rate is in line with analysts' consensus and OTP forecast, as well. The MC discussed two proposals: hold rate and 25 bps cut. They decided to hold rate with 'overwhelming majority' which probably means 6-1 votes with János Cinkotai voting for the rate cut again.

According to the official statement the MPC will cut the rates only in the context of falling risk premium and the improvement of inflation outlook. From both sides we see further concerns. The Hungarian risk premium could not decrease persistently without a deal with the IMF, so we rule out base rate cut before the deal is done. But even if the deal is done, the inflation outlook and the actual state of the European crisis could make the Council more cautious, and hence force them to delay rate cut actions. We still see no room for rate cut in the short-term, and expect the end of this year or even the first quarter of the next year as the earliest date for starting a modest rate-cutting cycle.

MID INTEREST RATE DERIVATIVES				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
NBH 2 weeks	7,00	↔	0	↔
Stock HUF bn	3 948	↑	225	↑
BUBOR 3M	7,19	↓	-2	↓
BUBOR 6M	7,29	↓	-2	↓
FRA 3X6	6,96	↑	8	↓
FRA 6X9	6,74	↑	6	↓
FRA 9X12	6,54	↑	6	↓
FRA 6X12	6,70	↑	7	↓
SWAP 2Y	6,79	↑	9	↓
SWAP 3Y	6,60	↑	7	↓
SWAP 5Y	6,53	↑	7	↓
SWAP 10Y	6,70	↑	4	↓
HUFONIA	6,15	↓	-9	↑

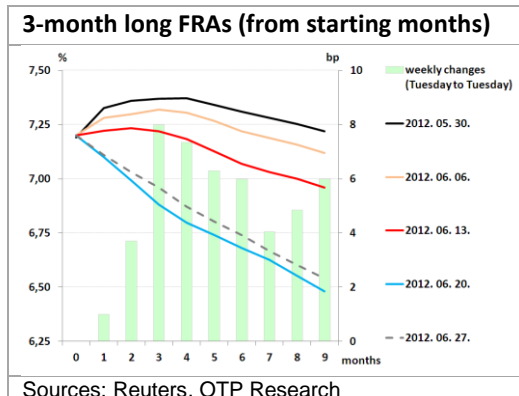
MID SPREADS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
2Y-5Y	-26	↓	-2	↓
5Y-10Y	17	↓	-3	↑
FLY 2-5-10	43	↓	-1	↑
ASSET 3Y	-113	↑	14	↑
ASSET 5Y	-134	↑	21	↑
v EUR 2Y	593	↑	12	↓
v EUR 5Y	524	↑	14	↑
v EUR 10Y	476	↑	11	↑
v PLN 2Y	206	↑	20	↓
v PLN 5Y	186	↑	11	↓
v PLN 10Y	195	↑	3	↓

MID SWAP POINTS				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
USDHUF 1W	19,0	↓	-1,0	↑
USDHUF 1M	93,5	↓	-2,8	↑
USDHUF 3M	274,0	↓	-13,6	↑
EURHUF 1W	27,6	↓	-3,2	↑
EURHUF 1M	124,3	↓	-4,6	↑
EURHUF 3M	368,9	↓	-21,9	↑

FWD IRS				
	Value (%)	Weekly chg. (bp)	YTD chg. (bp)	
HUF 1X1	6,54	↑	23	↓
HUF 5X5	7,00	↑	4	↓
v EUR 1X1	5,68	↑	29	↓
v EUR 5X5	4,34	↑	10	↓
v PLN 1X1	2,12	↑	38	↓
v PLN 5X5	2,12	↓	-3	↓

MID EUR BASIS SWAP				
	Value (bp)	Weekly chg. (bp)	YTD chg. (bp)	
EURHUF 1Y	-195	↓	-5	↑
EURHUF 3Y	-260	↑	8	↑
EURHUF 5Y	-278	↑	8	↑

Source: Reuters



Dates of the meetings	Dates of the minutes	Inflation report	OTP forecast	Decision
20 June 2011	6 July 2011, 14:00 CET		6.00	6.00
26 July 2011	10 August 2011, 14:00 CET		6.00	6.00
23 August 2011	7 September 2011, 14:00 CET		6.00	6.00
20 September 2011	5 October 2011, 14:00 CET	x	6.00	6.00
25 October 2011	16 November 2011, 14:00 CET		6.00	6.00
29 November 2011	7 December 2011, 14:00 CET		6.50	6.50
20 December 2011	11 January 2012, 14:00 CET	x	6.75	7.00
24 January 2012	15 February 2012, 14:00 CET		7.50	7.00
28 February 2012	14 March 2012, 14:00 CET		7.00	7.00
27 March 2012	11 April 2012, 14:00 CET	x	7.00	7.00
24 April 2012	9 May 2012, 14:00 CET		7.00	7.00
29 May 2012	13 June 2012, 14:00 CET		7.00	7.00
26 June 2012	11 July 2012, 14:00 CET	x	7.00	7.00
24 July 2012	8 August 2012, 14:00 CET		7.00	
28 August 2012	12 September 2012, 14:00 CET		7.00	
25 September 2012	10 October 2012, 14:00 CET	x	7.00	
30 October 2012	14 November 2012, 14:00 CET		7.00	
27 November 2012	5 December 2012, 14:00 CET		7.00	
18 December 2012	Will be published later	x	7.00	

Sources: NBH, OTP Research

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