



## The Fed's FOMC meeting could be in the spotlight next week

*After this interesting week, when US inflation brought upside surprise again, and the ECB kept its fully dovish tone as broadly expected, the next one could equally be a market mover. However, a major difference is that instead of a series of important data, next week the Fed's meeting seems to be the only major market mover. Still, some May macro data could be interesting from the USA and Europe. Although pandemic figures are reassuring in most countries, concerns increase in Europe with rising figures in the UK, Portugal, and Russia, while in South America it is Chile that causes fears. So it is still better to be cautious with the outlook.*

Concerning the **euro area**, the only important data seems to be *industrial production*, to be released on Monday. After a recovery from the first wave of covid lockdowns, the euro area's industrial production has been broadly stagnating since last October. Despite sky-high industrial confidence, and the fact that the second and third-wave lockdowns were avoided in the industrial section, global supply shortages (semiconductor production and transport capacity problems) weighed on activity. This has not changed in May, so whatever the May data will be it seems to be a safe bet to say that it will not bring a substantial upward drift.

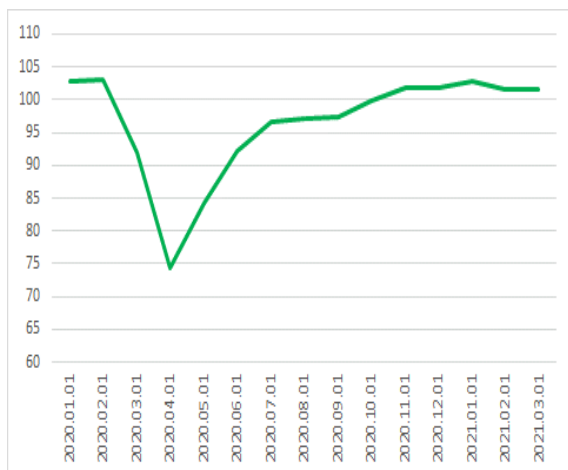
In the **USA**, all eyes will be on the *Federal Open Market Committee's meeting*, which will conclude on Thursday. Overall, we do not expect the Fed to announce any new policy move, but there are a few interesting points to make. First, in principle, the Fed is in a difficult situation (out of the so-called divine coincidence), when inflation and real economy (in their case, employment data) point to different directions. While the Committee will communicate primarily that its full employment goal is still far from here, roughly 7.5 million jobs are still missing compared to the pre-pandemic levels. At the same time, all indicators point to rising inflationary pressures, as implied by the May core inflation data published this week. The question is whether the FOMC will still refer to the rise in inflation as purely transitory. Still, a bunch of May real economy data (*leading index, retail sales, and industrial production*) will arrive from the USA, which will help to gauge whether the pace of recovery has weakened further, after a natural slowdown in April, as the stimulus checks expired.

In **China** the May releases of key economic data (*industrial production, retail sales and infrastructural investments*) will be published on Wednesday. All these indicators suggested a gradual slowdown in April, as the demand-driven recovery from last year has slowed. PMIs for May also suggest clear expansion, but the pace of growth seems to have slowed.

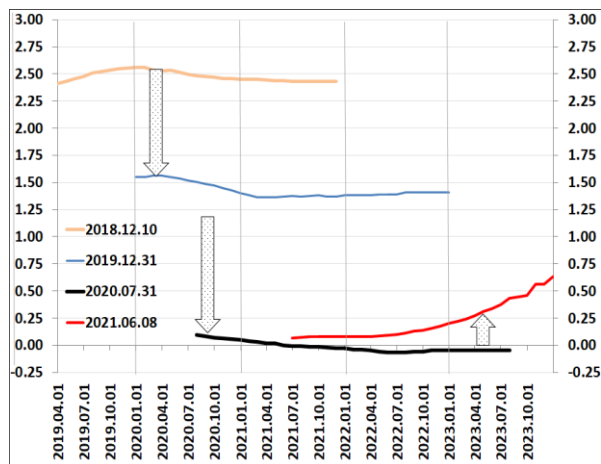
In the emerging world, watch **Turkey**, where the central bank's new governor, appointed in March by President Erdogan, could show his teeth at the next *rate-setting meeting*, after showing restraint already at two meetings in March and April by keeping interest rates at the previous level. His appointment was followed by a sharp (nearly 10%) lira weakening; later the USD/TRY stabilized around 8.2, but a new wave of more gradual weakening started in May, to reach a historic high value of 8.7. Meanwhile, inflation declined to 16.6% in May, from 17.1% in April, which might suggest that

prices' growth may have reached a peak. However, this level is still very far from the central bank's 5% target. So the inflation data, together with the solid recovery (uninterrupted since Q2 2020 up to Q1 2020) suggest that any rate cut would be premature. Still, this latter cannot be ruled out, especially given the fact that Governor Kavcıoğlu was appointed this year to bring more stimulative policies.

**Eurozone industrial production (2015=100)**



**Fed funds Rate expectations based on FRAs**



Source: Refinitiv and Bloomberg

**What to watch next week**

Data	Cd.	Event/Data	Period	Cons.	Prev.
14. 11 : 00	EZ	Industrial production (MoM, %)	Apr	0.3	0.1
15. 8 : 00	UK	Unemployment rate (%)	Apr	4.7	4.8
14 : 30	US	New York Fed Manufacturing index (points)		22.0	24.3
14 : 30	US	Retail sales (MoM, %)	May	-0.4	0.0
15 : 15	US	Industrial production (MoM, %)	May	0.7	0.7
16 : 00	US	Business inventories (MoM, %)	Apr	-0.1	0.3
		EU-US summit	-	-	-
16. 4 : 00	CN	Infrastructural spending (YoY, %)	May	16.8	19.9
4 : 00	CN	Industrial production (YoY, %)	May	8.9	9.8
4 : 00	CN	Retail sales (YoY, %)	May	14.0	17.7
8 : 00	UK	Inflation (YoY, %)	May	1.8	1.5
14 : 30	US	Building permits (annualized monthly, '000s)	May	1741.0	1733.0
14 : 30	US	Housing starts (annualized monthly, '000s)	May	1630.0	1569.0
20 : 00	US	Interest rate decision (%)	Jun	0-0,25	0-0,25
17. 13 : 00	TR	Interest rate decision (%)	Jun		19.0
14 : 30	US	Initial jobless claims ('000s)	weekly		376.0
14 : 30	US	Continuing jobless claims ('000s)	weekly		3499.0
16 : 00	US	Leading index (MoM, %)	May	1.3	1.6
0 : 0	EZ	Eurogroup meeting	-	-	-
18. 1 : 30	JP	core-CPI (YoY, %)	May	0.1	-0.1
1 : 30	JP	CPI (YoY, %)	May		-0.4
5 : 00	JP	Interest rate decision (%)	Jun	-0.1	-0.1
8 : 00	UK	Retail sales (MoM, %)	May	1.8	9.2
0 : 0	EU	ECOFIN Meeting	-	-	-

**European and US stock markets stood in small weekly pluses after looking for clear directions in previous days, as Treasury yields fell, despite worse-than-expected CPI data; oil prices grew to new record**

*This was a very mixed week for stock markets: most of them moved up and down from one day to another; except for STOXX, which posted small increase every day. Still, several indices, like the S&P and the STOXX, DAX CAC40 reached new records, most indices likely end up in small pluses in weekly terms. The show of the week came with the US May CPI, which caused upside surprise again, in both the headline and the core figures. But, interestingly, after an initial disappointment, this brought rather relief for investors, as they concluded that the data was not as bad as to change the Fed's assessment. Hence, finally long-term yields dropped. Data released during the week suggested that the recovery was on track, and pandemic figures were still improving almost everywhere, with few exceptions (UK and Russia in Europe; Chile in South America).*

**Pandemic situation: still improvement or low rates of infections in most EU countries and the USA, but rates in the UK and Portugal increased again. Infections in India and Japan may have passed their peak. However, the Indian variant is spreading fast in some other Asian countries, and South America also posted disappointing figures.**

In the USA, the number of daily covid cases stagnated this week, while the rate of vaccination got slower. Daily new cases fell in Canada, where 63% of the population has received at least one dose of covid vaccine by now (the same as in Israel), but the fully vaccinated part of the population is only 9%. Most South American countries suffered from high infection rates, including Chile, Argentina, Brazil, Colombia, and Paraguay. The UK and Portugal reported an increase in daily new cases, but the rest of Europe reported slowing infection rates. Russia showed an increase in daily new infections. Japan and India showed easing covid statistics, while Mongolia, Thailand, Malaysia, and Vietnam suffered an infection wave.

The top countries with the highest percentage of the population who received at least one shot are the following: Israel (63%), Canada(63%), UK (60%), Chile(59%), Hungary (55%), USA (51%), UAE (51%), Finland (49%), Germany (46%), and Austria (45%). Countries with the highest fully vaccinated part of population are Israel (59%), Chile (45%), USA (42%), UK (42%) Hungary (41%), UAE(39%), Singapore(32%), and Serbia (32%).

**European and US indices edged somewhat higher in weekly terms by Friday afternoon**

In **Europe**, the STOXX 600 stood at 1.1% on Friday afternoon. Its individual country indices grew to different degrees: the DAX fell by 0.1%, the CAC40 grew by 1.3%, the FTSE100 upped 0.9%, and the FTSE MIB rose by 0.5%. Out of the STOXX's components, health care (4.3%), travel and leisure ( 2.6%) performed best, while banks (-1.2%), and basic resources (-0.8%) were the weakest.

## WEEKLY REPORT - 14 JUNE 2021



In the **USA**, the *S&P* stood at 0.4% by Friday afternoon while the *Russell 2000* small-cap index increased by 1.6%. Health care (2.1%) and real estate (2.0%) posted the biggest increase, while financials (-2.6%) and industrials + materials (both -2.2%) were the weakest ones.

**Long-term yields fell despite strong CPI data, oil picked up further as demand outlook improved**

Long-term *Treasury/bond yields* fell on both continents, in the US more pronounced (US -10 bps Germany -6 bps on 10Y tenor). The *USD* strengthened against the major currencies as recovery expectations improved more overseas. *Oil prices* headed for a third weekly gain around 1.0-1.5%, rising to fresh multi-year highs and on expectations of a recovery in fuel demand in the United States, Europe and China as rising vaccination rates lead to an easing of pandemic curbs.

**Another significant surprise in US inflation, ECB kept its fully dovish tone**

The show of the week was clearly May US *inflation* data, with 5.0% headline and 3.8% core rates, well above the expectations of 4.7% and 3.4%. The headline figure is at 13-year high, and the core figure is the highest in 28 years. Similarly to the April data, a good part of that increase was driven by just four sectors, which were most directly affected by the pandemic, including used vehicles (+7.3% MoM), car rentals (+12.1%), airfares (+7.0%) and, to a lesser extent, hotel room rates (+0.4%). The 1.2% rise in apparel prices could also reflect the removal of restrictions on physical retail stores. Even excluding these four sectors, core prices would still have risen by 0.4% MoM last month, suggesting that the upward pressure on inflation is becoming more widespread. This latter is also evident from reports on supply shortages in different survey measures. The data, especially together with weaker-than-expected employment figures, will put the Fed in a more difficult situation, particularly, if the current trends continue. *Weekly unemployment* figures were a mixed bag, with initial claims slightly exceeding forecasts, but continuing claims were lower by around 100,000 persons. The *Michigan Consumer Sentiment Index* increased to 86.40 points in June from 82.90 points in May. This not only reversed the previous decline, but the figure also bet the consensus (84 points)

In the **euro area**, the most important news was the conclusion of the *ECB's rate setting meeting* and the subsequent press conference. The European Central Bank's Governing Council did not announce any new decisions and its subsequent statement left the paragraph on monetary policy guidelines essentially unchanged. In the latter, it confirmed its commitment to keep PEPP purchases at a significantly higher pace than during the first months of the year. The ECB upgraded its GDP growth (2021: 4.6% from 4.0%, 2022: 4.7% from 4.0%, 2023 unchanged at 2.1%) and inflation forecasts (2021: 1.9% from 1.5%, 2022: 1.5% from 1.2% (2023 unchanged at 1.4%). At the press conference following the rate decision, Christine Lagarde said it was too early and premature to taper asset purchases and that the eurozone's economy is in a very different phase of the business cycle than the USA. The third estimate of Q1 *GDP* showed that the contraction in the first quarter was half as big as previously reported, with the decline revised to 0.3% QoQ following some strong Irish and Greek numbers. However, for Q2, the macro figures were mostly disappointing. First, both confidence indicators for June (*Sentix and Zew*) were lower than expected, even though they marked historic highs. In April, *German industrial production and industrial orders* fell, missing expectations of a small uptick, while *exports* were also weaker than projected. France's industrial production also

## WEEKLY REPORT - 14 JUNE 2021



fell - the only positive surprise was Italy's industrial production, which expanded by 1.8% MoM. Still, with the swift pace of vaccination and further reopening of the service sector, the outlook will improve.

**China's** exports grew by 27.9% YoY in May, somewhat weakening compared to April, and short of expectations.



## Sector performance in the USA and Europe

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	4246.9	0.4	13.1	Stoxx 600	SXXP Index	457.5	1.1	14.7
IT	S5INFT Index	2484.0	1.2	8.4	Health care	SXDP Index	972.3	4.3	10.6
Health care	S5HLTH Index	1450.7	2.1	9.6	Industrial goods & services	SXNP Index	731.4	0.9	16.3
Financials	S5FINL Index	621.4	-2.6	26.7	Banks	SX7P Index	138.9	-1.2	28.4
Telco	S5TELS Index	260.9	0.8	17.6	Personal & households goods	SXQP Index	1072.7	1.1	15.0
Consumer discretionary	S5COND Index	1386.0	1.4	6.4	Insurance	SXIP Index	303.3	-0.6	8.7
Industrials	S5INDU Index	874.3	-1.6	16.6	Food and beverages	SX3P Index	799.9	1.2	11.9
Consumer staples	S5CONS Index	726.0	-0.9	4.3	Technology	SX8P Index	719.2	2.2	19.1
Utilities	S5UTIL Index	332.9	0.7	4.3	Utilities	SX6P Index	379.6	0.4	-1.1
Energy	S5ENRS Index	414.9	-0.2	45.0	Oil & gas	SXEP Index	263.8	0.3	11.6
Real estate	S5RLST Index	283.8	2.0	24.5	Chemicals	SX4P Index	1235.8	-0.9	10.9
Materials	S5MATR Index	542.0	-1.6	18.9	Construction & materials	SXOP Index	600.8	1.0	21.9
Source: Bloomberg					Telco	SXKP Index	239.4	2.2	16.4
					Retail	SXRP Index	473.3	-0.4	19.5
					Financial services	SXFP Index	687.8	0.5	13.4
					Basic resources	SXPP Index	607.2	-0.8	21.6
					Real estate	SX86P Index	187.2	2.2	9.6
					Auto & parts	SXAP Index	682.6	-0.5	29.5
					Media	SXMP Index	328.7	1.2	16.1
					Travel & leisure	SXTP Index	274.9	2.6	22.6

Source: Bloomberg

## Performance of selected and 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	4247	2.3	7.8	15.9	41.5	30.0	4.6	3.1	13.9	1.4	120.6	2.4	9.0
Europe	SXXP Index	458	4.8	7.9	17.3	29.6	38.6	2.2	1.7	6.9	1.1	189.9	0.4	8.3
Germany	DAX Index	15685	3.7	7.7	19.6	31.0	33.6	1.8	1.2	6.4	1.2	121.4	11.2	10.4
France	CAC Index	6602	5.3	9.4	19.9	37.1	47.3	1.9	1.5	3.9	1.1	222.5	4.2	10.8
Poland	WIG20 Index	2229	5.6	11.8	14.3	21.1	20.9	1.3	1.1	6.0	1.1	57.3	1.6	16.3
Czechia	PX Index	1176	6.4	9.6	21.5	29.6	24.7	1.4	1.8	5.7		170.7	0.5	0.2
Hungary	BUX Index	48881	10.2	11.6	18.5	33.4	13.9	1.2	1.1	9.1	1.2	58.2	125.6	14.9
Romania	BET Index	11521	-1.5	7.4	21.0	35.1	11.3	1.1	1.6	9.8		27.7	54.9	1.2
Bulgaria	SOFIX Index	542	5.2	10.1	23.7	19.9	20.6	0.6	0.8	2.6	2.9	38.7		
Russia	IMOEX Index	3839	5.1	9.4	17.2	39.9	10.9	1.1	1.4	10.8	1.6	67.9	4.5	12.3
Ukraine	PFTS Index	531	0.7	2.8	4.7	6.3	5.5		0.5	29.3				
Slovenia	SBITOP Index	1145	7.9	15.9	27.9	31.6	8.9	1.0	0.6	11.3	1.7	26.5	2.9	
Croatia	CRO Index	1970	1.0	5.6	13.0	18.8	37.7	1.1	1.2	3.1	1.3	49.1		
Serbia	BELEX15 Index	782	3.5	4.7	9.2	15.0	22.9	0.7	0.8	3.1	1.7	19.1		
Montenegro	MNSE10 Index	776	0.9	5.7	23.0	8.0		0.3	1.1	-0.1	2.4	13.5		

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

\*\*\*Some of the country indices could be sector heavy (only a handful industry comprise the majority of the indices).

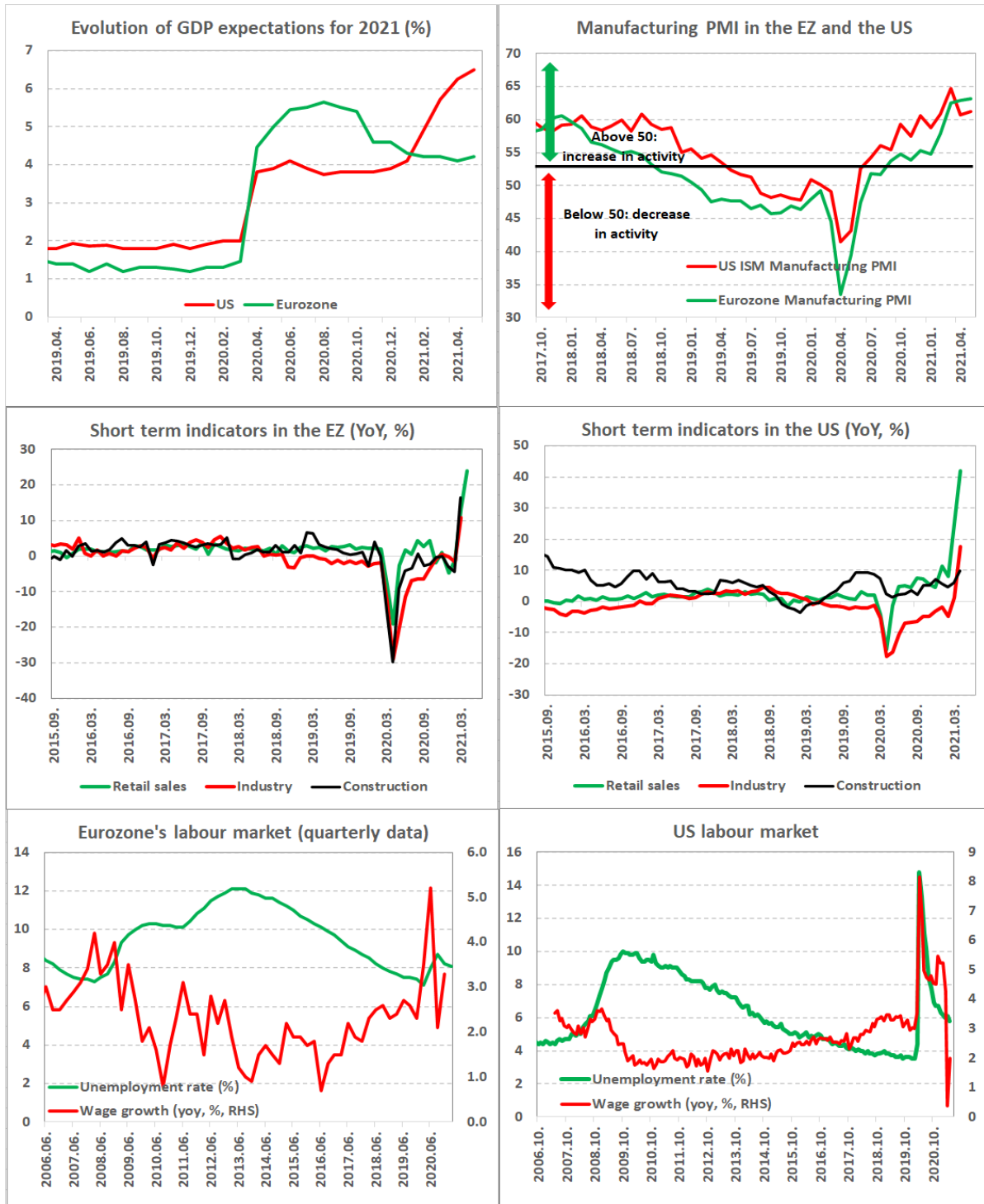
\*\*\*therefore direct comparison of valuation metrics alone could be misleading.

## This week's data

Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2021 6. 7. 5 : 00	CN	Export (YoY, %)	May	27.9	32.1	32.3
8 : 00	DE	Industrial orders (MoM, %)	Apr	-0.2	1.0	3.0
10 : 30	EZ	Sentix Investor confidence (points)	Jun	28.1	26.0	28.1
8. 8 : 00	DE	Industrial production (MoM, %)	Apr	-1.0	0.5	2.5
10 : 00	IT	Retail sales (MoM, SA, %)	Apr	-0.4	-	-0.1
11 : 00	DE	ZEW Economic Sentiment (points)	Jun	79.8	86.0	84.4
9. 8 : 00	DE	Export (MoM, SA, %)	Apr	0.3	0.5	1.2
13 : 00	PL	Interest rate decision (%)	Jun	0.1	0.1	0.1
16 : 00	CA	Interest rate decision (%)	Jun	0.3	0.3	0.3
10. 8 : 45	FR	Industrial production (MoM, %)	Apr	-0.1	0.5	0.8
10 : 00	IT	Industrial production (MoM, SA, %)	Apr	1.8	0.3	-0.1
13 : 45	EZ	Interest rate decision (deposit rate, %)	Jun	-0.5	-0.5	-0.5
13 : 45	EZ	Interest rate decision (lending rate, %)	Jun	0.0	0.0	0.0
14 : 30	US	CPI (YoY, %)	May	5.0	4.7	4.2
14 : 30	US	CPI (MoM, SA, %)	May	0.6	0.4	0.8
14 : 30	US	core-CPI (YoY, %)	May	3.8	3.4	3.0
14 : 30	US	core-CPI (MoM, SA, %)	May	0.7	0.4	0.9
14 : 30	US	Continuing jobless claims ('000s)	weekly	3499.0	3602	3771
14 : 30	US	Initial jobless claims ('000s)	weekly	376.0	370.0	385.0
20 : 00	US	Federal budget balance (USDbn)	May	-132.0	-	-226.0
11. 16 : 00	US	Michigan Consumer confidence (preliminary, points)	Jun	86.4	84.0	82.9
		G7 Summit	-	-	-	-

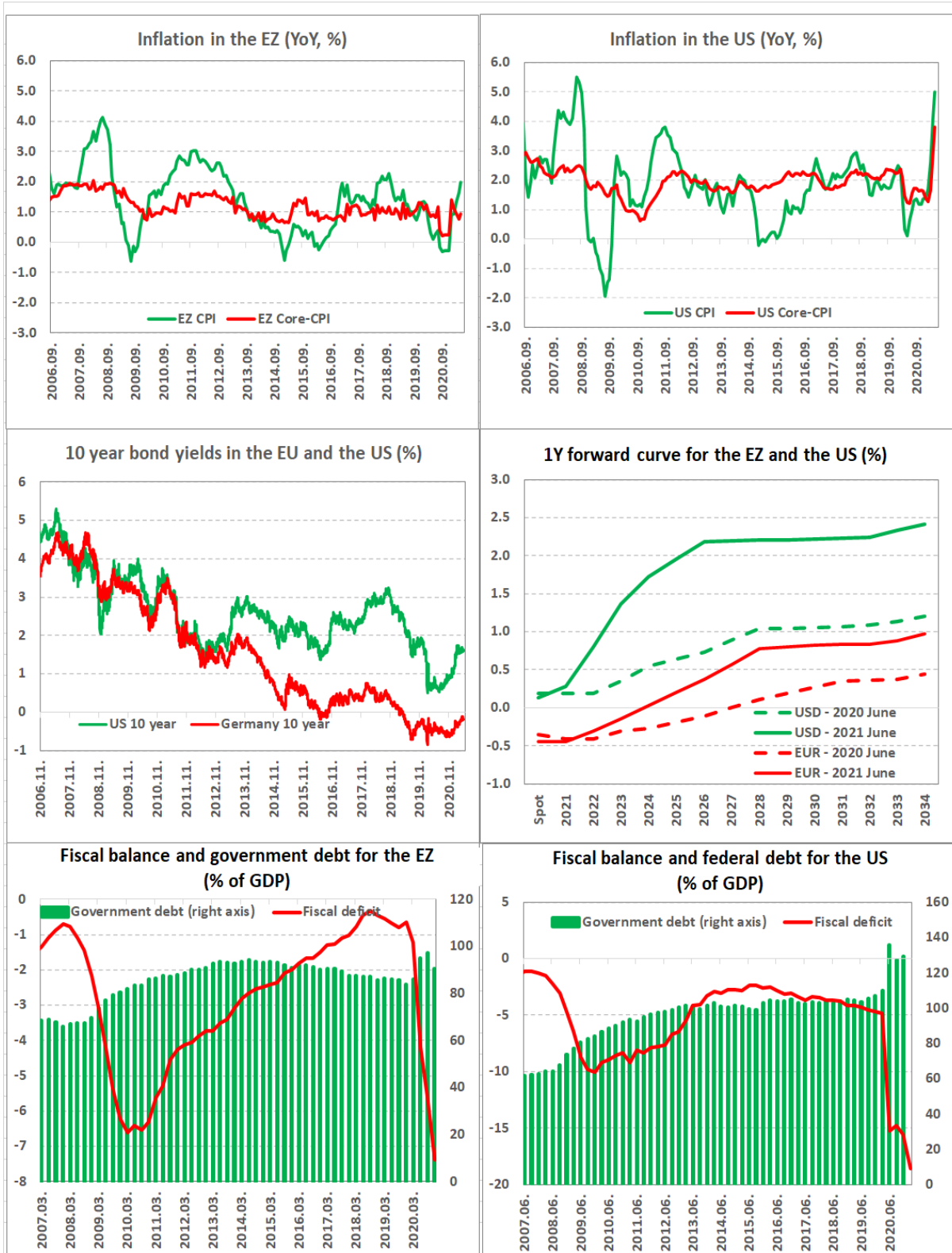
\*The first values in 'Fact' refers to the accepted volume, while 'Prev.' refers to the maturing amount on the current week

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	1.21	1.21	1.21	1.21	1.23	1.22	1.22
EURGBP	0.89	0.91	0.90	0.88	0.86	0.86	0.85	0.85	0.83	0.83
EURCHF	1.06	1.08	1.08	1.08	1.10	1.11	1.12	1.14	1.15	1.16
USDJPY	107.0	106.0	104.0	104.0	109.0	109.0	109.0	110.0	111.0	109.0

Source: Bloomberg

## Regional macro forecast

Countries	GDP (yoy, %)					Countries	Fiscal balance (% of GDP)				
	2020	OTP		Focus Economics			2020	OTP		Focus Economics	
		2021	2022	2021	2022			2021	2022	2021	2022
Hungary	-5.0	4.9	6.1	5.0	4.9	Hungary	-8.1	-6.4	-3.8	-6.7	-4.6
Romania	-3.9	7.0	3.5	5.8	4.6	Romania	-9.2	-8.2	-6.5	-7.4	-5.5
Bulgaria	-4.2	4.0	4.2	3.8	4.0	Bulgaria	-3.4	-3.1	-1.5	-3.6	-2.2
Russia	-3.0	4.9	2.5	3.2	2.6	Russia	-3.8	-2.6	-1.2	-1.0	-0.3
Ukraine	-4.0	4.0	4.4	4.1	3.9	Ukraine	-5.3	-6.0	-4.0	-4.8	-3.1
Slovenia	-5.5	4.8	5.1	4.3	4.2	Slovenia	-8.4	-3.6	-2.8	-5.7	-3.6
Croatia	-8.0	6.5	5.8	5.4	4.9	Croatia	-7.4	-5.5	-3.0	-4.2	-3.0
Serbia	-1.0	6.5	3.3	5.5	4.1	Serbia	-8.1	-7.0	-1.5	-5.0	-2.3
Montenegro	-15.2	6.1	7.7	6.8	5.3	Montenegro	-10.1	-6.2	-2.5	-5.1	-2.8
Albania	-3.3	5.8	3.8	5.5	4.2	Albania	-6.9	-6.0	-4.0	-5.6	-3.5
Moldova	-7.0	5.6	5.2	4.5	4.6	Moldova	-5.3	-5.0	-4.0	-4.8	-3.5

Countries	Inflation (average (yoy), %)					Countries	Unemployment (%)				
	2020	OTP		Focus Economics			2020	OTP		Focus Economics	
		2021	2022	2021	2022			2021	2022	2021	2022
Hungary	3.3	3.4	3.4	3.9	3.3	Hungary	4.1	4.0	3.7	4.4	4.0
Romania	2.6	3.6	3.0	3.3	2.9	Romania	5.0	4.7	4.0	5.4	5.0
Bulgaria	1.7	1.9	2.1	1.9	2.3	Bulgaria	5.1	4.6	4.4	5.4	5.1
Russia	3.4	5.7	4.3	5.2	4.0	Russia	5.8	5.0	4.0	5.4	5.0
Ukraine	2.7	7.5	5.7	8.0	5.9	Ukraine	9.5	9.2	8.3	9.2	8.7
Slovenia	-0.3	1.0	1.7	1.2	1.7	Slovenia	5.0	4.7	4.5	5.2	4.8
Croatia	0.1	1.7	1.4	1.4	1.6	Croatia	7.5	7.0	6.0	8.9	8.0
Serbia	1.6	2.0	2.2	2.2	2.4	Serbia	9.0	9.7	9.0	9.7	9.2
Montenegro	-0.3	1.4	1.3	1.0	1.4	Montenegro	17.9	18.2	17.0	18.8	17.6
Albania	1.6	1.8	2.0	2.1	2.6	Albania	11.7	10.5	10.0	12.0	11.4
Moldova	3.8	3.2	3.5	3.1	4.5	Moldova	3.8	5.3	5.8	4.6	3.9

Source: Focus Economics, OTP Research Center

## FX forecast for the OTP countries

Country	FX pair	2020.Q4	2021.Q1	2021.Q2	2021.Q3	2021.Q4	2022.Q1	2022.Q2	2022.Q3	2022.Q4
Hungary	EURHUF (eop)	363.0	362.0	361.0	361.0	361.0	360.0	359.0	359.0	358.0
Romania	EURRON (eop)	4.87	4.93	4.92	4.92	4.93	4.94	4.95	4.96	4.96
Russia	USDRUB (eop)	73.9	75.7	73.7	72.6	71.7	71.8	71.9	72.0	72.1
Ukraine	USDUAH (eop)	28.34	27.85	27.78	28.01	28.54	28.57	28.65	28.82	29.27
Croatia	EURHRK (eop)	7.6	7.6	7.6	7.6	7.5	7.5	7.5	7.5	7.5
Serbia	EURRSD (eop)	118.0	118.0	118.0	118.0	118.0	118.0	118.0	118.0	118.0
Montenegro	EURUSD (eop)	1.22	1.18	1.19	1.20	1.21	1.21	1.22	1.22	1.22

\*Slovenia and Montenegro uses EUR as a base currency.

\*\*No forecast available for Moldova and Albania

Source: Focus Economics

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