

June US inflation and real economy indicators from both sides of the Atlantic could be in the spotlight next week

Next week the primary focus will obviously be on June US inflation, to be published on Tuesday. May inflation (headline 5.0%, core 3.8%), surprised substantially to the upside, although the market reaction was unexpectedly muted: after an initial disappointment, the data brought quite a 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. So anything can happen next week as well. Meanwhile, key May real economy data from the US and Europe as well will be added to our knowledge base. From the USA June industrial production and retail sales, for the euro area May industrial production data will be released. Given the available country level data, this latter will hardly be very solid for Europe. Still, the gradual opening-up of the services sector could save Q2 GDP; now the market consensus is 1.4% QoQ growth. China's Q2 GDP could be interesting as well, the figures likely will show a slowdown in activity. In the meantime, the spread of the Delta variant is still an increasing concern, also in the developed world. However, data from the UK and Israel suggest that despite a new pandemic wave, high vaccination rates help to avoid a sharp increase in hospitalization, which is encouraging not only from human point of view, but the likely lack of severe lockdown is also good news for the economies.

Concerning the **euro area**, the focus will be on real economy indicators for May, which will help to refine Q2 GDP performance. *Industrial production* for the whole eurozone will be released on Wednesday, but given the significant downward surprises for Germany, France, and Italy, this will hardly be a very solid figure.

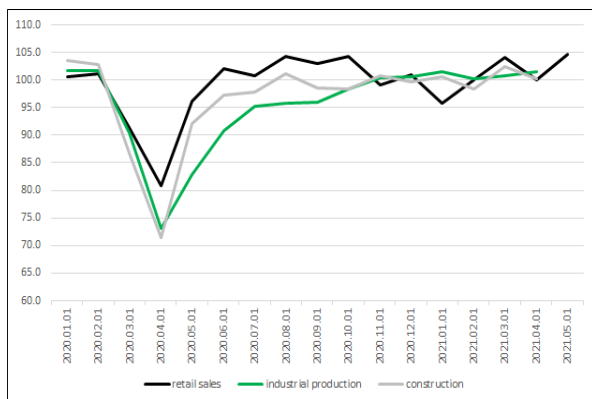
In the **USA**, the show of the week will be on Tuesday, when the June *inflation* figures will be released. Last month was a huge surprise, with 5.0% headline and 3.8% core rates, well above the expectations of 4.7% and 3.4%. The headline figure was at 13-year high, and the core figure was the highest 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%). 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. Since then, the composite ISM prices paid index suggests a June inflation closer to 6% than to 5%, so probably the series of negative news is not over. Otherwise, watch out for the June figures for *industrial production* and *retail sales* (due on Thursday and Friday). These will be important determinants of the Q2 GDP performance. Incoming data so far suggests a weakening of the recovery throughout Q2, after a very solid start in March. This is partly understandable, as the first part of the quarter was heavily affected by the third round of stimulus checks. Additionally, the July Michigan consumer sentiment index is also worth checking.

From **China**, the Q2 GDP figure, together with the June key indicators (*retail sales, industrial production, fixed asset investments, and international trade*) will be released. The GDP figure (due on Thursday) will likely indicate

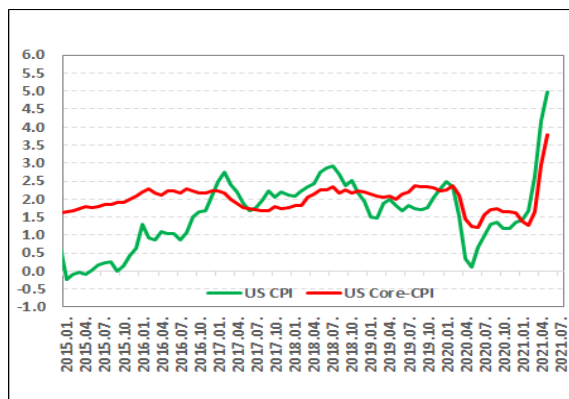
a slowdown from the outstanding Q1 performance both in YoY and QoQ terms as implied by the hard and soft data released so far.

Finally, **Turkey** will have a rate-setting meeting, where the most likely outcome is keeping the rate steady at 19%. The MPC stated last time that the current tight monetary policy stance will be maintained until a significant fall in inflation towards the April Inflation Report's forecast path is achieved. The latter is at 14.6% by Q4, while incoming inflation data up to June (June 17.5%) do not suggest a turning point in inflationary pressures.

EZ business cycle indicators (Dec 2019 =100)



US inflation (YoY, %)



Source: Refinitiv and Bloomberg

What to watch next week

Data	Cd.	Event/Data	Period	Cons.	Prev.
2021 7. 13.	5 : 00 CN	Export (YoY, %)	Jun	23.1	27.9
	14 : 30 US	core-CPI (MoM, SA, %)	Jun	0.4	0.7
	14 : 30 US	core-CPI (YoY, %)	Jun	4.0	3.8
	14 : 30 US	CPI (MoM, SA, %)	Jun	0.4	0.6
	14 : 30 US	CPI (YoY, %)	Jun	4.9	5.0
	20 : 00 US	Federal budget balance (USDbn)	Jun		-132.0
14.	8 : 00 UK	Inflation (YoY, %)	Jun	2.2	2.1
	11 : 00 EZ	Industrial production (MoM, %)	May	-0.1	0.8
	13 : 00 TR	Interest rate decision (%)	Jul	19.0	19.0
	16 : 00 CA	Interest rate decision (%)	Jul	0.3	0.3
	20 : 00 US	Beige Book	-	-	-
15.	4 : 00 CN	Infrastructural spending (YoY, %)	Jun	12.3	15.4
	4 : 00 CN	Industrial production (YoY, %)	Jun	7.9	8.8
	4 : 00 CN	Retail sales (YoY, %)	Jun	10.9	12.4
	4 : 00 CN	GDP (YoY, %)	Q2	8.0	18.3
	4 : 00 CN	GDP (QoQ, SA, %)	Q2	1.5	0.6
	8 : 00 UK	Unemployment rate (%)	May	4.7	4.7
	14 : 30 US	New York Fed Manufacturing index (points)	Jul	18.0	17.4
	14 : 30 US	Initial jobless claims ('000s)	weekly		373.0
	14 : 30 US	Continuing jobless claims ('000s)	weekly		3339.0
	15 : 15 US	Industrial production (MoM, %)	Jun	0.8	0.8
16.	5 : 00 JP	Interest rate decision (%)	Jul	-0.1	-0.1
	14 : 30 US	Retail sales (MoM, %)	Jun	0.0	-1.3
	16 : 00 US	Business inventories (MoM, %)	May	0.4	-0.2
	16 : 00 US	Michigan Consumer confidence (preliminary, points)	Jul	87.8	85.5

Most European and US markets were on track to fall, as long-term yields fell on renewed virus fears

This week a renewed fear of the pandemic and weaker-than-expected real economy data dominated markets. The swift spread of the Delta variant in Europe, in the USA, and in particular in several Asian countries, where vaccination is low given the effective tackling of previous pandemic waves, increased fears of lockdowns. Simultaneously, incoming data for both Europe and the USA were mostly weaker than expected. Both factors suggested that the recovery ahead could be bumpier than foreseen before, which affected stock markets negatively. In the general risk-off environment, Treasury yields fell substantially, the US 10Y fell to levels last seen in February, while the USD and oil prices remained stable.

Pandemic situation: the Delta variant is a clear concern, but highly vaccinated countries seem to avoid a rapid rise in hospitalization and deaths

According to the data from John Hopkins University Covid Resource Center, the number of worldwide covid-related deaths reached 4 million this week. The Delta variant has become dominant within the USA, but the daily new covid cases increased only slightly so far. The Delta variant has slowly taken over Western European countries as well. Nevertheless, the UK plans to ease restrictions further, amid the climbing infection rates, but low covid death counts. Spain, Greece, and Portugal reported a jump in daily new cases, and were forced to reimplement a few restrictions. Other countries in the region with lighter curbs, also experienced an increment of infection rates. The Delta variant has become dominant in Germany, but covid-related reports have not showed rising infection rates in the country. 40% of the new cases are related to the Delta variant in France, a moderate increase of daily new cases can be examined locally. The rate of infection remained low in the CEE region. The number of daily covid-related deaths reached all-time high in Russia, and continue to rise, along with daily new cases. India and Taiwan reported falling infection rates. Indonesia is battling with a critical covid wave, and has to deal with an oxygen supply shortage and an overburdened healthcare. Japan declared a coronavirus state emergency due to the rising infection counts, and will keep it active during the upcoming Olympics. Daily change in new cases showed record high levels in South Korea, the country is considering reintroducing measures. The country also made a vaccine swap deal with Israel, for 700,000 doses of the Pfizer vaccine. Israel also reported slightly increasing infection rates due to the Delta variant, but the daily covid-related deaths remained unchanged at a low level. Australia also suffers from the same variant and was forced to impose new and extend current lockdowns in its mayor cities.

Countries where a high rate of population received at least one dose of vaccine are: UEA (75%), Canada (69%), Chile (68%), UK (67%), Israel (65%), Belgium (64%), Netherlands (64%), Singapore (63%), and Finland (61%). Countries with high fully vaccinated population ratios are: UAE (64%), Israel (60%), Chile (57%), Hungary (52%), UK (50%), USA (47%), Spain(41%), and Lithuania(40%).

Almost all major European and US indices fell in weekly terms by Friday afternoon

In **Europe**, the *STOXX 600* stood at -0.4% on Friday afternoon. Its individual country indices decreased to different degrees: the *DAX* fell by 0.5%, the *FTSE100* and *CAC40* fell by 0.7-0.8%, while the *FTSE MIB* declined by more than 1%. Out of the *STOXX*'s components cyclical sectors like energy (-5.1%), financials (-2.2), and materials (-0.4%) fell the most, while consumer discretionary (+2.3%) and real estate (+2.2%) performed the best.

In the **USA**, the *S&P500* was stagnating Friday afternoon while the *Russell 2000* small-cap index fell by 4.2%. Out of S&P components, oil & gas (-3.2%), auto & parts (-2.2%), and banks (-1.8%) decreased the most, while real estate (+2.8%) posted the biggest gain.

Long-term yields fell further, the USD stagnated relative to major currencies, while oil traded still around USD 75 per barrel

Long-term *Treasury/bond yields* fell in Germany and the USA roughly similarly (by 6-8 bps), while less in the euro periphery (Spain: 2 bps, Italy: 1 bp). The *US dollar* strengthened at the beginning of the week, but then fell on the expectations that growth may weaken on account of the Delta variant of Covid-19. *Oil prices* were hovering around USD 75 per barrel, as the Organization of the Petroleum Exporting Countries and its allies (OPEC+) could not agree on output levels.

Mostly weaker-than-expected macro data from the euro area. ISM's data point to nearly 6% June inflation in the USA, as the recovery slowed.

In the **euro area**, the only bright spot for the week in terms of macro data were *May retail sales*, which rebounded slightly more than expected (4.6% vs. 4.4%). This also means that retail sales rose back above their pre-pandemic level, after more than correcting the fall in April. Non-food sales increased by 8.8% MoM, with the online sales component only rising by 2.0%. The level of online sales is still much higher than it was before the pandemic, but the fact that in-store sales rose more quickly in May is a sign that consumers were feeling comfortable about returning to the shops. However, practically all the rest of indicators were rather disappointing. In *May industrial production* from Germany, France, and Italy fell, contrary to an expectation of an increase. German industrial orders turned out also particularly weak, while July's *Zew business sentiment* surprised significantly to the downside, although the *Sentix* index was a much smaller negative surprise. The *ECB* published its new monetary strategy on Thursday with the following important elements: (i) new strategy adopts symmetric 2% inflation target over medium term (ii) Governing Council confirms that HICP remains appropriate price measure and recommends inclusion of owner-occupied housing over time (iii) New monetary policy strategy is result of thorough review launched in January 2020 (iv) Governing Council approved a climate change action plan. Importantly, the Council stressed that "When the economy is operating close to the lower bound on nominal interest rates, it requires especially forceful or persistent monetary policy action to avoid negative deviations from the inflation target becoming entrenched. This may also imply a transitory period in which inflation is moderately above target." We believe this statement,

together with the symmetric inflation target, will allow more room for the Bank to keep up its asset purchases.

In the **USA**, the drop in the *ISM services index* to 60.1, from 64.0 in June suggests that shortages and price increases are becoming an increasing drag on hiring and economic activity. The decline reflected steep drops in the business activity index to 60.4, from 66.2, and the employment index to 49.3, from 55.3. This suggests that labour shortages and supply shortages are still a drag on output. The prices paid index was almost unchanged at 79.5 in June, from 80.6 in May. However, some analysts suggest that taken together with the increase in the manufacturing prices paid index reported last week, a weighted average of the ISM prices paid indices still edged up to 82.7 from 82.5, a level consistent on past form with CPI inflation rising close to 6%. Weekly *initial* and *continuing claims* both surprised to the upside, although continuing claims declined again, while initial claims rose slightly. The latest *FOMC minutes* revealed policymakers' agreement that they were not yet ready to communicate a timetable for starting to taper asset purchases, and they also agreed on tackling inflation risks. Overall, the minutes' language was not stricter than Fed Chairman Jerome Powell's previous statements, so it did not affect markets.

In **China**, The *Caixin Services PMI* fell to a 14-month low of 50.3 in June 2021 from 55.1 in the prior month, amid an outbreak of a more infectious Delta variant of COVID-19 in Guangdong, and the subsequent imposition of anti-virus measures. New orders grew the least since April 2020, while employment shrank for the first time in four months.

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	4320.8	0.0	15.0	Stoxx 600	SXXP Index	455.2	-0.4	14.1
IT	S5INFT Index	2634.8	1.5	15.0	Health care	SXDP Index	987.9	0.1	12.4
Health care	S5HLTH Index	1500.2	1.2	13.3	Industrial goods & services	SXNP Index	742.8	0.5	18.1
Financials	S5FINL Index	601.6	-2.2	22.7	Banks	SX7P Index	131.7	-1.8	21.7
Telco	S5TELS Index	266.3	-0.1	20.0	Personal & households goods	SXQP Index	1061.0	-0.6	13.7
Consumer discretionary	S5COND Index	1471.0	2.3	12.9	Insurance	SXIP Index	295.2	-0.4	5.7
Industrials	S5INDU Index	870.7	-0.1	16.2	Food and beverages	SX3P Index	800.2	-0.9	11.9
Consumer staples	S5CONS Index	723.2	0.5	3.9	Technology	SX8P Index	724.7	0.0	20.1
Utilities	S5UTIL Index	328.3	1.0	2.9	Utilities	SX6P Index	378.0	-0.1	-1.6
Energy	S5ENRS Index	393.1	-5.1	37.4	Oil & gas	SXEP Index	255.1	-3.2	7.9
Real estate	S5RLST Index	284.3	2.2	24.8	Chemicals	SX4P Index	1261.8	0.4	13.2
Materials	S5MATR Index	518.0	-0.4	13.7	Construction & materials	SXOP Index	597.9	0.5	21.4
					Telco	SXKP Index	235.5	-0.8	14.5
					Retail	SXRP Index	466.9	-1.5	17.9
					Financial services	SXFP Index	685.3	-0.9	13.0
					Basic resources	SXPP Index	594.1	0.8	19.0
					Real estate	SX86P Index	190.5	2.8	11.5
					Auto & parts	SXAP Index	640.2	-2.2	21.4
					Media	SXMP Index	331.4	-0.8	17.1
					Travel & leisure	SXTP Index	258.7	-1.6	15.3

Source: Bloomberg

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Data updated at 15:30 (CEST)

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	4321	2.4	4.7	13.0	37.1	30.5	4.7	3.1	14.0	1.4	120.4	2.5	9.4
Europe	SXXP Index	455	0.2	4.1	10.7	25.2	46.2	2.2	1.6	6.0	1.1	187.5	0.5	9.3
Germany	DAX Index	15578	0.0	2.3	10.9	24.7	33.1	1.8	1.2	6.5	1.2	122.2	16.9	12.5
France	CAC Index	6502	-0.9	5.4	13.9	32.1	45.0	1.9	1.5	4.1	1.1	223.1	8.7	9.4
Poland	WIG20 Index	2255	1.7	14.2	8.8	25.9	19.9	1.3	1.1	6.5	1.2	56.7	5.2	16.9
Czechia	PX Index	1155	-2.2	5.8	7.4	22.1	23.7	1.4	1.7	6.0	1.1	163.3	0.9	2.8
Hungary	BUX Index	47737	-1.0	9.1	7.5	33.4	13.4	1.1	1.0	9.2	1.2	58.5	153.1	14.3
Romania	BET Index	11902	4.8	5.9	17.3	39.3	11.7	1.1	1.6	9.6	1.8	27.1	131.0	
Bulgaria	SOFIX Index	560	4.1	11.1	24.1	25.7	21.6	0.6	0.8	2.6	2.8	38.9		
Russia	IMOEX Index	3860	0.4	10.7	11.7	38.7	12.5	1.1	1.4	9.5	1.6	70.0	27.6	12.9
Ukraine	PFTS Index	529	-0.4	-0.1	6.0	5.9	5.5		0.5	29.3				
Slovenia	SBITOP Index	1136	0.4	12.4	20.6	32.2	8.9	1.0	0.6	11.4	1.7	26.0		
Croatia	CRO Index	1958	0.0	3.7	8.4	21.3	36.9	1.1	1.2	3.1	1.3	49.3		
Serbia	BELEX15 Index	774	-1.0	3.0	3.6	17.7	22.6	0.6	0.8	3.1	1.7	19.1		
Montenegro	MNSE10 Index	740	-5.0	-1.5	3.8	4.0		0.3	1.1	-0.1	2.5	13.2		

*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),

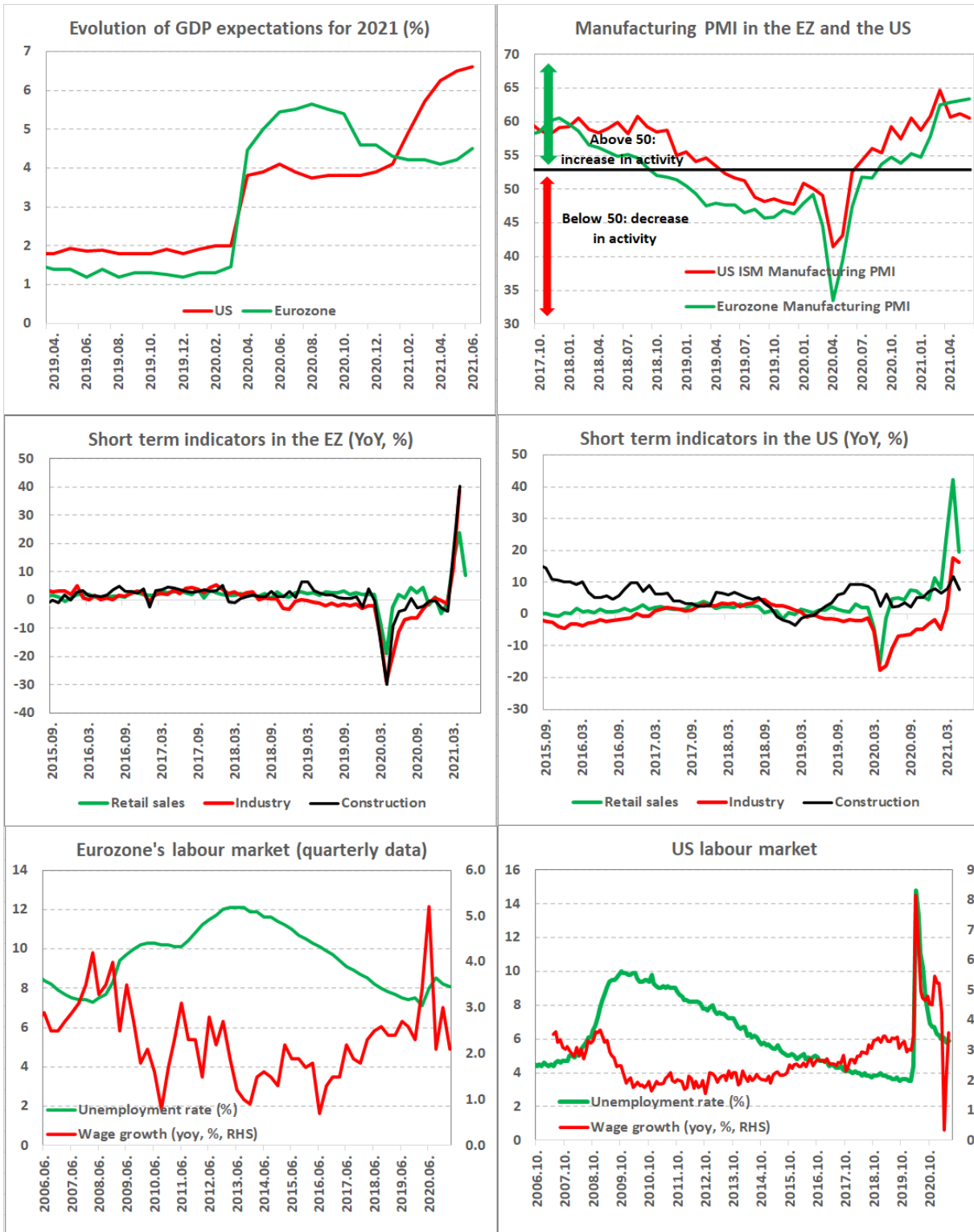
***therefore direct comparison of valuation metrics alone could be misleading.

Data updated at 15:30 (CEST)

This week's data

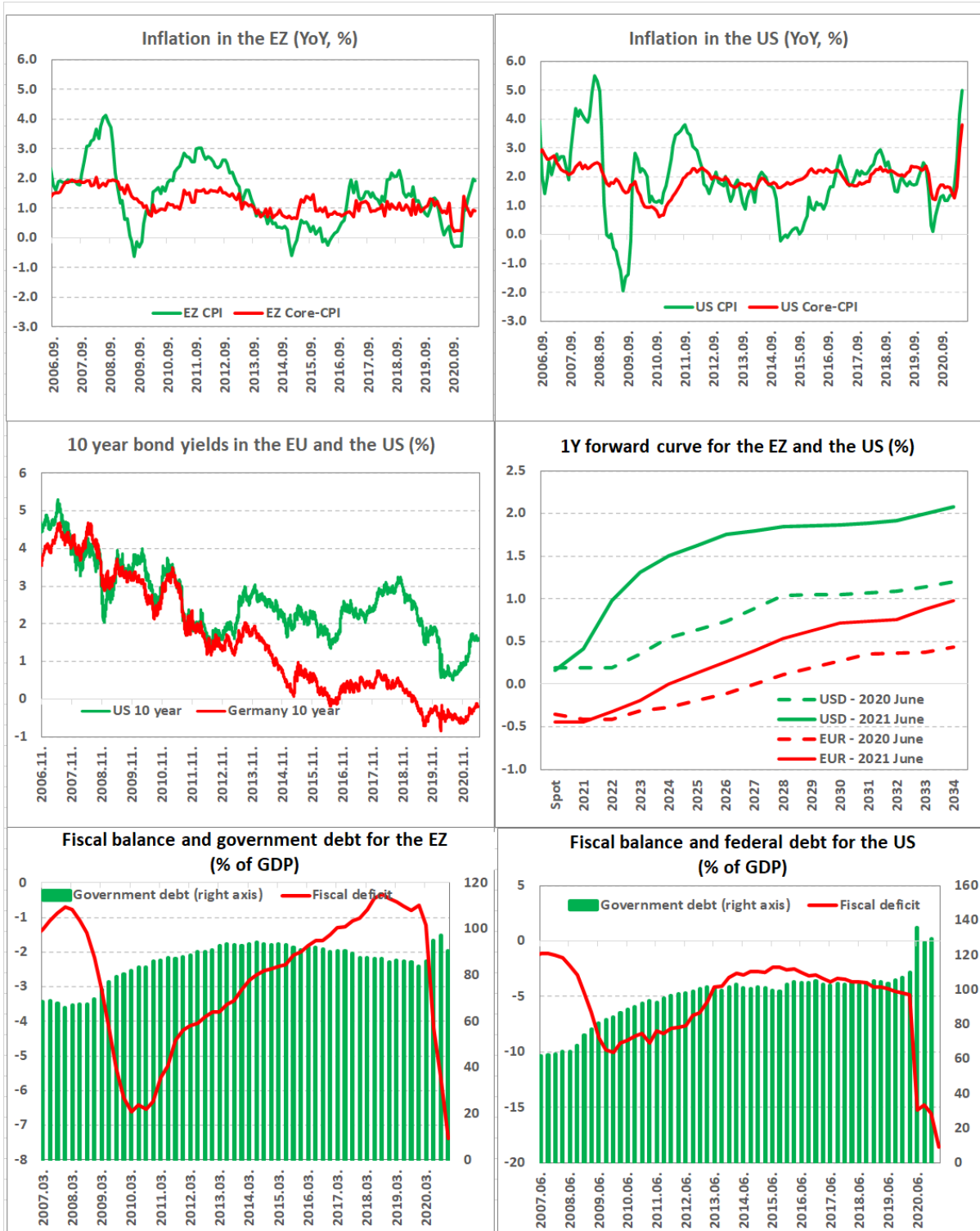
Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2021 7. 5.	3 : 45 CN	Caixin Services PMI	Jun	50.3	-	55.1
	8 : 45 FR	Industrial production (MoM, %)	May	-0.3	0.8	-0.1
	9 : 45 IT	Markit/IHS Services PMI (prelim.)	Jun	56.7	56.0	53.1
	10 : 30 EZ	Sentix Investor confidence (points)	Jul	29.8	30.0	28.1
	6. 8 : 00 DE	Industrial orders (MoM, %)	May	-3.7	1.0	-0.2
	11 : 00 DE	ZEW Economic Sentiment (points)	Jul	63.3	75.2	79.8
	11 : 00 EZ	Retail sales (MoM, %)	May	4.6	4.4	-3.1
	16 : 00 US	ISM non-Manufacturing PMI (points)	Jun	60.1	63.5	64.0
	7. 8 : 00 DE	Industrial production (MoM, %)	May	-0.3	0.5	-0.3
	10 : 00 IT	Retail sales (MoM, SA, %)	May	0.2	-	-0.1
	20 : 00 US	FOMC Minutes	Jun	-	-	-
	8. 8 : 00 DE	Export (MoM, SA, %)	May	0.3	0.6	0.3
	13 : 00 PL	Interest rate decision (%)	Jul	0.1	0.1	0.1
	13 : 30 EZ	ECB Minutes	Jun	-	-	-
	14 : 30 US	Initial jobless claims ('000s)	weekly	373.0	350.0	371.0
	14 : 30 US	Continuing jobless claims ('000s)	weekly	3339.0	3335.0	3484.0
	9. 10 : 00 IT	Industrial production (MoM, SA, %)	May	-1.5	0.3	1.5

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	1.20	1.22	1.22	1.23
EURGBP	0.89	0.91	0.90	0.88	0.86	0.86	0.85	0.85	0.83	0.84
EURCHF	1.06	1.08	1.08	1.08	1.10	1.11	1.12	1.14	1.11	1.10
USDJPY	107.0	106.0	104.0	104.0	109.0	109.5	110.0	111.0	112.0	104.0

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	5.5	5.8	5.9	4.8	Hungary	-8.1	-7.3	-5.7	-6.9	-5.1
Romania	-3.9	7.0	3.5	6.4	4.7	Romania	-9.2	-8.2	-6.5	-7.3	-5.5
Bulgaria	-4.2	4.0	4.2	4.2	4.0	Bulgaria	-3.4	-3.1	-1.5	-3.8	-2.3
Russia	-3.0	4.2	2.5	3.4	2.6	Russia	-3.8	-2.6	-1.2	-0.9	-0.4
Ukraine	-4.0	4.0	4.4	4.2	4.0	Ukraine	-5.3	-6.0	-4.0	-4.8	-3.1
Slovenia	-5.5	4.8	5.1	4.6	4.3	Slovenia	-8.4	-3.6	-2.8	-6.1	-4.0
Croatia	-8.0	6.5	5.8	6.3	4.6	Croatia	-7.4	-4.5	-3.0	-4.0	-2.9
Serbia	-1.0	6.5	3.3	5.8	4.1	Serbia	-8.1	-7.0	-1.5	-5.5	-2.5
Montenegro	-15.2	6.0	7.4	7.1	5.5	Montenegro	-10.1	-6.2	-2.5	-5.0	-2.8
Albania	-4.0	5.8	3.8	5.8	4.2	Albania	-6.8	-6.0	-4.0	-5.6	-3.4
Moldova	-7.0	5.6	5.2	5.0	4.6	Moldova	-5.3	-5.0	-4.0	-5.0	-3.7

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	4.4	4.0	4.1	3.4	Hungary	4.1	4.0	3.7	4.3	3.9
Romania	2.6	4.0	3.0	3.6	3.1	Romania	5.0	5.2	4.0	5.4	5.0
Bulgaria	1.7	1.9	2.1	2.1	2.3	Bulgaria	5.1	4.6	4.4	5.4	5.0
Russia	3.4	5.9	4.4	5.5	4.1	Russia	5.8	5.0	4.0	5.2	4.8
Ukraine	2.7	8.0	5.7	8.2	6.0	Ukraine	9.5	9.2	8.3	9.2	8.7
Slovenia	-0.3	1.0	1.7	1.3	1.7	Slovenia	5.0	4.7	4.5	5.0	4.7
Croatia	0.1	1.7	1.4	1.7	1.7	Croatia	7.5	7.0	6.0	8.6	7.8
Serbia	1.6	2.0	2.2	2.4	2.6	Serbia	9.0	9.7	9.0	9.7	9.2
Montenegro	-0.3	1.8	1.4	1.1	1.4	Montenegro	17.9	18.5	17.3	18.9	17.7
Albania	1.6	1.8	2.0	2.0	2.6	Albania	11.7	10.5	10.0	11.9	11.4
Moldova	3.8	3.2	3.5	3.5	4.5	Moldova	3.8	5.3	5.8	4.4	3.8

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	USD RUB (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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