

The Fed's rate-setting meeting and flash GDP figures from both sides of the Atlantic could be in the spotlight next week

The next one is expected to be a very interesting week, when the Fed's rate setting meeting will take place and flash Q2 GDP data from the USA and the euro area will be released. Further to this, eurozone's July CPI, several business surveys for July and some macro figures from June, finally, core consumer expenditure deflator from the USA will be published, the latter is closely watched by the Fed. At the Fed meeting, more cautious comments could be expected, after the markets assessed the June communication as hawkish, which Chair Powell started to tone down afterwards. The second-quarter GDP data will likely show roughly 2% QoQ growth rate for the USA and slightly weaker for Europe. The figures are stronger than for Q1, particularly for Europe, which experienced a recession in the preceding quarter. Nevertheless, in particular for the US, the most recent data obviously imply a weakening recovery from March to June, which, despite upward inflation surprises is also a food for thought for the FOMC meeting. Meanwhile, pandemic concerns cast more shadow on the outlook, as daily infection figures are increasing on both sides of the Atlantic, even though hospitalization and death figures so far have remained at a low level, which implies lower risk of restrictions. Still, vigilance is warranted as a new serious pandemic wave is not really priced in asset prices or in the macro outlook.

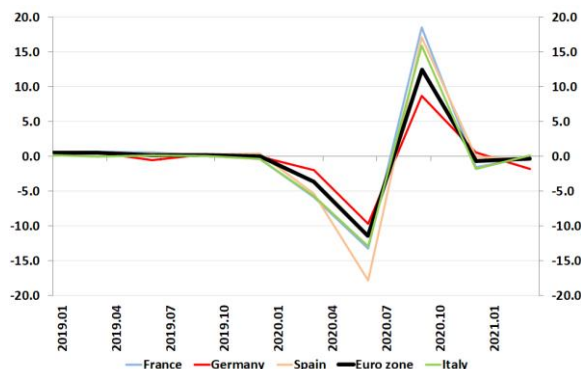
The show of the week will be obviously be the Fed's FOMC meeting, where as usual, the policy decision and the press conference will take place on Wednesday. No major announcement is expected, especially because no update in economic projection is foreseen before September. It is worth remembering that two things caused surprise at the June meeting, after which new projections were released. First, the new 'dot plot' of interest rate projections showed two 25bp hikes in 2023, instead of the previous one hike. Second, the FOMC admitted that inflation could be higher than the 2% target for a more prolonged period. The market assessed these as a change in the Fed's tone toward a more hawkish sentiment, but by now it is clear based on the June minutes and decision makers' communication that most voting members did not want to send as hawkish messages as the markets perceived. The latest minutes suggest that officials only agreed to begin to discuss plans for tapering purchases over coming meetings. Furthermore, incoming data on the real economy, together with the spread of the delta variant, pose a downside risk to the June projection, even though inflation surprised on the upside in June again, with the headline CPI inflation rate surging to 5.4%. But that latest surge was again driven by the same handful of categories that were hardest hit by supply shortages and reopening. Still in the **USA**, the advance estimate of the Q2 GDP will be published on Thursday. The market expects 8% annualized QoQ growth (1.9% non-annualized), which is a slight strengthening from Q1 (6.4% annualized), but it is important to note that the economy may have been the strongest around March-April, while the recovery started to weaken after the fading of the stimulus. The June core consumer expenditure deflator will likely show further strengthening (from 0.5 to 0.6% MoM) as implied by rising core inflation.

In the **eurozone**, the Q1 flash GDP for the whole area, as well as for France, Italy, Spain could capture interest on Friday. Unlike the USA, the euro area was still in recession in Q1 (-0.3% non-annualized QoQ). The second quarter will definitely bring growth, the market expects 1.5%, which is still weaker than US Q2 growth expectations, despite the opening of the services sector. Still in Europe, the July CPI data (also due on Friday) could be of interest,

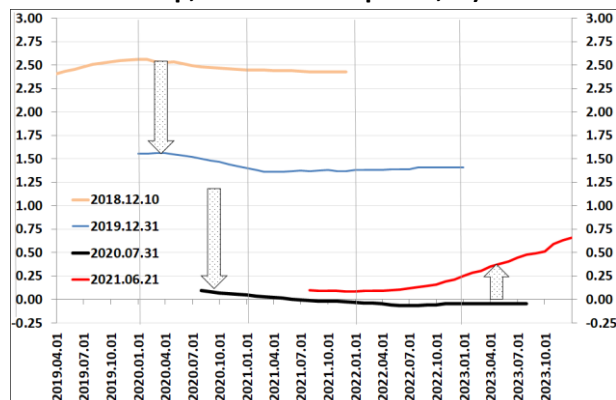
although the market reaction will be definitely much weaker than with US CPI data, as core inflation is still way below the target, while the headline is at 2.0%. Given the latest communication of the ECB, it is obvious that the Bank will tolerate temporary upside surprise in the data.

China will release the official NBS *PMIs* for July, where both manufacturing and non-manufacturing figures have been weakening for several months, but remained above 50-point threshold, which suggests expansion.

GDP growth rates in the euro area and in major economies (QoQ, %)



Market expectations on the Fed Funds Rate (for eop, from futures prices, %)



Sources: Refinitiv and Bloomberg

What to watch next week

Data	Cd.	Event/Data	Period	Cons.	Prev.
2021 7. 26.	10 : 00 DE	IFO Economic sentiment index (points)	Jul	102.1	101.8
	16 : 00 US	New home sales (annualized monthly, '000s)	Jun	792.0	769.0
	27. 14 : 30 US	Durable goods orders (MoM, %)	Jun	2.1	2.3
	15 : 00 US	Case-Shiller Home Price Index (YoY, %)			14.9
	16 : 00 US	Consumer confidence (point)	Jul	125.0	127.3
	10 : 00 IT	Consumer confidence (point)	Jul	115.8	115.1
	28. 20 : 00 US	Interest rate decision (%)	Jul	0-0.25	0-0.25
	29. 11 : 00 EZ	EC Economic Sentiment Index (points)	Jul	118.8	117.9
	14 : 00 DE	CPI (preliminary, YoY, %)	Jul	3.2	2.3
	14 : 30 US	GDP (preliminary, annualized QoQ, %)	Q2	8.2	6.4
	14 : 30 US	Initial jobless claims ('000s)	weekly		419.0
	14 : 30 US	Continuing jobless claims ('000s)	weekly		3236.0
	16 : 00 US	Pending home sales (MoM, %)	Jun		8.0
	30. 7 : 30 FR	GDP (preliminary, QoQ, %)	Q2	0.8	-0.1
	8 : 00 DE	GDP (QoQ, SA, preliminary, %)	Q2	2.0	-1.8
	8 : 00 DE	GDP (preliminary, YoY, %)	Q2	10.0	-3.4
	9 : 00 IT	Unemployment rate (%)	Jun	10.4	10.5
	9 : 00 ES	GDP (preliminary, QoQ, %)	Q2	2.2	-0.4
	9 : 00 ES	Retail sales (YoY, %)	Jun		19.6
	10 : 00 IT	GDP (preliminary, QoQ, %)	Q2	1.4	0.1
	11 : 00 EZ	CPI (flash, YoY, %)	Jul	2.0	1.9
	11 : 00 EZ	Core CPI (flash, YoY, %)	Jul	0.8	0.9
	11 : 00 EZ	Unemployment rate (%)	Jun	7.9	7.9
	11 : 00 EZ	GDP (preliminary, QoQ, %)	Q2	1.5	-0.3
	11 : 00 EZ	GDP (preliminary, YoY, %)	Q2	13.2	-1.3
	14 : 30 US	Personal income (MoM, %)	Jun	-0.4	-2.0
	14 : 30 US	Personal consumption (adjusted, MoM, %)	Jun	0.7	0.0
	14 : 30 US	Household core PCE index (MoM, %)	Jun	0.6	0.5
	15 : 45 US	Chicago PMI (points)	Jul		66.1
	31. 3 : 00 CN	NBS Non-manufacturing PMI (points)	Jul		53.5
	3 : 00 CN	NBS Manufacturing PMI (points)	Jul	50.8	50.9

While the new pandemic wave was a drag on developed markets, good earnings data and the dovish ECB brought moderate optimism

The week started by sharply falling stock markets, which continued last week's fall as the new pandemic wave around the globe made investors more nervous about the outlook. However, the rest of the week brought recovery: major stock markets grew in the subsequent four days as nearly all earnings in the reporting season beat expectations, which led to an overall increase on major markets in weekly terms. Long-term yields fell in Europe, helped by the increasingly dovish ECB in its revised policy framework, which also gave the USD some strength, while the new OPEC+ agreement helped to stabilize oil prices.

Pandemic situation: Several countries (re)imposed restrictions as infection rates quickly deteriorate due to the rapid spread of the Delta variant

The number of daily new cases soared in the USA this week, hospitalizations doubled in the past month in Florida State. Mexico reports growing infection rates, new case statistics in Cuba plateaued. Countries in South America are showing a promising decline of cases, but the level of infection is still high in some countries, especially in Colombia, Argentina, and Brazil.

Despite having the highest level of infections in Europe, the UK lifted most covid restrictions on Monday. The growth of new covid cases seems to have halted in the Netherlands, Portugal, and Denmark. Cases rise at an alarming rate in France, the country's health pass policy became active this week, and mask rules were reimplemented in a few high-risk regions. Spain is suffering from the second highest new covid case counts per capita in the region. Infection rates rose in Italy and Germany. Most countries in the CEE region showed slowly increasing infection rates.

Singapore reported an alarming leap in covid cases this week, and was forced to implement restrictions on gatherings. Iran unveiled strict, six-day-long covid restrictions, putting Tehran under lockdown, due to a fifth infection wave. The Olympics started in Japan, amidst rising daily covid cases locally.

Australia was forced to extend its stay-at-home orders in Sydney, due to the emerging count of newly detected covid cases. New Zealand temporarily suspended the quarantine-free movement between the two countries.

All major European and US stock indices closed in pluses by Friday afternoon

In **Europe**, the *Stoxx600* increased by 1.4%. The *DAX* gained 0.9% during the week, giving back last week's fall, while *CAC40* increased by 1.6% and the *FTSE MIB* by 1.5%. The *FTSE100* hardly grew (0.2%). In sectoral terms, cyclical sectors gained momentum on good earnings data and strong German PMI-s. Financials (4.5%) and travel&leisure (3.3%) were among the best performers, while telco (-0.3%) and oil&gas (-0.4%) were the weakest spots.

In the **USA**, the *S&P500* was up by 1.4% on Friday afternoon, in a weekly comparison. The *Russell 2000* small-cap increased by 2.1%. Out of S&P's components IT and consumer discretionary (2.2% both) were the best performers, while utilities (-1.7%) and energy (-1.3) fell the most.

Long-term yields fell further in Europe, helped by the ECB's dovish communication, the USD gained momentum, oil prices stabilized

Long-term *Treasury/bond yields* broadly stagnated in the USA (-0.7 bps) after a volatile trade on Friday, but fell in Europe (Germany: -6, Italy -8, surprisingly Spain -2 bps), as a consequence of the ECB policy meeting. This latter also helped the US dollar to strengthen against the euro. *Oil prices* stabilized as the OPEC+ deal was finally reached on Sunday, when OPEC+ member states agreed to reduce their production by 400,000 barrels a day, from August 2021 to September 2022, and review the pace of reduction in December, in light of market developments.

As expected, the ECB sounded more dovish after the strategy review; mixed data from the USA

In the **euro area**, the *ECB Governing Council* did not cause surprise at its first meeting after changing its inflation target to a symmetrical 2% two weeks ago. In a slight change in the language, it said that rates would remain at their present or lower levels until the Governing Council sees inflation reaching two per cent 'well ahead of the end of its projection horizon and durably for the rest of the projection horizon'. The Bank's previous guidance had referred to reaching the target 'within its projection horizon'. Furthermore, the Bank acknowledged the possibility of a temporary overshoot to the 2% target. All in all, this implies obviously more dovish tone than the June communication, but after the strategy revision this was hardly a surprise. Otherwise no concrete new policy steps occurred; asset purchases and rates remained as before. Overall, the market expects that asset purchases' tapering could start at the end of this year or the start of next year at the earliest. July's *consumer confidence* data, at -4.4 points, disappointed (consensus: -2.5, June: 3.3 points), which ended an uninterrupted improvement from January to June, as the spread of the Delta variant made consumers somewhat less certain. There was a small rise in the *Composite PMI*, from 59.5 in June to 60.6 in July, exceeding the consensus forecast and hitting its highest level in 21 years. The increase was entirely driven by an improvement in the services sector, where the business activity PMI rose to 60.4, while manufacturing PMI fell to a five-month low of 60.9.

In the **USA**, the June *leading index* continued to show a weakening of the recovery with 0.7% MoM growth missing the consensus forecast of 0.9%, and the May figure, 1.3%. The *housing data* as well as weekly jobless claims figures were both mixed. The July Markit manufacturing *PMI*-s could improve further in the US (from 62.1 to 63.1 points), which is a new historic record after the previous record months, however the service sector component edged down to 58.1 points, sharply missing the consensus of 64.8 and the previous value of 64.6. The decline was already the second in a row.

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	4386.8	1.4	16.8	Stoxx 600	SXXP Index	461.1	1.4	15.6
IT	SSINFT Index	2697.7	2.2	17.7	Health care	SXDP Index	1002.0	0.7	14.0
Health care	S5HLTH Index	1524.4	1.7	15.1	Industrial goods & services	SXNP Index	759.2	2.7	20.7
Financials	S5FINL Index	603.6	0.5	23.1	Banks	SX7P Index	131.9	1.8	21.9
Telco	S5TELS Index	271.4	1.5	22.3	Personal & households goods	SXQP Index	1069.0	0.1	14.6
Consumer discretionary	S5COND Index	1467.4	2.2	12.7	Insurance	SXIP Index	297.2	1.0	6.5
Industrials	S5INDU Index	872.2	1.2	16.4	Food and beverages	SX3P Index	806.1	-0.1	12.8
Consumer staples	S5CONS Index	730.4	-0.5	4.9	Technology	SX8P Index	750.3	2.4	24.3
Utilities	S5UTIL Index	331.2	-1.7	3.8	Utilities	SX6P Index	383.1	0.7	-0.2
Energy	S5ENRS Index	363.9	-1.3	27.2	Oil & gas	SXEP Index	244.7	-0.3	3.5
Real estate	S5RLST Index	287.1	-0.7	26.0	Chemicals	SX4P Index	1285.5	1.1	15.4
Materials	S5MATR Index	508.8	-0.1	11.6	Construction & materials	SXOP Index	608.0	2.2	23.4
Source: Bloomberg					Telco	SXKP Index	236.3	-0.2	14.9
					Retail	SXRP Index	468.7	2.4	18.4
					Financial services	SXFP Index	722.6	4.5	19.2
					Basic resources	SXPP Index	600.1	2.0	20.2
					Real estate	SX86P Index	192.8	0.8	12.8
					Auto & parts	SXAP Index	644.7	2.7	22.3
					Media	SXMP Index	342.8	2.4	21.1
					Travel & leisure	SXTP Index	255.9	3.3	14.1

Source: Bloomberg

Data updated at 16:00 (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	4387	3.4	4.9	14.2	35.6	29.2	4.7	3.2	14.9	1.4	119.3	4.5	8.4
Europe	SXXP Index	461	1.8	5.0	12.9	23.4	43.9	2.2	1.6	6.4	1.1	186.2	0.8	8.3
Germany	DAX Index	15675	1.4	2.6	13.0	19.6	29.4	1.8	1.2	7.2	1.2	120.2	27.0	11.3
France	CAC Index	6566	0.2	4.9	18.1	30.4	45.2	1.9	1.5	4.1	1.1	223.0	11.0	9.3
Poland	WIG20 Index	2235	0.1	12.5	14.5	22.8	19.8	1.3	1.1	6.5	1.2	56.7	10.1	15.8
Czechia	PX Index	1193	2.6	9.7	13.7	27.7	24.5	1.4	1.8	6.0	1.1	163.3	2.2	5.9
Hungary	BUX Index	47395	-2.5	10.8	8.6	33.2	13.3	1.1	1.0	9.2	1.2	58.5	119.4	13.0
Romania	BET Index	11902	2.7	6.1	15.2	38.9	11.9	1.1	1.6	9.4		26.9	120.4	
Bulgaria	SOFIX Index	565	2.7	8.7	12.5	28.2	21.7	0.6	0.8	2.6	2.8	38.5		
Russia	IMOEX Index	3730	-2.8	3.7	10.3	30.8	11.8	1.1	1.3	9.8	1.6	69.9	26.0	12.3
Ukraine	PFTS Index	525	-1.1	-0.4	5.2	5.0	5.5		0.5	29.3				
Slovenia	SBITOP Index	1141	0.4	8.4	21.6	33.8	8.9	1.0	0.6	11.4	1.7	26.0		
Croatia	CRO Index	1926	-3.1	2.1	7.4	19.7	35.5	1.1	1.2	3.2	1.3	49.3		
Serbia	BELEX15 Index	773	-0.2	0.4	5.4	19.1	22.6	0.6	0.8	3.1	1.7	19.0		
Montenegro	MNSE10 Index	748	-2.2	-1.8	3.2	5.7		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).

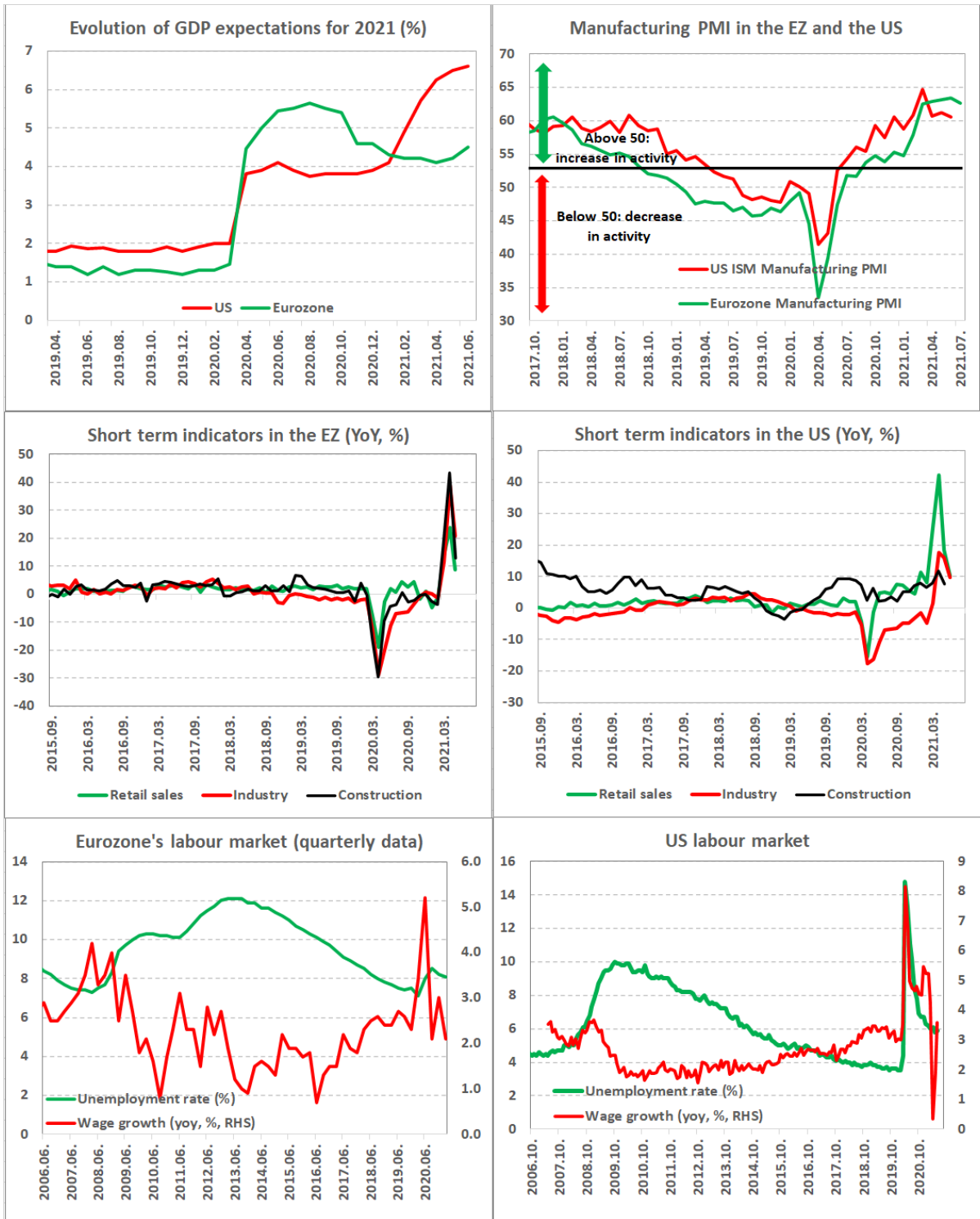
***therefore direct comparison of valuation metrics alone could be misleading.

Data updated at 16:00 (CEST)

This week's data

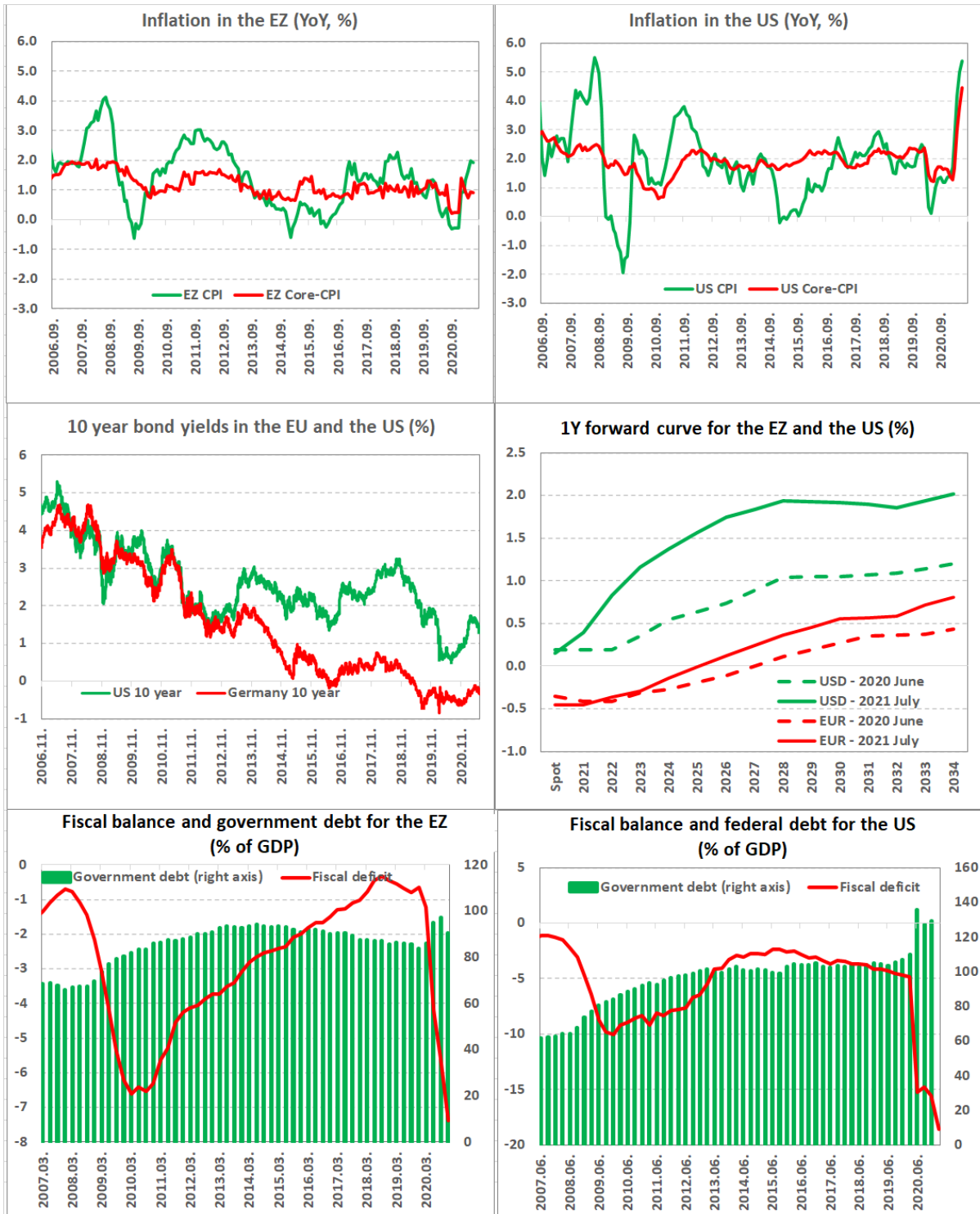
Data		Cd.	Event/Data	Period	Fact	Cons.	Prev.
20.	1 : 30	JP	core-CPI (YoY, %)	Jun	0.2	0.2	0.1
	1 : 30	JP	CPI (YoY, %)	Jun	0.2	-	-0.1
	14 : 30	US	Building permits (annualized monthly, '000s)	Jun	1598	1700	1683
	14 : 30	US	Housing starts (annualized monthly, '000s)	Jun	1643	1590	1572
22.	13 : 45	EZ	Interest rate decision (deposit rate, %)	Jul	-0.5	-0.5	-0.5
	13 : 45	EZ	Interest rate decision (lending rate, %)	Jul	0	0	0
	14 : 30	US	Continuing jobless claims ('000s)	weekly	3236	-	3265
	14 : 30	US	Initial jobless claims ('000s)	weekly	419	-	360
	16 : 00	EZ	Consumer confidence (point)	Jul	-4.4	-2.5	-3.3
	16 : 00	US	Existing home sales (annualized monthly, '000s)	Jun	5860	5900	5800
	16 : 00	US	Leading index (MoM, %)	Jun	0.7	0.9	1.3
23.	8 : 00	UK	Retail sales (MoM, %)	Jun	0.5	0.4	-1.4
	9 : 15	FR	Markit Manufacturing PMI (points)	Jul	58.1	58.4	59
	9 : 15	FR	Markit Service PMI (points)	Jul	57	58.7	57.8
	9 : 30	DE	Markit Manufacturing PMI (points)	Jul	65.6	64.2	65.1
	9 : 30	DE	Markit Service PMI (points)	Jul	62.2	59.1	57.5
	10 : 00	EZ	Markit Manufacturing PMI (points)	Jul	60.9	62.5	63.4
	10 : 00	EZ	Markit Service PMI (points)	Jul	60.4	59.5	58.3
	10 : 30	UK	Manufacturing PMI (points)	Jul	60.4	62.5	63.9
	10 : 30	UK	Service PMI (points)	Jul	57.8	62	62.4
	15 : 45	US	Markit Manufacturing PMI (points)	Jul	63.1	62	62.1
	15 : 45	US	Markit Service PMI (points)	Jul	59.8	64.8	64.6

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	1.21	1.23	1.22
EURGBP	0.89	0.91	0.90	0.88	0.86	0.86	0.85	0.85	0.86	0.88
EURCHF	1.06	1.08	1.08	1.08	1.10	1.11	1.12	1.13	1.11	1.10
USDJPY	107.0	106.0	104.0	104.0	109.0	110.0	111.0	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	5,8	4,3	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	6,1	4,5	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 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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