

Brexit news, rate decisions and business cycle indicators can be in the spotlight

As regards prescheduled events, the week will be intensive in rate setting meetings of several central banks, and various real economy data will also arrive. However, one important additional market mover could be news about the Brexit negotiations, as the end of the interim period expires in a few weeks. A hard Brexit could significantly affect the economic outlook of the UK and the to a smaller, but measurable extent the recovery of the EU.

Monday begins with *eurozone industrial production* for October. September's data, at -0.4% MoM, missed expectations largely due to the reversal of temporary effects in Italy (different timing of summer shutdown), rather than a result of the second wave of COVID-19. Although clear growth was observable in Germany and France, the rates were much weaker than a few months before. Still, the surprisingly solid October data for Germany (3.2% vs. a consensus of 1.6%) and France (1.6% vs. a consensus of 0.4%), suggest that the euro area's data could also surprise on the upside. The current market expectations is 1.8%.

Chinese and US data will be in the spotlight on **Tuesday**. We will have the November bunch of key *Chinese monthly* hard data, namely *industrial production, retail sales and infrastructural spending*. In October, all these indicators surprised on the upside, confirming the solid and uninterrupted recovery of the country after the Q1 slump due to the pandemic. In the USA, the December *New York Fed manufacturing sentiment index* and *industrial production* data for November will be released. The New York Fed index has been in the positive territory since July, but the optimism has started to fade gradually in October and November, reflecting the resurgence in the virus. The market expects a slight improvement for December, to 7.4 points from 6.3, on account of increasing vaccine optimism. US industrial production grew by 1.1% in October, but the pace of growth has been limited since September. With the renewed wave of the pandemic, the market expects further slowdown, to around 0.5% for November.

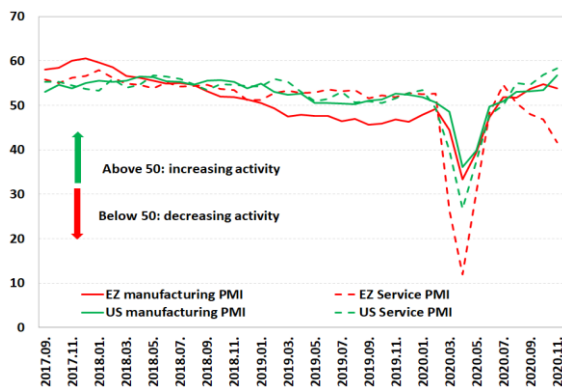
Wednesday seems to be the most interesting day of the week, mostly due to the *Fed interest rate-setting meeting*, but a bunch of December *PMIs* and *US retail sales* data will be out as well. Regarding PMIs, the picture is a mixed bag. In Europe, service sector PMIs fell below 50 already in October, and even fell further in November, while manufacturing indicators held up relatively well, above 50 up to now. At the same time, in the USA, both sectors kept improving, even in November, exceeding expectations. The consensus expects a slight deterioration in December for both the euro area and the US. November retail sales data could indicate a -0.1% MoM decline based on the consensus, after a minor 0.3% uptick in October. As for the Fed meeting, no major surprise is expected: rates are expected to remain on hold, no increased asset purchases are foreseen, but probably the Bank will refine its communication with the latter, linking it to some outcome variable, like unemployment level. This would bode well for the move toward the average inflation targeting announced in August.

Thursday will bring *UK rate setting meeting, US housing data for November*, as well as *weekly labour market data* from the first week of December. The Bank of England supposedly will have a difficult time. The UK economy was still at -8.2% YoY in October, and November inflation, at 0.7%, was still well below the 2% target. Furthermore, the Bank has to take into account the uncertain Brexit outlook, which is more and more likely to be a hard one. On the upside, mass vaccination has started already this week, which could suggest that the UK could be the first country to ease lockdowns permanently, which helps the 2021 growth outlook. At the November meeting, the BoE held the base rate on hold at 0.1%, while increasing asset purchases by GBP 150 bn. Both US housing indicators and building permits fared reasonably well in October, near 1,5 mn, at pre-pandemic levels. The consensus forecasts this tendency to prevail. Surprisingly, initial jobless claims increased in the past week of the previous month, after falling for two consecutive weeks in November, and the question is whether the former tendency could

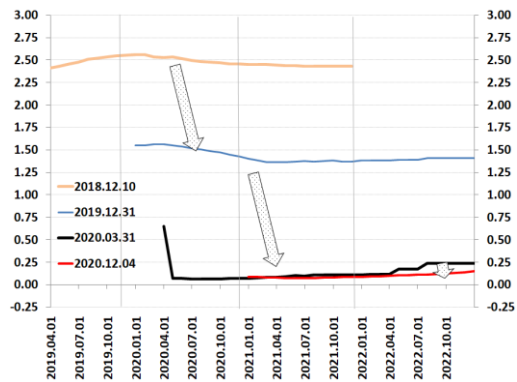
prevail, given the slowdown in the economy. Our bet would be a continuing increase. At the same time, continuing claims have increased as well, breaking a 10-week declining tendency.

On **Friday**, the Bank of Japan will hold its rate-setting meeting, and November inflation data will be released for the country. In Europe, the December *IFO index*, and in the USA, the *leading index* will be published. The *Bank of Japan* is not in an easy situation either, as after hard work, finally it has managed to step out of the deflation trap from 2017, but the pandemic brought a renewed deflation. Furthermore, the economy has been in recession already at end-2019. The bank is keeping the yield curve at zero up to 10 years, and pursues asset purchases. At its November meeting, the policy has not changed. In Europe, the December gauge of the IFO index could also surprise on the upside, after the better-than-expected ZEW and Sentix data. In the USA, the Conference Board's leading index probably remained in the positive territory (at 0.5 points), but the business cycle likely weakened in December, from 0.7 points.

PMI-s (points)



Fed funds rate expectations (%)



Source: Bloomberg, Refinitiv

What to watch next week

Data			Cd.	Event/Data	Period	Cons.	Prev.	
2020	14.	11 : 00	EZ	Industrial production (MoM, %)	Oct	2.0	-0.4	
		15.	3 : 00	CN	Industrial production (YoY, %)	Nov		1.8
			3 : 00	CN	Retail sales (YoY, %)	Nov		-6.8
			3 : 00	CN	Infrastructural spending (YoY, %)	Nov	2.6	1.8
			8 : 00	UK	Unemployment rate (%)	Oct	5.1	4.8
			14 : 30	US	New York Fed Manufacturing index (points)	Dec	6.0	6.3
			15 : 15	US	Industrial production (MoM, %)	Nov	0.3	1.1
		16.	8 : 00	UK	Inflation (YoY, %)	Nov	0.7	0.7
			9 : 15	FR	Markit Manufacturing PMI (points)	Dec	49.6	49.6
			9 : 15	FR	Markit Service PMI (points)	Dec	39.3	38.8
			9 : 30	DE	Markit Manufacturing PMI (points)	Dec	56.5	57.8
			9 : 30	DE	Markit Service PMI (points)	Dec	44.0	46.0
			10 : 00	EZ	Markit Manufacturing PMI (points)	Dec	53.0	53.8
			10 : 00	EZ	Markit Service PMI (points)	Dec	40.9	41.7
			10 : 30	UK	Manufacturing PMI (points)	Dec	55.8	55.6
			10 : 30	UK	Service PMI (points)	Dec	50.5	47.6
			14 : 30	US	Retail sales (MoM, %)	Nov	-0.4	0.3
			15 : 45	US	Markit Manufacturing PMI (points)	Dec	55.8	56.7
			15 : 45	US	Markit Service PMI (points)	Dec	56.5	58.4
			16 : 00	US	Business inventories (MoM, %)	Oct	0.4	0.7
		20 : 00	US	Interest rate decision (%)	Dec	0-0.25	0-0.25	
		0 : 0	EZ	Eurogroup meeting		-	-	
	17.	13 : 00	UK	Interest rate decision (%)	Dec		0.1	
			14 : 30	US	Building permits (annualized monthly, '000s)	Nov	1550.0	1544.0
			14 : 30	US	Housing starts (annualized monthly, '000s)	Nov	1518.0	1530.0
			14 : 30	US	Initial jobless claims ('000s)	weekly		853.0
			14 : 30	US	Continuing jobless claims ('000s)	weekly		5757.0
	18.	0 : 30	JP	core-CPI (YoY, %)	Nov	-0.9	-0.7	
			0 : 30	JP	CPI (YoY, %)	Nov		-0.4
			3 : 30	JP	Interest rate decision (%)	Dec	-0.1	-0.1
			8 : 00	UK	Retail sales (MoM, %)	Nov	-3.0	1.2
			10 : 00	DE	IFO Economic sentiment index (points)	Dec	90.5	90.7
		16 : 00	US	Leading index (MoM, %)	Nov	0.5	0.7	

Slight decline of major markets as positive vaccine news has been counteracted by the lack of progress in US fiscal stimulus and Brexit. The new EU budget has finally been adopted and the ECB announced further stimulus.

Pandemic situation: new cases and deaths break records in the USA, case numbers decline in Western Europe, but no major improvement in the CEE region

The USA is still suffering from the second wave of the coronavirus, reports on record high daily new cases and deaths arrived this week. In Western Europe, Austria, Belgium, France, Italy and Spain continue to report decreasing daily new cases, but their infection statistics still should be considered high. Relative to the previously mentioned countries, Germany managed to maintain a moderate daily infection count, but without a rapid decrease. The UK started mass vaccination, using Pfizer's product. Countries in the CEE region are still heavily impacted by the new covid wave. Bulgaria, Croatia, Moldova and Serbia implemented a new set of restrictions to overcome the increasing daily infection numbers. An alarming leap of new infections was reported from Turkey.

Major stock indices slightly weakened as positive and negative news moved them into opposing directions

There was no clear direction of stock exchanges during the week, but given the weak performance on Friday, European stock indices finished with 1-2% fall, while US markets stood at similar decline on Friday afternoon. Most subcomponents fell in Europe, the biggest fall was seen with banks (-5.9%), followed by retail, travel and leisure and insurance and auto parts. In the USA, real estate fell by 3.7%, followed by financials and IT. Europe's banks lost ground on account of the ECB's gloomier macro outlook, and despite the fact that further stimulus was announced. Good news – the adoption of the new EU budget and the starting of mass vaccination in several countries – could not obviously counteract the caution due to the still lagging US stimulus package and no progress in Brexit talks.

Euro area and Chinese data surprised on the upside, but the US labour market has started to deteriorate. The new EU budget has been adopted, but no progress in Brexit. The ECB adopted additional stimulus

The week started with surprisingly solid *Chinese* data, where exports grew by 21.1% YoY in November, as opposed to a consensus forecast of 12%. What was even more of a surprise that *euro area business cycle* held up reasonably well amidst widespread lockdowns. Germany's October industrial production, at 3.2% MoM, beat the consensus, as well as French data at 1.6%. Moreover, the Eurozone Sentix confidence index for December suggested an improvement (from -10 to -2.7 points), just like Germany's Zew (from 39 to 55 points). At the same time, while there was no surprise with *US CPI data*, where both November headline CPI and core inflation remained roughly at previous month's level (1.2% and 1.6% respectively), *US weekly jobless claim data* brought a significant negative surprise. Initial jobless claims jumped to 835,000 from 716,000 in the first week of December. It was the highest number since mid-September. Furthermore, the number of people filing for continuing jobless claims rose to 5.76 million in the week ending 28 November, up from 5.53 million in the previous week, well exceeding market expectations of 5.34 million. This was the first increase after ten weeks of steady decline. All these suggest that the US is not immune to the new wave of the pandemic and lockdowns. Contrary to this, The December reading of the University of Michigan consumer sentiment index improved, probably related to a partisan shift in attitudes following the election

On a positive note, as member states nodded on the German presidency's compromise proposal (which watered down the draft in several points) and given that Poland and Hungary abandoned veto plans, the EU's 2021-2027 multiannual financing facility and the NextGenEU relief fund were approved. The

originally accepted rule of law mechanism begins, and it will be challenged at the European Court of Justice and will not apply until the lawsuit ends (in mid-2022 at the earliest). However, the mechanism does not apply to funds disbursed in 2014-2020, and the interpretive statement accompanying the regulation lays down that only breaches that affect the EU's financial interests will be pursued.

At Thursday's meeting, the *ECB* left interest rates unchanged, signalling that interest rates are unlikely to increase before inflation approaches its 2% target (this is likely to be the case for next year as a whole). That said, the central bank has extended its pandemic asset purchase program (PEPP) for nine months, in which it will be able to buy additional EUR 500 billion worth of government securities, bringing the total to EUR 1,850 billion. It also extended the TLTRO III program by one year, which provides refinancing to banks with government securities collateral.

The EUR/USD flat; oil gained further momentum

The EUR/USD closed almost flat, while the GBP lost ground against the USD on account of no progress with Brexit talks. Oil prices still increased by around 1-1.5%, as investors in the oil market are already focusing on favourable vaccine news and are overlooking the current unfavourable economic situation, analysts say. Thanks to mass immunization, demand for crude oil may soon rebound. Food prices increased as well, while precious metal fell.

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	3652.5	-1.3	13.1	Stoxx 600	SXXP Index	391.2	-0.7	-5.9
IT	S5INFT Index	2169.1	-2.0	34.6	Health care	SXDP Index	879.1	0.6	-3.3
Health care	S5HLTH Index	1295.7	-1.0	9.0	Industrial goods & services	SXNP Index	612.2	-0.1	1.8
Financials	S5FINL Index	469.9	-2.1	-8.1	Banks	SX7P Index	108.4	-5.9	-24.4
Telco	S5TELS Index	220.0	-0.5	21.1	Personal & households goods	SXQP Index	911.2	0.9	1.1
Consumer discretionary	S5COND Index	1255.7	-1.5	27.3	Insurance	SXIP Index	268.7	-2.6	-16.8
Industrials	S5INDU Index	745.3	-0.9	8.4	Food and beverages	SX3P Index	706.3	0.8	-8.7
Consumer staples	S5CONS Index	689.0	-0.6	6.5	Technology	SX8P Index	573.2	-1.7	8.1
Utilities	S5UTIL Index	313.6	-0.6	-4.5	Utilities	SX6P Index	368.8	-0.2	3.6
Energy	S5ENRS Index	305.5	0.8	-33.1	Oil & gas	SXEP Index	239.9	-0.1	-24.7
Real estate	S5RLST Index	222.3	-3.7	-7.5	Chemicals	SX4P Index	1087.5	1.3	5.6
Materials	S5MATR Index	443.6	-1.4	15.0	Construction & materials	SXOP Index	491.1	-1.5	-4.2
					Telco	SXKP Index	209.6	-2.0	-14.5
					Retail	SXRP Index	376.4	-3.8	4.0
					Financial services	SXFP Index	580.5	-2.1	-0.5
					Basic resources	SXPP Index	490.5	0.1	6.3
					Real estate	SX86P Index	165.1	-0.4	-14.5
					Auto & parts	SXAP Index	501.9	-3.0	-1.3
					Media	SXMP Index	275.3	-0.3	-10.2
					Travel & leisure	SXTP Index	216.3	-2.7	-18.5

Source: Bloomberg

Source: Bloomberg

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	3653	2.2	9.3	21.7	16.3	28.6	4.0	2.7	11.2	1.4	122.3	2.2	7.4
Europe	SXXP Index	391	0.7	6.3	10.8	-3.7	46.9	1.9	1.4	4.6	1.1	192.7	-0.2	3.1
Germany	DAX Index	13141	-0.6	-0.5	9.8	0.0	65.4	1.7	1.0	3.2	1.2	134.8	2.0	10.4
France	CAC Index	5522	1.4	9.7	14.7	-5.8	57.0	1.7	1.3	3.2	1.1	245.8	-1.2	2.0
Poland	WIG20 Index	1948	9.5	9.9	5.8	-4.8	30.2	1.1	0.8	3.0	1.1	56.1	-4.6	-21.9
Czechia	PX Index	969	6.7	7.9	6.7	-10.3	14.6	1.1	1.4	7.8	1.2	165.0	-0.9	0.4
Hungary	BUX Index	41137	8.1	18.1	12.3	-7.8	18.0	1.0	0.9	5.2	1.2	61.1	-42.5	13.2
Romania	BET Index	9521	5.2	2.4	11.7	-2.9	10.8	1.0	1.3	9.3		37.4	98.7	
Bulgaria	SOFIX Index	438	2.3	1.5	-3.1	-19.2	3.8	0.5	0.6	13.1	3.0	58.7		
Russia	IMOEX Index	3277	8.7	12.6	19.4	10.9	15.5	1.0	1.2	6.6	1.4	70.4	-4.0	2.5
Ukraine	PFTS Index	508	1.5	1.5	1.6	-0.6	4.2	0.8	0.3	37.2	0.6	15.6		
Slovenia	SBITOP Index	896	5.2	5.7	2.9	-1.7	8.1	0.8	0.5	9.9	1.6	29.0	2.4	
Croatia	CRO Index	1744	6.6	8.3	5.1	-12.3	86.8	1.0	1.0	1.1	1.4	53.4		
Serbia	BELEX15 Index	716	0.9	3.7	5.3	-8.1	15.6	0.6	0.7	4.3	1.8	20.3		
Montenegro	MNSE10 Index	631	-2.2	-3.0	-12.2	-21.6	13.7	0.3	0.9	1.9	2.2	14.8		

*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.

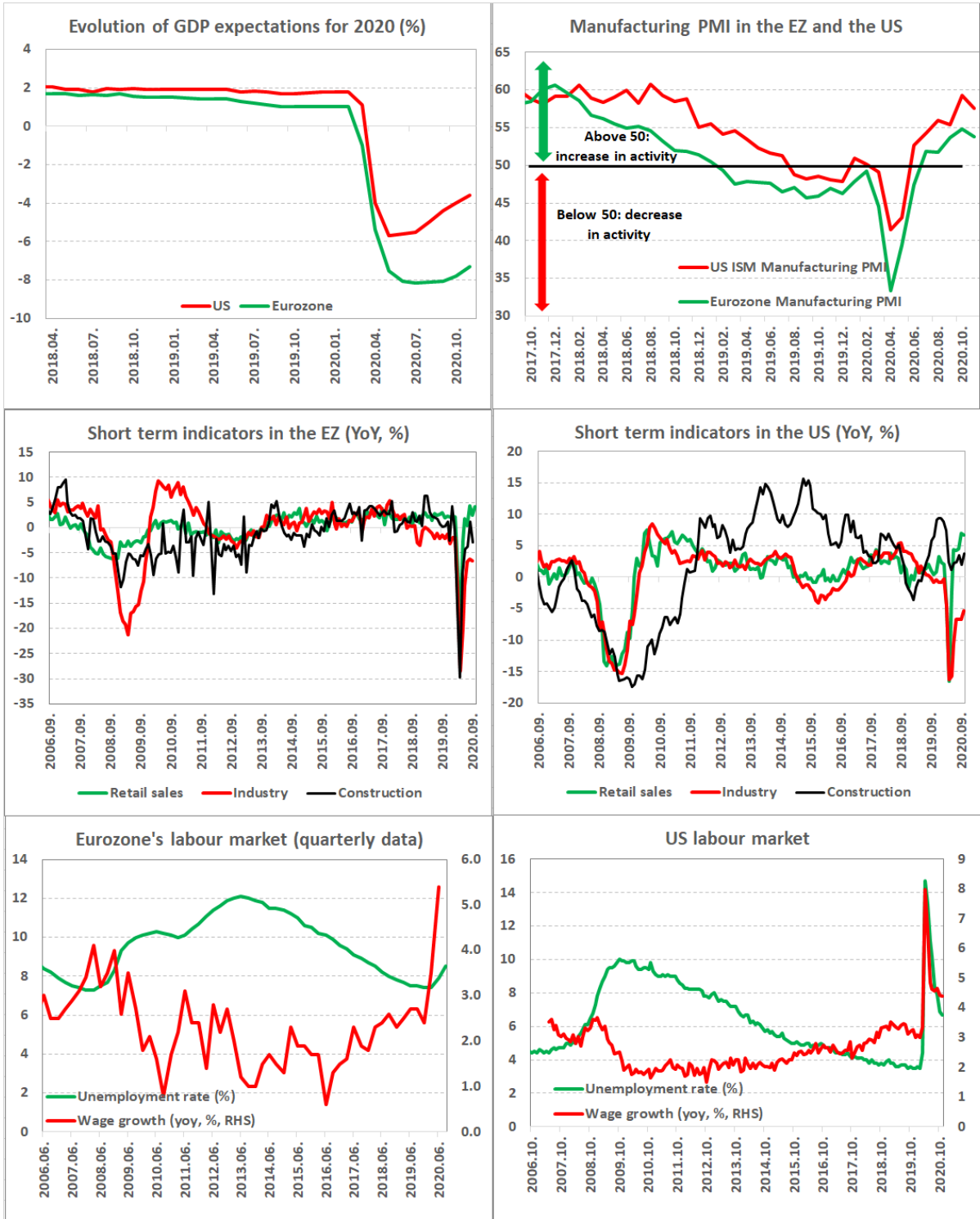
Last week's data

Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2020 12. 7. 4 : 00	CN	Export (YoY, %)	Nov	21.1	12.0	11.4
8 : 00	DE	Industrial production (MoM, %)	Oct	3.2	1.6	1.6
10 : 30	EZ	Sentix Investor confidence (points)	Dec	-2.7	-8.3	-10.0
11 : 00	DE	ZEW Economic Sentiment (points)	Dec	55.0	45.5	39.0
9. 8 : 00	DE	Export (MoM, SA, %)	Oct	0.8	1.2	2.3
16 : 00	CA	Interest rate decision (%)	Dec	0.3	0.3	0.3
10. 8 : 45	FR	Industrial production (MoM, %)	Oct	1.6	0.4	1.4
13 : 45	EZ	Interest rate decision (lending rate, %)	Dec	0.0	0.0	0.0
13 : 45	EZ	Interest rate decision (deposit rate, %)	Dec	-0.5	-0.5	-0.5
14 : 30	US	core-CPI (MoM, SA, %)	Nov	0.2	0.1	0.0
14 : 30	US	core-CPI (YoY, %)	Nov	1.6	1.6	1.6
14 : 30	US	CPI (MoM, SA, %)	Nov	0.2	0.1	0.0
14 : 30	US	CPI (YoY, %)	Nov	1.2	1.1	1.2
14 : 30	US	Initial jobless claims ('000s)	weekly	853.0	725.0	716.0
14 : 30	US	Continuing jobless claims ('000s)	weekly	5757.0	5335.0	5520.0
20 : 00	US	Federal budget balance (USDbn)	Nov	-145.0	-200.0	-284.0
0 : 0	EU	EU summit	-	-	-	-
11 10 : 00	IT	Industrial production (MoM, SA, %)	Oct	1.3	1.0	-5.6
16 : 00	US	Michigan Consumer confidence (preliminary, points)	Dec	81.4	76.5	76.9

* preliminary data

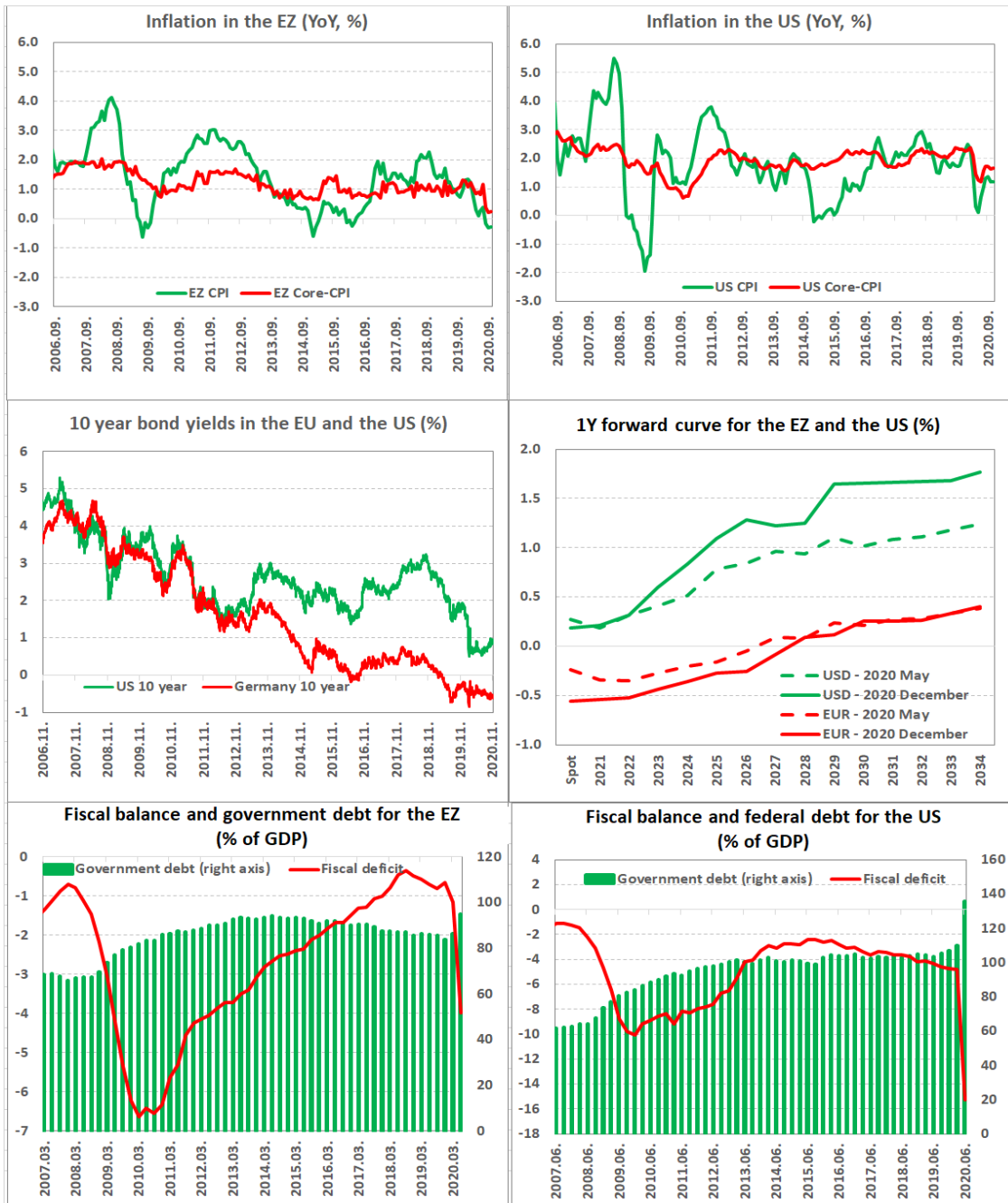
***'Fact' refers to the accepted volume, 'Prev.' refers to the deals due on the current week

Eurozone and US chart set



Source: Refinitiv

Eurozone and US chart set



Source: Refinitiv

FX forecast for the majors

FX pair	2020.Q2	2020.Q3	2020.Q4	2021.Q1	2021.Q2	2021.Q3	2021.Q4	2022.Q4	2023.Q4	2024.Q4
EURUSD	1.09	1.18	1.19	1.20	1.22	1.23	1.23	1.25	1.23	1.25
EURGBP	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	1.10	1.11	1.13	1.12	1.13
USDJPY	107.0	106.0	104.0	104.0	104.0	103.5	103.0	106.0	105.5	100.0

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	4.6	-6.3	4.1	-5.9	4.5	Hungary	-2.1	-9.0	-6.5	-7.5	-4.5
Romania	4.1	-5.8	2.4	-5.3	4.2	Romania	-4.4	-9.5	-6.5	-9.5	-6.7
Bulgaria	3.7	-4.9	2.0	-4.8	3.8	Bulgaria	1.9	-5.0	-3.5	-4.0	-2.6
Russia	1.3	-4.2	1.7	-3.9	3.1	Russia	1.8	-4.5	-2.6	-4.6	-2.2
Ukraine	3.2	-5.2	3.2	-5.2	3.9	Ukraine	-2.2	-7.5	-6.0	-6.8	-4.7
Slovenia	3.2	-7.1	4.1	-7.6	4.9	Slovenia	0.5	-8.0	-3.6	-8.4	-3.8
Croatia	2.9	-9.5	1.8	-8.7	4.8	Croatia	0.4	-9.0	-6.0	-8.1	-4.1
Serbia	4.2	-1.9	3.4	-2.1	4.8	Serbia	-0.2	-8.8	-3.0	-8.2	-3.1
Montenegro	3.6	-13.2	3.9	-11.8	6.1	Montenegro	-2.9	-11.0	-4.2	-9.7	-4.4
Albania	2.2	-7.0	4.6	-6.4	5.8	Albania	-1.9	-8.3	-5.8	-8.1	-4.8
Moldova	3.6	-6.8	4.6	-6.0	4.3	Moldova	-1.4	-7.5	-5.0	-7.2	-4.0

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	3.4	3.1	Hungary	3.4	4.7	4.0	4.5	4.7
Romania	3.8	2.7	2.7	2.7	2.7	Romania	3.9	5.2	5.5	5.5	5.8
Bulgaria	3.1	1.2	1.5	1.8	2.1	Bulgaria	4.2	6.0	7.2	6.3	6.4
Russia	4.5	3.4	4.7	3.3	3.6	Russia	4.6	6.0	5.0	6.1	5.5
Ukraine	7.9	2.5	6.4	2.7	5.8	Ukraine	8.2	9.9	9.2	9.9	9.1
Slovenia	1.7	0.0	1.3	0.1	1.4	Slovenia	4.5	4.6	4.5	6.0	6.0
Croatia	0.8	0.2	1.2	0.2	1.0	Croatia	7.9	9.0	8.5	9.2	9.0
Serbia	1.9	1.6	1.9	1.6	1.9	Serbia	10.4	10.0	9.7	10.7	10.6
Montenegro	0.4	0.2	1.0	0.1	1.1	Montenegro	15.1	19.7	17.4	17.6	16.0
Albania	1.4	1.4	1.4	1.7	2.0	Albania	11.6	18.4	17.4	13.6	12.9
Moldova	4.8	2.8	2.4	4.0	3.8	Moldova	5.1	5.9	4.4	8.3	6.6

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	358.0	358.0	358.0	358.0	358.0
Romania	EURRON (eop)	4.78	4.83	4.84	4.87	4.88	4.89	4.91	4.92	4.95
Russia	USDRUB (eop)	61.9	77.7	70.0	79.7	75.5	74.7	73.6	72.9	72.0
Ukraine	USDUAH (eop)	23.70	27.62	26.70	28.30	28.53	28.64	28.73	28.93	29.00
Croatia	EURHRK (eop)	7.4	7.6	7.6	7.6	7.5	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	1.17	1.18	1.19	1.20	1.20	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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