

OTP Weekly Outlook

Next week:

- US inflation and monthly hard data will be important; lookout for the direction of sector rotation

This week:

- Stock markets increased last week amid the better than expected data
- Crisis-hit sectors and small cap stocks overperformed
- The USD depreciated, precious metals moved in tandem with the stock indices, oil is up more than 10% during the week
- The Fed urged for more fiscal stimulus, but it may be postponed after the elections
- The ECB acknowledged that the rapidly appreciating EUR partly offset the positive effects of the QE



Market summary table

Indices	Last price	1 week change (%)	YTD (%)	Interest rates	Last price	1 week change (bps)	YTD (bps)	FX rates	Last price	1 week change (%)	YTD (%)	Commodity	Last price	1 week change (%)	YTD (%)
S&P500	3467	3,5	7,3	US 2 year	0,15	0,2	-142,2	Dollar index	93,255	-0,6	-3,3	Brent	43	10,0	-34,6
Russel 2000	1643	6,8	-1,5	US 10 year	0,77	-1,5	-115,1	EURUSD	1,181	0,8	5,3	WTI	41	10,8	-32,8
Stoxx 600	370	2,0	-11,0	DE 2 year	-0,72	-1,8	-11,0	USDJPY	105,77	-0,5	2,7	Gold	1924	1,3	26,8
DAX	13051	2,9	-1,5	DE 10 Year	-0,54	-3,2	-35,4	GBPUSD	1,297	0,3	-2,2	Silver	25	4,1	38,4
CAC40	4946	2,5	-17,3	SP 10 year	0,16	-9,9	-30,2	AUDUSD	0,722	0,8	2,8	Palladium	2458	6,3	26,3
FTSE100	6026	2,1	-20,1	UK 10 year	0,27	-2,1	-55,1	USDCAD	1,315	1,2	-1,2	Copper	307	3,1	9,7
FTSE MIB	19602	2,8	-16,6	IT 10 year	0,71	-9,4	-69,6	USDCHF	0,913	0,9	5,9	Steel	630	1,0	7,1
Nikkei 225	23620	2,6	-0,2	JP 10 year	0,03	0,8	5,0	NZDUSD	0,664	0,0	-1,4	Wheat	598	4,2	6,9
CSI 300	4681	2,6	14,3	CH 10 year	3,19	5,2	4,8	CNHUSD	6,683	1,1	4,2	Corn	389	2,4	0,3

Source: Bloomberg

US economic data, news about the fiscal stimulus and election talks could give direction to the markets

During this week, a bunch of US data could give clues about the direction the US economy could take in the coming months. Additionally, the ongoing fiscal talks, the pandemic situation, and US election talks can all move markets.

Monday will be a busy day. The day starts with China's exports data, where analysts expect further improvement. Over the past month, China's services and manufacturing PMIs all improved and remained well above the 50 mark. In August, retail sales, industrial production and fixed investment also edged higher and the first one is already in positive territory in year-on-year terms. Although vehicle sales grew by 11.6% YoY in August, it still missed expectations by a large margin. Overall, China seems to be in much better shape than the rest of the world, as it has efficiently stopped the spread of the COVID-19 virus. Despite the lockdown measures at the beginning of the year, GDP could still grow by 2.1% in 2020, while the increase in unemployment is also much lower than in the USA and in most of the EU countries.

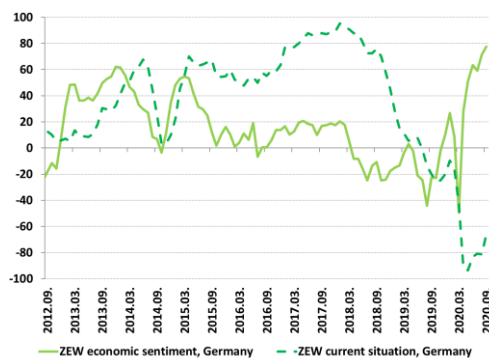
The day will continue with UK unemployment data, and with Germany's ZEW economic sentiment index. Concerning the latter, expectations about the future increased significantly in recent months, but the assessment of the current situation remained at low levels. It will be important to see if this gap narrows. Finally, US inflation data are due out in the afternoon. Analysts' consensus points toward a small uptick in inflation, but inflation pressure is still far away. Additionally, the rise in US inflation expectations stopped in recent weeks. Currently there is no concern about inflation, even though the Fed does not intend to keep the interest rates at record low levels in the coming years.

On Tuesday, EZ industrial production will show how the recovery fared in this sector of the economy in August, for which data from member states showed mixed results. Industrial production expanded by 7.7% MoM in Italy, but declined in Germany, and undershot expectations in France. The growing number of infections could also pose a threat. Currently the EZ's industrial production is still 7.2% below its pre-covid level. On the same day, the Fed's Beige Book will give a detailed assessment on the state of the US economy by region.

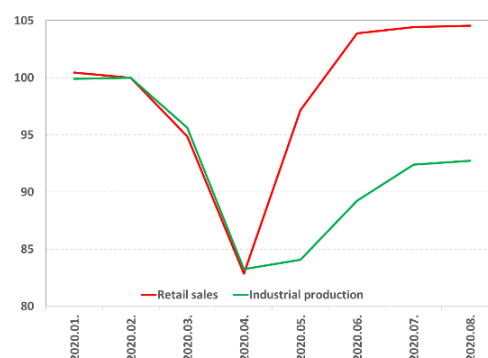
On Wednesday, the New York Fed's Manufacturing PMI and US jobless claims data is expected. Compared to the EZ, sentiment and confidence indicators remained at high levels, even if new daily infections remained at elevated levels. In September, nearly all major manufacturing and industrial sentiment and confidence indicators increased. As the Fed's Manufacturing Index is one of the first figures to come to light, it could be a market mover. Concerning the US labour market, the initial jobless claims data remained between 800,000 and 900,000 in the past few weeks, while the decline in the continuing jobless claims data slowed down. This indicates that the recovery may have ended, and as long as the virus is present to this extent, there is not much room for recovery in the crisis-hit sectors. This could also put an end to the rapid decline in unemployment seen in recent months. Indeed, the Fed also expects unemployment to decline much slower in the future, and it could stay above its pre-virus level even until 2023.

On Thursday, US retail sales, industrial production, business inventories data and the Michigan consumer confidence indicator are scheduled for release. Except for the last one, they will show how the US economy fared in September. Based on September's improving confidence indicators, the market expects small MoM gains. The incoming Michigan Consumer confidence could give clues about the outlook for the consumer sector in the coming month. **On Friday**, no major data is expected.

German ZEW (points)



**Retail sales and industrial production
(2020 February = 100)**



Source: Datastream

What to watch next week

Data	Cd.	Event/Data	Period	Cons.	Prev.
2020 10. 13.	5 : 00	CN Export (YoY, %)	Sept	10,0	9,5
	8 : 00	UK Unemployment rate (%)	Aug	4,3	4,1
	11 : 00	DE ZEW Economic Sentiment (points)	Oct	70,0	77,4
	14 : 30	US core-CPI (MoM, SA, %)	Sept	0,2	0,4
	14 : 30	US core-CPI (YoY, %)	Sept	1,8	1,7
	14 : 30	US CPI (MoM, SA, %)	Sept	0,2	0,4
	14 : 30	US CPI (YoY, %)	Sept	1,4	1,3
	20 : 00	US Federal budget balance (USDbn)	Sept	-	-200,0
14.	11 : 00	EZ Industrial production (MoM, %)	Aug	0,4	4,1
	20 : 00	US Beige Book	-	-	-
15.	14 : 30	US New York Fed Manufacturing index (points)	Oct	16,5	17,0
	14 : 30	US Initial jobless claims ('000s)	weekly	-	840,0
	14 : 30	US Continuing jobless claims ('000s)	weekly	-	10976,0
16.	14 : 30	US Retail sales (MoM, %)	Sept	0,5	0,6
	15 : 15	US Industrial production (MoM, %)	Sept	0,4	0,4
	16 : 00	US Business inventories (MoM, %)	Aug	0,4	0,1
	16 : 00	US Michigan Consumer confidence (preliminary, points)	Oct	81,0	80,4
	0 : 0	US IMF & World Bank yearly summit (online, 3 days long)	-	-	-

Stock markets went up during the week as incoming data surprised to the upside and Joe Biden's lead over President Trump widened in the US presidential election race

Risk-on sentiment dominated the week as incoming data surprised to the upside and Joe Biden's lead over President Trump has widened

In the USA, the S&P500 gained 3.5% during the week, but what is notable is the almost 7% surge of the Russell 2000 small-cap index. Its remarkable outperformance signals that the risk-on sentiment is strong in the USA at times when uncertainty about the direction of the economy is very high and the upcoming US elections also could weigh in. Looking at sector performance, the losers of the pandemic, like energy, finance, industrials and materials were the gainers of the week. While telco and real estate underperformed, previous momentum leaders, like IT and consumer discretionary fell into the middle of the pack. All in all, the sector rotation was very telling this week. As tech stocks may be overvalued and further upside is limited, while the hope about a production-ready vaccine is on the rise, investors positioned themselves for gains in the virus-hit sectors. In the upcoming weeks it will be interesting to see if this trend could continue.

In Europe, the Stoxx600 rose by 2%, while the DAX surged 2.9% and the CAC40 grew by 2.5%. In terms of sector rotation, it was the same story as in the USA. Travel-related stocks, banks, oil & gas, industrials and materials were the outperformers.

Last week's data generally surprised to the upside, but EZ inflation declined further into negative territory

The major topic surrounding the incoming data in recent weeks has been that the recovery has slowed down and due to the deteriorating pandemic situation, it may turn into stagnation or even to a decline in the next few months. Although the uncertainty around the rest of the year is still very high, this week's incoming data mostly surprised to the upside.

Retail sales in the eurozone and Italy, Italy's services PMI, Germany's industrial orders and Italy's industrial production all surprised to the upside by a wide margin. Additionally, China's services PMI also increased compared to last month and it is now well above the 50 mark. China is the only country in the world that successfully eliminated the coronavirus with very strict lockdown measures, and now it is reaping its benefits: its GDP growth could be in the positive territory this year, and retail sales are ticking up – they are already in positive territory on year-on-year basis.

However, the US weekly jobless claims data remained elevated, staying between 800,000 and 900,000 in the past few weeks, while the decline in continuing jobless claims also slowed down. This also signals that, despite the recent better-than-expected data, the major issue remained the same. The longer the virus stays, the higher the economic consequences. As some sectors are unable to operate at full capacity, weekly jobless claims will stay elevated, putting pressure on wages and on overall recovery in the medium term.

The coronavirus situation continues to worsen

In the USA, daily new cases and the positive rate of tests both started to increase, although at a moderate pace. On the other hand, in Western Europe, more and more countries face a surge in new infections. Spain and France are still among the worst hit countries, but there are sudden increases of new cases in Belgium, the Netherlands, and the UK as well. Germany and Italy seemed to be able to control the second wave, but now the spread of the virus appears to be accelerating in both countries.

To avoid national lockdowns, governments are trying to impose localised restrictions: a lockdown has been imposed in Madrid, the capital city of Spain, and restaurants and bars in several French cities have been closed. The epidemic is also getting worse in the CEE region. Montenegro is still the hardest hit country, but the Czech Republic is also experiencing a sudden surge in new cases and deaths. Daily new infections are rising across the region.

Risk-on sentiment was confirmed by the direction of the USD and commodities

Last week, the USD depreciated 0.8% against the EUR and 0.5% versus the JPY. Brent and WTI crude oil prices marched more than 10% higher. In precious metals, gold upped by 1.3% and silver surged 4.1%. Precious metals moved in tandem with the stock market again. Industrial metals also closed a strong week as copper increased by more than 3%, while steel was up by 1%. So far, no major topic emerged in major government bond's market as the central banks around the world keep long-term rates at low levels with their ongoing large-scale bond buying programmes.

President Trump's health is improving, new US fiscal stimulus may be postponed until after the elections, the Fed is prepared for more QE if needed, the ECB seems surprisingly undecided

President Trump's health improved during the week, now it seems that he is out of danger. The President tweeted that he had stopped negotiations about the new fiscal stimulus package, but the talks about the airline's relief package and a one-time USD 1200 pay-check for Americans would continue. Democrats' leader in the House Nancy Pelosi said she was willing to support the plan to help airlines, but only if it is part of a larger economic relief package. The Fed's minutes showed that the FOMC was ready to increase the size of QE if the economic situation deteriorates. More importantly, the Fed's chair Jerome Powell urged political parties to agree on the stimulus package because without it the recovery is in great danger. The ECB's minutes showed that the positive effect of asset purchases was partly offset by the appreciating EUR, and inflation expectations started to decline again in recent weeks. However, decision-makers seemed undecided about the size of the further increase in the QE.

Performance of US sectors					Performance of Europe's sectors				
Sector	Bloomberg ticker	Last price	1 week change (%)	YTD (%)	Sector	Bloomberg ticker	Last price	1 week change (%)	YTD (%)
S&P500	SPX Index	3466,8	3,5	7,3	Stoxx 600	SXXP Index	370,1	2,0	-11,0
IT	S5INFT Index	2098,0	3,8	30,2	Health care	SXDP Index	900,6	1,0	-1,0
Health care	S5HLTH Index	1257,3	3,6	5,8	Industrial goods & services	SXNP Index	572,8	3,2	-4,8
Financials	S5FINL Index	419,6	3,9	-18,0	Banks	SX7P Index	87,5	5,4	-38,9
Telco	S5TELS Index	197,9	1,9	9,0	Personal & households goods	SXQP Index	879,7	0,5	-2,4
Consumer discretionary	S5COND Index	1252,7	3,3	27,0	Insurance	SXIP Index	242,3	2,4	-24,9
Industrials	S5INDU Index	682,5	4,1	-0,7	Food and beverages	SX3P Index	683,6	1,0	-11,6
Consumer staples	S5CONS Index	673,8	2,3	4,1	Technology	SX8P Index	588,5	2,5	11,0
Utilities	S5UTIL Index	321,5	4,2	-2,1	Utilities	SX6P Index	358,8	1,0	0,8
Energy	S5ENRS Index	236,6	6,3	-48,2	Oil & gas	SXEP Index	193,1	5,0	-39,4
Real estate	S5RLST Index	228,7	1,3	-4,8	Chemicals	SX4P Index	1067,4	1,4	3,7
Materials	S5MATR Index	418,4	5,2	8,4	Construction & materials	SXOP Index	476,1	3,4	-7,1
					Telco	SXKP Index	199,1	2,9	-18,8
					Retail	SXRP Index	372,1	2,0	2,8
					Financial services	SXFP Index	543,0	0,8	-6,9
					Basic resources	SXPP Index	417,1	2,8	-9,7
					Real estate	SX86P Index	156,9	1,1	-18,7
					Auto & parts	SXAP Index	440,0	3,0	-13,5
					Media	SXMP Index	249,8	1,6	-18,5
					Travel & leisure	SXTP Index	188,8	8,2	-28,8

Source: Bloomberg

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Performance of the regional stock indices

Name		Performance					Valuation***			Fundamentals				
Country	Index	Last Price	1M change (%)	3M change (%)	6M change (%)	12M change (%)	P/E*	P/B	P/S	ROE (%)	Current Ratio	Debt to equity (%)	Change in EPS growth in the last 4 week (%)	Change in EPS growth in the last 3 month (%)
USA	SPX Index	3467	2,0	10,0	24,3	18,8	27,0	3,9	2,6	11,5	1,4	126,1	2,6	6,7
Europe	SXXP Index	370	0,1	1,8	11,5	-2,7	39,6	1,8	1,3	4,8	1,1	189,8	0,1	-4,0
Germany	DAX Index	13051	-1,4	4,5	23,5	7,9	40,1	1,6	1,0	5,4	1,1	134,4	30,5	1,2
France	CAC Index	4946	-1,9	0,5	9,7	-10,1	44,0	1,5	1,1	3,5	1,1	200,0	2,1	-10,0
Poland	WIG20 Index	1693	-4,6	-5,5	4,8	-20,7	20,7	0,9	0,7	3,8	1,2	62,3	-4,7	-14,8
Czechia	PX Index	875	-2,9	-7,5	4,1	-12,2	11,7	1,0	1,2	9,0	1,1	161,7	0,8	-0,8
Hungary	BUX Index	33521	-4,6	-6,3	-0,7	-15,2	14,5	0,9	0,7	2,6	1,1	102,0	-171,3	-4,1
Romania	BET Index	8872	-2,3	3,8	9,1	-6,8	9,3	0,9	1,2	10,1		38,6		15,8
Bulgaria	SOFIX Index	423	-2,8	-5,0	-5,0	-24,4	3,7	0,5	0,6	13,1	3,2	57,4		
Russia	IMOEX Index	2839	-1,3	2,0	5,1	4,7	9,3	0,9	1,0	9,2	1,4	65,3	1,9	-0,3
Ukraine	PFTS Index	500	0,0	0,2	-0,5	-4,9	4,3	0,8	0,3	42,2	0,5	17,9		
Slovenia	SBITOP Index	837	-1,4	-2,6	4,5	-3,2	7,8	0,8	0,4	9,9	1,6	29,8		
Croatia	CRO Index	1613	0,5	-0,1	1,8	-16,4	23,1	0,9	1,1	4,6	1,2	59,9		
Serbia	BELEX15 Index	690	0,0	4,9	0,5	-7,8	12,2	0,6	0,7	5,1	2,0	17,6		
Montenegro	MNSE10 Index	655	-0,6	-8,0	-1,1	-18,8	12,4	0,3	0,8	2,2	2,1	14,5		

*Price to earnings (P/E) ratio is calculation with the 12M trailing EPS in the denominator.

***Bear in mind that some of the country index could be very sector heavy (only a handful industry consists of the majority of the index),

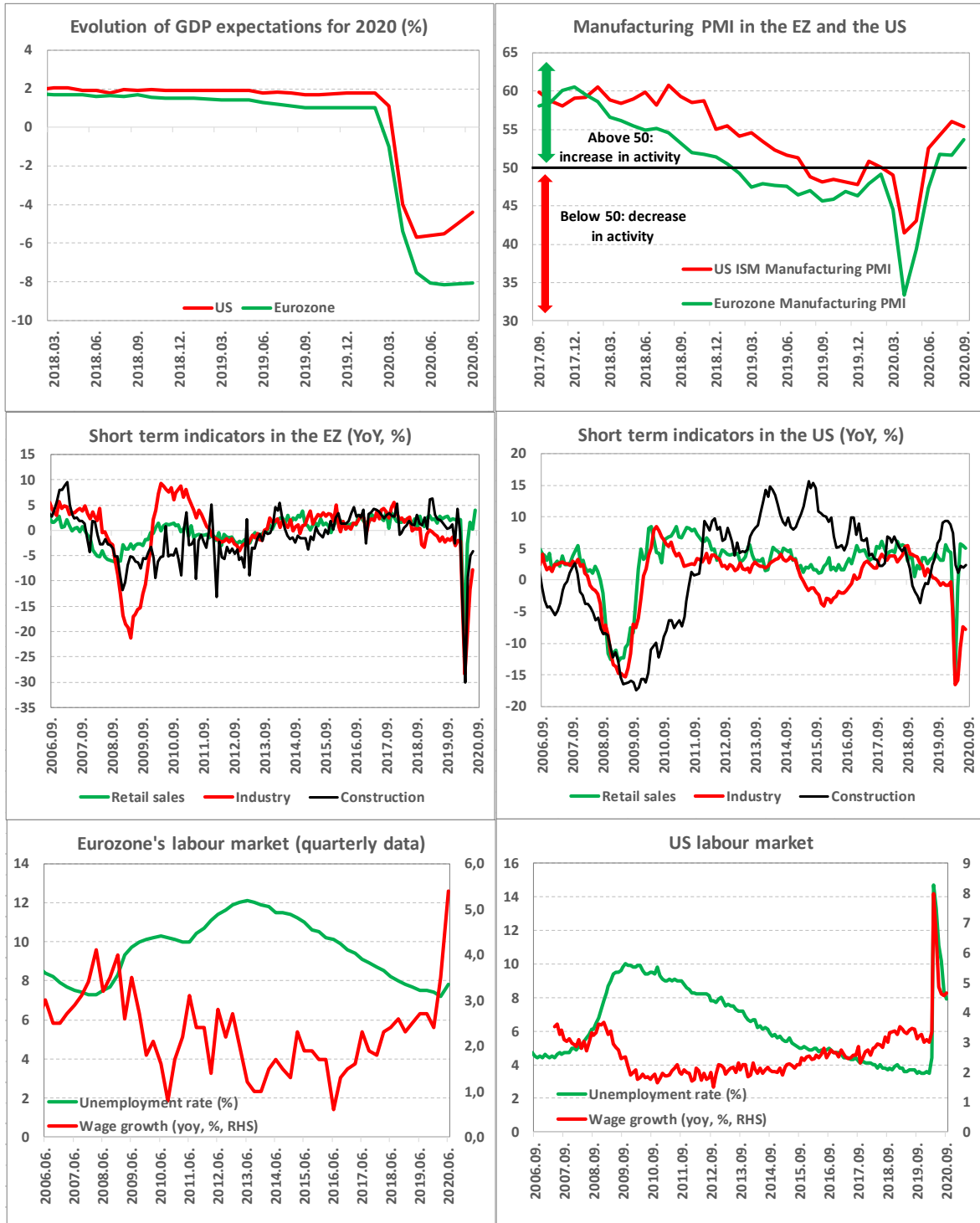
***therefore direct comparison of only valuation metrics could be misleading.

Last week's data

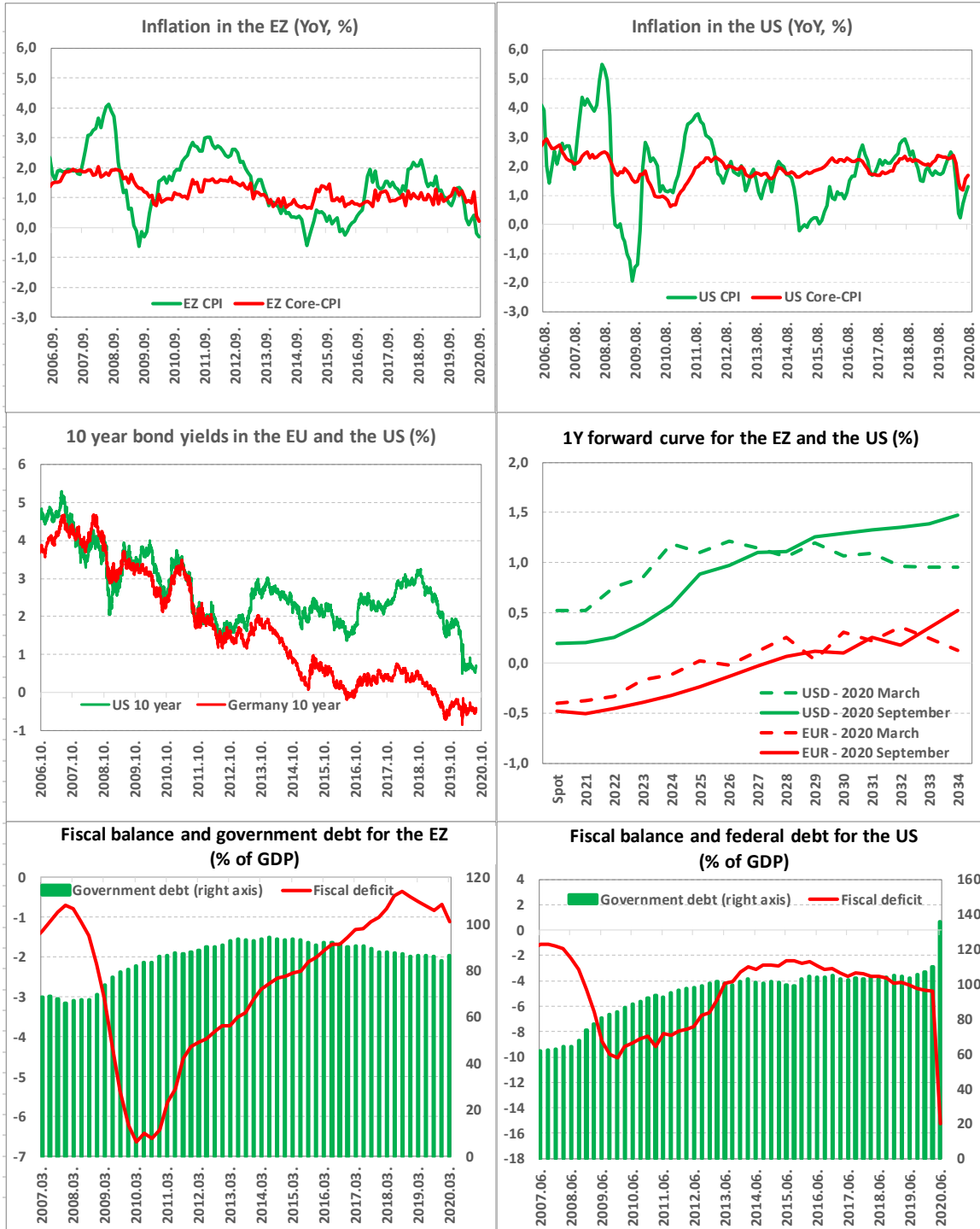
Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2020 10. 5.	9 : 45 IT	Markit/IHS Services PMI (prelim.)	Sept	48,8	46,6	47,1
	10 : 30 EZ	Sentix Investor confidence (points)	Oct	-8,3	-9,5	-8,0
	11 : 00 EZ	Retail sales (MoM, %)	Aug	4,4	2,4	-1,3
	16 : 00 US	ISM non-Manufacturing PMI (points)	Sept	57,8	56,3	56,9
6.	8 : 00 DE	Industrial orders (MoM, %)	Aug	4,5	2,6	2,8
	16 : 30 US	Jerome Powell speech	-	-	-	-
7.	8 : 00 DE	Industrial production (MoM, %)	Aug	-0,2	1,5	1,2
	10 : 00 IT	Retail sales (MoM, SA, %)	Aug	8,2	-	-2,2
	13 : 00 PL	Interest rate decision (%)	Oct	0,1	0,1	0,1
	20 : 00 US	FOMC Minutes	Sept	-	-	-
8.	8 : 00 DE	Export (MoM, SA, %)	Aug	2,4	1,4	4,7
	13 : 30 EZ	ECB Minutes	Sept	-	-	-
	14 : 30 US	Initial jobless claims ('000s)	weekly	840,0	820,0	849,0
	14 : 30 US	Continuing jobless claims ('000s)	weekly	10976,0	11400,0	11767,0
9.	3 : 45 CN	Caixin Services PMI	Sept	54,8	54,3	54,0
	8 : 45 FR	Industrial production (MoM, %)	Aug	1,3	1,7	3,8
	10 : 00 IT	Industrial production (MoM, SA, %)	Aug	7,7	1,3	7,4

**'Fact' refers to the accepted volume, 'Prev.' refers to the deals due on the current week

Eurozone and US chart set



Eurozone and US chart set



FX forecast for the majors

FX pair	2020.Q2	2020.Q3	2020.Q4	2021.Q1	2021.Q2	2021.Q3	2021.Q4	2022Q1	2022Q2	2022Q3	2022Q4
EURUSD	1,09	1,18	1,19	1,20	1,21	1,22	1,23	1,21	1,22	1,23	1,23
EURGBP	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9
EURCHF	1,06	1,08	1,08	1,09	1,09	1,11	1,12	1,09	1,10	1,11	1,11
USDJPY	107,0	106,0	105,0	105,0	106,0	105,5	105,0	106,0	105,0	102,8	100,5

Source: Bloomberg

Regional macro forecast

Countries	GDP (yoy, %)					Countries	Fiscal balance (% of GDP)				
	2019	OTP		Focus Economics			2019	OTP		Focus Economics	
		2020	2021	2020	2021			2020	2021	2020	2021
Hungary	4,9	-6,3	5,8	-5,8	4,8	Hungary	-2,0	-8,0	-5,5	-6,7	-4,1
Romania	4,1	-4,4	4,6	-5,3	4,4	Romania	-4,3	-9,5	-6,5	-9,4	-6,4
Bulgaria	3,4	-4,7	4,3	-5,0	4,2	Bulgaria	2,1	-4,4	-1,2	-3,5	-1,8
Russia	1,3	-3,3	3,6	-4,6	3,3	Russia	1,8	-4,4	-2,5	-4,6	-2,0
Ukraine	3,2	-5,7	4,7	-5,3	4,2	Ukraine	-2,2	-7,5	-6,0	-7,2	-4,4
Slovenia	2,4	-7,1	5,9	-7,9	5,2	Slovenia	0,5	-8,0	-3,6	-7,8	-3,6
Croatia	2,9	-8,4	5,4	-9,2	5,1	Croatia	0,4	-9,0	-6,0	-8,0	-3,7
Serbia	4,2	-1,9	5,3	-2,2	4,9	Serbia	-0,2	-8,0	-2,5	-7,9	-2,7
Montenegro	3,6	-12,7	7,8	-8,7	5,2	Montenegro	-2,9	-11,0	-4,2	-8,8	-3,0
Albania	2,2	-5,9	5,5	-5,8	6,2	Albania	-1,9	-7,7	-3,8	-6,9	-4,0
Moldova	3,6	-6,3	5,9	-5,1	4,1	Moldova	-1,4	-7,5	-5,0	-6,8	-3,9

Countries	Inflation (average (yoy), %)					Countries	Unemployment (%)				
	2019	OTP		Focus Economics			2019	OTP		Focus Economics	
		2020	2021	2020	2021			2020	2021	2020	2021
Hungary	3,4	3,4	3,1	3,3	3,1	Hungary	3,4	4,7	4,0	5,3	5,1
Romania	3,8	2,9	3,0	2,7	2,7	Romania	3,9	5,8	6,0	6,0	5,9
Bulgaria	3,1	1,2	1,5	2,0	2,3	Bulgaria	4,2	6,0	5,0	7,2	6,7
Russia	4,5	3,3	4,0	3,3	3,6	Russia	4,6	6,0	5,0	6,2	5,3
Ukraine	7,9	2,5	6,4	3,0	5,8	Ukraine	8,2	9,9	9,2	10,2	9,2
Slovenia	1,7	0,0	1,3	0,3	1,4	Slovenia	4,5	4,6	4,5	6,4	6,0
Croatia	0,8	0,2	1,2	0,1	1,0	Croatia	7,9	9,0	8,5	11,1	9,4
Serbia	1,9	1,6	1,8	1,6	2,0	Serbia	10,4	12,0	9,7	11,5	11,1
Montenegro	0,4	0,2	1,0	0,4	1,1	Montenegro	15,1	19,7	17,4	17,3	16,7
Albania	1,4	1,4	1,5	1,8	2,2	Albania	11,6	13,1	13,1	14,7	13,6
Moldova	4,8	2,8	2,3	4,7	4,5	Moldova	5,1	8,9	3,3	8,4	8,2

Source: Focus Economics, OTP Research Center

FX forecast for the OTP countries

Country	FX pair	2019.Q4	2020.Q1	2020.Q2	2020.Q3	2020.Q4	2021.Q1	2021.Q2	2021.Q3	2021.Q4
Hungary	EURHUF (eop)	331,0	361,0	354,0	364,0	352,0	352,0	352,0	352,0	352,0
Romania	EURRON (eop)	4,78	4,83	4,84	4,87	4,86	4,87	4,88	4,93	4,94
Russia	USDRUB (eop)	61,9	77,7	70,0	79,7	72,9	71,6	71,4	70,5	70,3
Ukraine	USDUAH (eop)	23,70	27,62	26,70	28,30	28,31	28,18	28,09	28,50	28,72
Croatia	EURHRK (eop)	7,4	7,6	7,6	7,6	7,6	7,5	7,5	7,5	7,5
Serbia	EURRSD (eop)	118,0	117,0	118,0	118,0	118,0	118,0	118,0	118,0	118,0
Montenegro	EURUSD (eop)	1,12	1,10	1,12	1,18	1,19	1,20	1,21	1,21	1,21

*Slovenia and Montenegro uses EUR as a base currency.

**No forecast available for Moldova and Albania

Source: Focus Economics

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