



**Omicron news, Fed and ECB tapering decisions will be in the spotlight**

*Next week will probably be the most interesting one this year. News about Omicron could still move markets, but fears about a very negative scenario could be priced out, as more information has been gathered on the new variant. It seems that the new virus strain is as contagious as can be, but it is less likely to cause severe illness than other variants. Early results from vaccine producers suggest that vaccines could remain effective against Omicron, after three shots. Otherwise, both major central banks will hold rate-setting meeting. The situation with the Fed is probably more interesting, as the key question whether tapering will be speeded up, and if so, to what degree. In the case of the ECB, the Governing Council seems to keep the "transitory" mantra, which Chair Powell just indicated to retire. Admittedly, the ECB's decision-makers have a point, as the underlying inflation situation in the euro area is quite different from that of the USA. Finally, if these are not enough, China's key November activity data will be published as well, where the real estate market has started its downturn.*

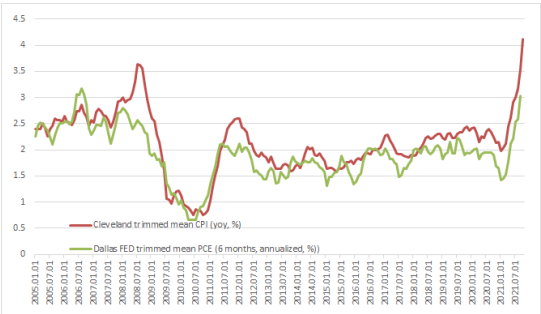
In the **USA**, the FOMC meeting will conclude on Tuesday. To recap: at its November decision, the Fed announced the start of tapering by USD 15 bn per month (10 bn Treasury yields and 5 bn MBS), and an expectation of monthly cuts in a similar magnitude, until tapering is finished by next June. The Minutes from the meeting revealed that many FOMC members pointed to the fact that high inflation could be more persistent than initially thought, and some of them even suggested that a speed-up in the monthly pace of asset purchases would be warranted. However, the real message came across during Chair Powell's testimony at the US Senate, after his renomination. There he said two important things: (i) it seems probably valid to retire the word 'transitory' in FOMC inflation assessment (ii) he thinks it is valid to think about ending tapering a few months earlier. On Friday, the November CPI data, the fastest increase since 1982 was added to the information set of decision makers. The current outcome could be that tapering will be speeded up by 50% from January, which would suggest that tapering could end by March. In this case, rate hikes from the Fed could also begin earlier, probably from Q2. Importantly, the FOMC will also publish its recent economic projection, which contained an unemployment rate of 4.8% for 2021Q4, while October and November data turned out at 4.6% and 4.2%.

In the **euro area**, as usual, understanding what is at stake seems more complex. On the one hand, the underlying inflation situation

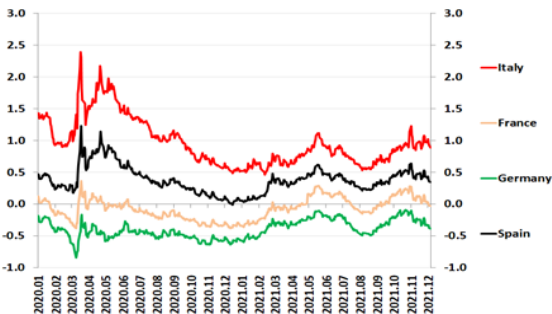
is clearly somewhat more benign. First the headline and core inflation are clearly lower than in the USA (headline: 6.2% vs. 4.9%, core: 4.6% vs 2.6%) If statistical issues (Germany VAT effect and problems with recent HICP weight) with euro area HICP data are handled properly, another 0.7 pts could be deducted from euro area inflation rates. Finally, and probably most importantly, the labour markets are in very different shapes in the two regions: while it seems extremely tight in the USA, in the euro area it seems to be in quite neutral state. One obvious indicator for this is the pace of wage growth, which stood at 5%, while productivity is even negative recently, while wages hardly grow in the euro area, when productivity growth seems obviously positive. All in all, it seems reasonable that the ECB's decision-makers still expect the inflation increase to be transitory. Nevertheless, surprises cannot be ruled out, and what seems also very likely is that the Committee will revise next year's inflation forecast upwards. However, as for now, the December meeting of the *Governing Council* could be more about assessing the risks stemming from the Omicron than concerns about persistently high inflation.

Finally, **China** will release its key monthly indicators for November. In October, *industrial production and retail sales* surprised on the upside, with a slight rise, rather than slowing. However, the general shape of the economy probably suggests ongoing weakening, in particular due to the struggling of the property sector, where both home prices and property sales have started to fall in October.

US underlying inflation measures (YoY, %)



Euro area government bond yields



Sources: Refinitiv and Bloomberg

## What to watch next week

Data		Cd.	Event/Data	Period	Cons.	Prev.	
2021	12. 14.	8 : 00	UK	Unemployment rate (%)	Oct	4.2	4.3
		11 : 00	EZ	Industrial production (MoM, %)	Oct	1.2	-0.2
	15.	3 : 00	CN	Infrastructural spending (YoY, %)	Nov	5.3	6.1
		3 : 00	CN	Industrial production (YoY, %)		3.8	3.5
		3 : 00	CN	Retail sales (YoY, %)	Nov	4.9	4.9
		8 : 00	UK	Inflation (YoY, %)	Nov	4.7	4.2
		14 : 30	US	New York Fed Manufacturing index (points)	Dec	27.0	30.9
		14 : 30	US	Retail sales (MoM, %)	Nov	1.0	1.7
		16 : 00	US	Business inventories (MoM, %)	Oct	0.7	0.7
		20 : 00	US	Interest rate decision (%)	Dec	0-0,25	0-0,25
	16.	9 : 15	FR	Markit Manufacturing PMI (points)	Dec	55.3	55.9
		9 : 15	FR	Markit Service PMI (points)	Dec	55.6	57.4
		9 : 30	DE	Markit Manufacturing PMI (points)	Dec	57.0	57.4
		9 : 30	DE	Markit Service PMI (points)	Dec	51.0	52.7
		10 : 00	EZ	Markit Manufacturing PMI (points)	Dec	57.7	58.4
		10 : 00	EZ	Markit Service PMI (points)	Dec	54.2	55.9
		10 : 30	UK	Manufacturing PMI (points)	Dec	57.6	58.1
		10 : 30	UK	Service PMI (points)	Dec	57.5	58.5
		12 : 00	TR	Interest rate decision (%)	Dec	14.0	15.0
			UK	Interest rate decision (%)	Dec	0.1	0.1
		13 : 45	EZ	Interest rate decision (lending rate, %)	Dec	0.0	0.0
		13 : 45	EZ	Interest rate decision (deposit rate, %)	Dec	-0.5	-0.5
		14 : 30	US	Building permits (annualized monthly, '000s)	Nov	1660.0	1653.0
		14 : 30	US	Housing starts (annualized monthly, '000s)	Nov	1572.0	1520.0
		14 : 30	US	Initial jobless claims ('000s)	weekly		184.0
		14 : 30	US	Continuing jobless claims ('000s)	weekly		1992.0
		15 : 15	US	Industrial production (MoM, %)	Nov	0.7	1.6
		15 : 45	US	Markit Manufacturing PMI (points)	Dec	58.5	58.3
		15 : 45	US	Markit Service PMI (points)	Dec		58.0
	17.	4 : 00	JP	Interest rate decision (%)	Dec	-0.1	-0.1
		10 : 00	DE	Ifo Economic sentiment index (points)	Dec	95.4	96.5

### **Stock markets picked up from a two-week fall, as mildly positive news on the Omicron variant came to light**

*The week started with two days of positive correction in Europe and three days in the USA, markets were fuelled by early reports on Omicron, which were assessed as mildly reassuring. On the one hand, reports seem to have found that the new strain is spreading quicker than Delta, but it seems to cause less severe symptoms. A second important piece of news was Pfizer's early result on the effectiveness of its vaccine, which suggested that although two doses will be probably not enough against Omicron, but after the third dose the effectiveness of its vaccine gets to similar level as after two doses with the original Wuhan variant. By the second half of the week, markets have started to fall, as investors became more cautious ahead of the November US CPI data, which eventually brought no surprise and did not cause any upheaval on the markets. Even more, major stock markets reacted positively after the data release, as investors were relieved since the inflation level remained below 7%.*

**Mildly positive early news came from Omicron, but several Western European countries still struggle with the Delta wave. In the CEE region, most countries have passed the peak of the Delta wave.**

The appearance of the recently discovered Omicron variant has now been reported from at least 57 countries. The new variant seems to spread rapidly, according to the data from South Africa, where the new mutation has been first detected, but early data suggest that it could cause somewhat milder disease than Delta, while Pfizer's early results also seemed to confirm that three vaccine doses could give effective protection.

Infection rates in the USA stagnated after a brief climb, due the Thanksgiving holiday. New York City extended its mandatory vaccination for children as young as 5, and also for all private employees.

The recent infection wave reached its peak in most of Western Europe, but covid cases are rising in France, Switzerland, Italy, and Spain, since the effect of the new wave has just recently taken a foothold in these countries. France introduced new distancing rules, mask-rules in schools will be tightened, and nightclubs will be closed for a month.

Countries in Central Europe have reached the peak of the current wave. Slovakia is planning to extend the lockdown by one week, Poland is set to introduce new restrictions. The covid statistics show declining infection rates in Eastern Europe, but the daily covid deaths are still considerable in some countries.

**European and US stocks seem to end the week in decent pluses after two weeks of falling**

In **Europe**, the *STOXX600* seems to end the week with 3.2% gain. Western European stock markets all turned out bullish: the *DAX* edged up 3.4%, while the *CAC40* outperformed the markets with 3.7% weekly gain. *FTSE* grew by 2.8%, while *FTSE MIB* by 3.5%. All sector components of *STOXX* increased sharply in weekly terms with travel&leisure (6.4%) and basic resources (5.1%) leading the gains.

In the **USA**, the *Dow* seems to lead the weekly gain by 3.7% growth, followed by *S&P* (3.5%) and *Nasdaq Composite* (3.2%). The small cap *Russel200* grew by 3.4%. Out of *S&P* components, *IT* (4.8%) best performing, however all subsectors seem to increase well above 2% in weekly terms

### **Long term yields edged up, and there was also a sharp correction in oil prices, while the USD remained broadly stable**

As investors had become more relieved during the weak and stock markets corrected, long-term *Treasury yields* have also started to move upwards. In the *US*, the weekly increase was 12 bps, while in Europe the correction was more moderate (*DE*: 3.6, *IT*: 4.6, *ES*: 0.3 ppts). *Oil prices* rose Friday, on track to record their best week since late August, amid growing optimism that the spread of the Omicron Covid variant won't cause severe economic damage. The *USD* remained broadly stable, as markets have been bracing for taper. European *natural gas prices* moved well above EUR 100/MWH, posting an over 17% weekly increase, as geopolitics with Russia remained tense.

### **US inflation brought no surprise, mixed data from Europe**

In the **USA**, Friday's November *CPI* brought no surprise this time, as the headline rate strengthened from 6.2% to 6.8%, while the core rate from 4.6% to 4.9% (all YoY), in line with the consensus. This was the fastest inflation since 1982, however with energy prices falling sharply in recent weeks, last month probably marked the peak. Energy prices increased by 3.1%, food prices increased by 0.7%, excluding food and energy, core prices increased by a more modest 0.5% (all MoM) but the gain was broad based. While headline inflation is expected to ease in the coming month, core inflation could remain elevated for a prolonged period.

In the **euro area**, incoming data were a mixed bag. In terms of hard indicators, Germany's October *industrial production* (outcome: 2.8%, consensus 0.8% MoM) and *exports* (fact: 4.1%, consensus 0.9% MoM) surprised to the upside, and the figures suggested that supply bottlenecks in the auto sector may have eased somewhat. However, *industrial orders* fell sharply (-6.9% vs the consensus of -0.5% MoM). Adding to the controversy, the *Sentix* index weakened more in December, while *ZEW* weakened much less than had been thought.

## WEEKLY REPORT - 13 DECEMBER 2021



**China's** exports slowed to 22% in November, but this was well above the consensus (17.2%).

## This week's data

Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2021 12. 6.	8 : 00 DE	Industrial orders (MoM, %)	Oct	-6.9	-0.5	1.8
	10 : 00 IT	Retail sales (MoM, SA, %)	Oct	0.1		1.0
	10 : 30 EZ	Sentix Investor confidence (points)	Dec	13.5	15.9	18.3
7.	4 : 00 CN	Export (YoY, %)	Nov	22.0	17.2	27.1
	8 : 00 DE	Industrial production (MoM, %)	Oct	2.8	0.8	-1.1
	11 : 00 DE	ZEW Economic Sentiment (points)	Dec	29.9	25.1	31.7
8.	13 : 00 PL	Interest rate decision (%)	Dec	1.8	1.75	1.25
	16 : 00 CA	Interest rate decision (%)	Dec	0.3	0.25	0.25
9.	8 : 00 DE	Export (MoM, SA, %)	Oct	4.1	0.9	-0.7
	14 : 30 US	Initial jobless claims ('000s)	weekly	184	215	222
	14 : 30 US	Continuing jobless claims ('000s)	weekly	1992	1900	1956
10.	10 : 00 IT	Industrial production (MoM, SA, %)	Oct	-0.6	0.4	0.1
	14 : 30 US	core-CPI (MoM, SA, %)	Nov	0.5	0.5	0.6
	14 : 30 US	core-CPI (YoY, %)	Nov	4.9	4.9	4.6
	14 : 30 US	CPI (MoM, SA, %)	Nov	0.8	0.7	0.9
	14 : 30 US	CPI (YoY, %)	Nov	6.8	6.8	6.2
	16 : 00 US	Michigan Consumer confidence (preliminary, points)	Dec	70.4	67.1	67.4
	20 : 00 US	Federal budget balance (USDbn)	Nov		-195.0	-165.0



## 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	4696.4	3.5	25.0	Stoxx 600	SXXP Index	477.6	3.2	19.7
IT	S5INFT Index	3036.1	4.8	32.5	Health care	SXDP Index	1049.3	3.5	19.4
Health care	S5HLTH Index	1567.6	3.3	18.4	Industrial goods & services	SXNP Index	776.1	4.1	23.4
Financials	S5FINL Index	646.3	2.4	31.8	Banks	SX7P Index	140.5	1.7	29.8
Telco	S5TELS Index	266.8	3.2	20.2	Personal & households goods	SXQP Index	1097.9	3.6	17.7
Consumer discretionary	S5COND Index	1602.7	1.8	23.0	Insurance	SXIP Index	315.1	1.9	12.9
Industrials	S5INDU Index	887.9	3.0	18.5	Food and beverages	SX3P Index	846.6	3.8	18.4
Consumer staples	S5CONS Index	764.3	2.6	9.8	Technology	SX8P Index	787.9	2.4	30.5
Utilities	S5UTIL Index	349.9	2.7	9.7	Utilities	SX6P Index	392.4	2.8	2.2
Energy	S5ENRS Index	425.2	2.4	48.6	Oil & gas	SXEP Index	279.2	2.7	18.1
Real estate	S5RLST Index	305.9	2.5	34.2	Chemicals	SX4P Index	1350.9	4.0	21.2
Materials	S5MATR Index	552.0	3.4	21.1	Construction & materials	SXOP Index	623.1	3.2	26.5
Source: Bloomberg					Telco	SXKP Index	226.5	2.9	10.1
					Retail	SXRP Index	442.1	2.5	11.7
					Financial services	SXFP Index	734.9	2.3	21.2
					Basic resources	SXPP Index	581.5	5.1	16.4
					Real estate	SX86P Index	193.6	0.8	13.3
					Auto & parts	SXAP Index	677.6	4.9	28.5
					Media	SXMP Index	365.8	3.3	29.2
					Travel & leisure	SXTP Index	221.2	6.4	-1.4

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	4696	1.1	5.3	10.8	28.0	25.7	4.8	3.1	18.7	1.3	115.2	1.3	3.5
Europe	SXXP Index	478	-1.3	2.4	5.1	21.5	20.3	2.1	1.6	11.7	1.1	194.2	0.2	5.5
Germany	DAX Index	15682	-2.4	0.5	0.7	18.0	15.5	1.9	1.2	12.9	1.1	114.0	11.2	-1.8
France	CAC Index	7018	-0.4	5.3	7.2	26.5	21.2	2.0	1.5	9.7	1.1	238.2	2.1	4.7
Poland	WIG20 Index	2213	-6.5	-6.2	-1.1	11.6	12.3	1.2	1.0	10.3	1.2	53.6	-1.7	13.8
Czechia	PX Index	1405	2.3	9.4	19.1	43.9	19.7	1.6	2.0	8.5		168.5	-1.7	8.2
Hungary	BUX Index	51183	-4.1	-3.0	5.6	24.5	8.1	1.3	0.9	15.0	1.2	56.8	94.2	23.4
Romania	BET Index	12560	-1.7	1.3	10.5	31.5	0.5	1.2	0.1	10.9		35.0	41.9	3.5
Bulgaria	SOFIX Index	613	1.5	8.8	13.1	40.3	18.8	0.7	0.7	3.8	2.4	44.7		
Russia	IMOEX Index	3768	-9.7	-5.9	-1.6	15.6	7.1	1.1	1.1	15.9	1.4	69.6	17.9	8.6
Ukraine	PFTS Index	523	0.0	-0.6	-1.5	3.1	2.8	1.2	0.5	47.0	1.2	3.7		
Slovenia	SBITOP Index	1233	1.9	5.5	8.9	36.7	7.5	1.0	0.7	14.2	1.8	32.5	20.6	
Croatia	CRO Index	2015	0.6	2.2	2.8	14.1	15.9	1.0	1.1	6.9	1.7	39.4		
Serbia	BELEX15 Index	829	2.8	2.4	6.0	17.5	12.5	0.7	0.7	5.7	1.6	19.3		
Montenegro	MNSE10 Index	767	0.0	-1.0	-0.9	20.2	94.1	0.3	0.9	0.6	2.0	13.4		

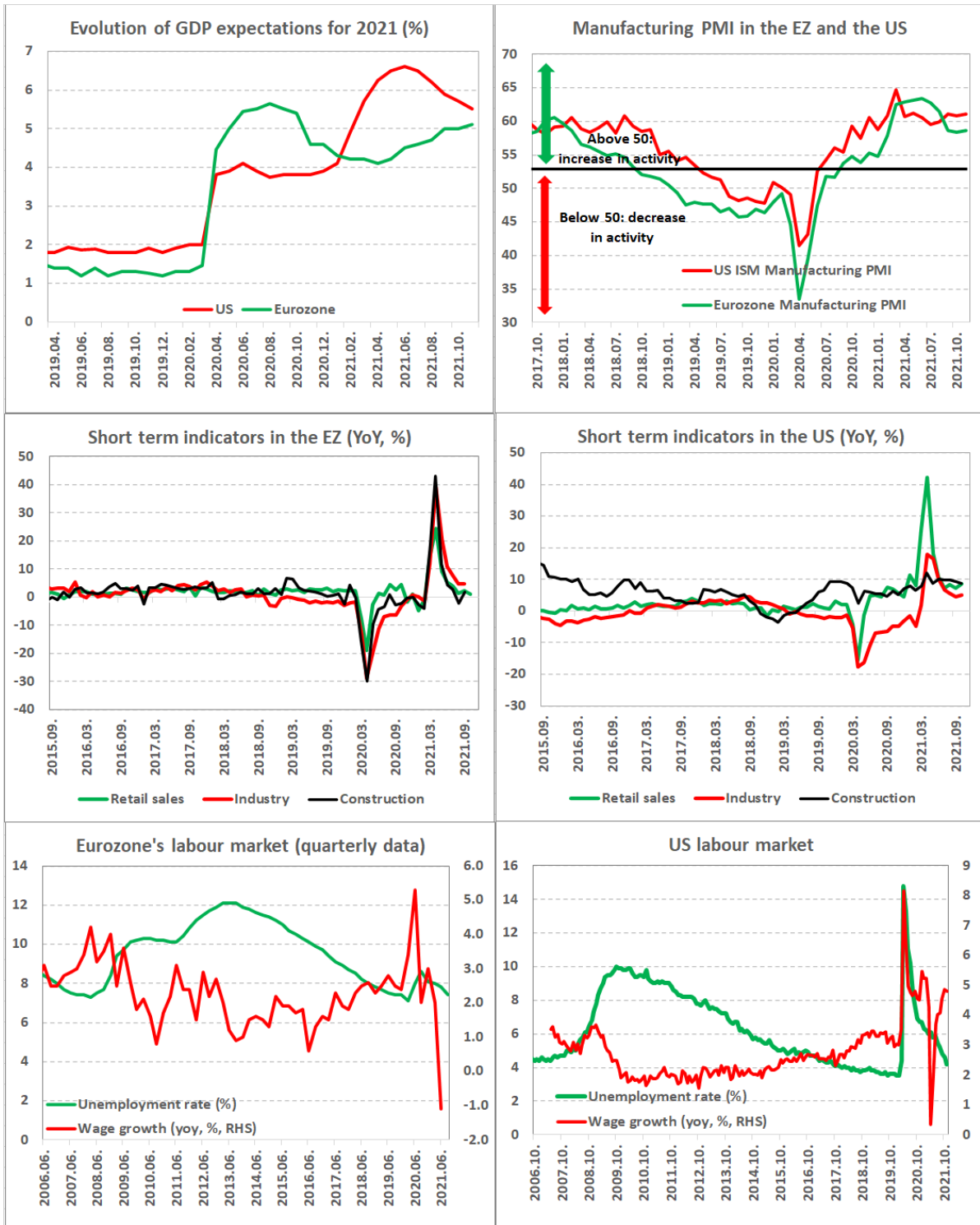
\*Price to earnings (P/E) ratio is calculated with the 12M trailing EPS in the denominator.

\*\*\*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.

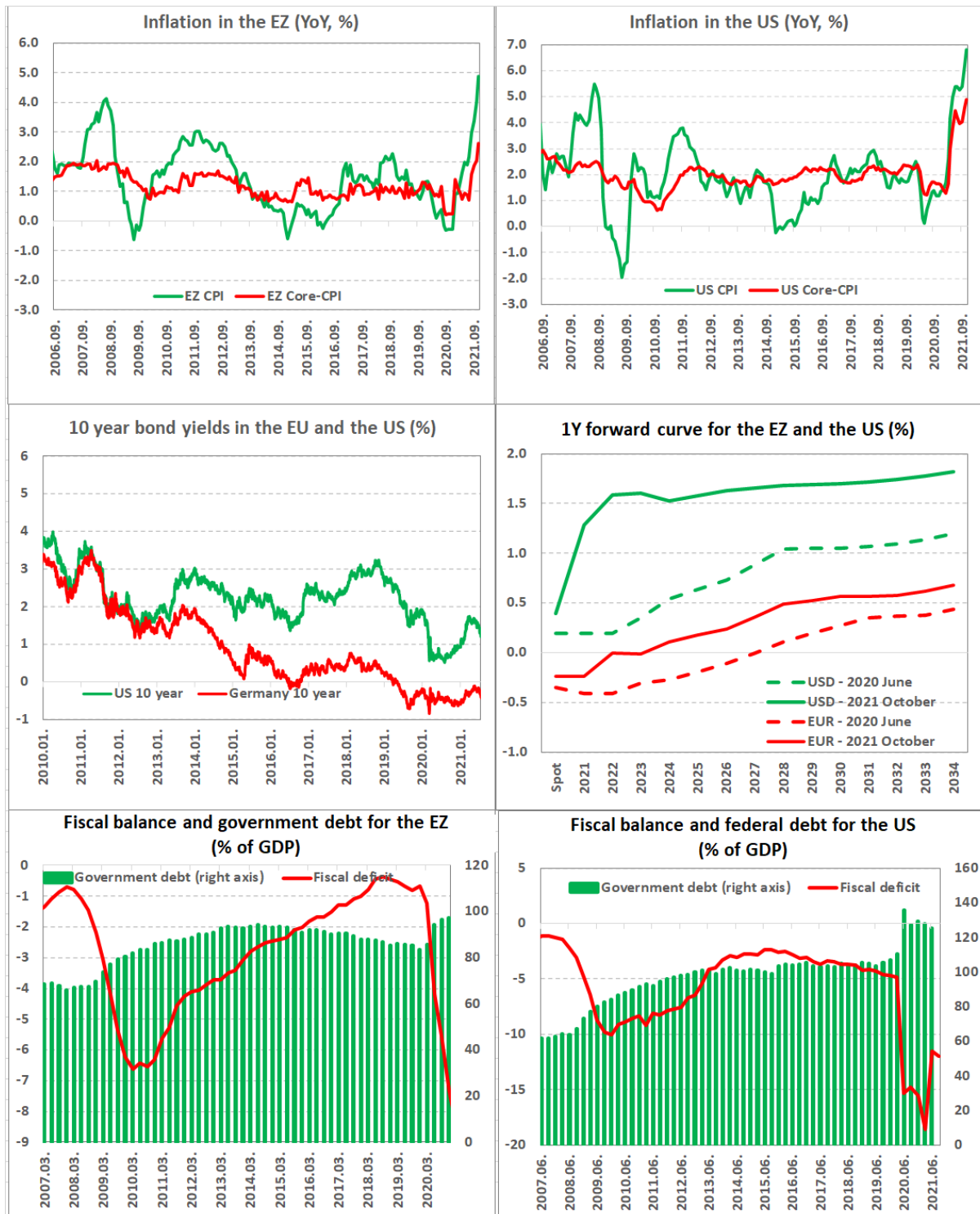
Data updated at 16:00 (CEST)

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	1.18	1.14	1.17	1.18	1.21
EURGBP	0.89	0.91	0.90	0.88	0.86	0.85	0.84	0.84	0.84	0.85
EURCHF	1.06	1.08	1.08	1.08	1.10	1.08	1.06	1.10	1.12	1.09
USDJPY	107.0	106.0	104.0	104.0	109.0	111.5	114.0	115.0	115.0	108.5

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	6.5	5.1	6.7	4.9	Hungary	-8.0	-7.5	-5.9	-7.0	-5.2
Romania	-3.9	6.7	3.8	6.7	4.5	Romania	-9.4	-8.2	-6.5	-7.4	-5.8
Bulgaria	-4.2	3.9	3.5	4.0	3.8	Bulgaria	-4.0	-2.7	-1.9	-3.7	-2.5
Russia	-3.0	4.3	2.6	4.2	2.6	Russia	-3.8	-0.6	0.5	-0.1	0.5
Ukraine	-4.0	3.5	4.4	3.3	3.7	Ukraine	-5.3	-5.0	-3.0	-4.1	-3.2
Slovenia	-4.2	6.2	4.5	6.0	4.1	Slovenia	-8.7	-7.1	-4.9	-6.9	-4.7
Croatia	-8.1	10.2	4.0	7.7	4.5	Croatia	-7.4	-4.5	-3.0	-4.2	-2.9
Serbia	-1.0	7.2	4.5	6.6	4.5	Serbia	-8.1	-2.7	3.1	-4.8	-2.5
Montenegro	-15.3	11.0	5.4	9.5	5.7	Montenegro	-10.1	-2.9	-2.6	-5.1	-2.8
Albania	-4.0	8.0	4.2	7.2	4.1	Albania	-6.8	-6.0	-4.0	-6.0	-4.1
Moldova	-7.0	10.8	4.2	6.5	4.6	Moldova	-5.1	-5.0	-5.0	-4.9	-4.5

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	4.9	4.9	4.9	4.5	Hungary	4.1	3.9	3.3	4.1	3.7
Romania	2.6	5.1	6.0	4.8	5.1	Romania	5.0	5.5	4.5	5.3	4.9
Bulgaria	1.7	3.1	4.7	2.6	2.9	Bulgaria	5.2	5.4	5.0	5.4	5.0
Russia	3.4	6.7	7.1	6.5	5.4	Russia	5.8	5.0	4.0	5.0	4.6
Ukraine	2.7	9.5	7.0	9.3	7.2	Ukraine	9.5	9.2	8.3	9.4	8.8
Slovenia	-0.3	1.3	1.7	1.7	2.0	Slovenia	5.0	4.9	4.8	4.7	4.5
Croatia	0.1	2.2	2.5	2.2	2.2	Croatia	7.5	7.3	6.8	8.2	7.6
Serbia	1.6	3.3	3.0	3.7	3.8	Serbia	9.0	11.2	10.2	10.5	9.9
Montenegro	-0.3	2.4	2.6	2.0	1.8	Montenegro	17.9	17.8	17.4	18.8	17.1
Albania	1.6	2.0	2.3	2.0	2.6	Albania	11.7	11.3	10.9	11.7	11.3
Moldova	3.8	4.7	14.0	4.2	6.8	Moldova	3.8	13.5	11.7	4.2	4.2

Source: Focus Economics, OTP Research Center

## 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	351.0	360.0	355.0	354.0	354.0	353.0	353.0
Romania	EURRON (eop)	4.87	4.93	4.93	4.95	4.95	4.96	4.97	4.98	5.00
Russia	USDRUB (eop)	73.9	75.7	72.4	72.8	71.4	70.8	71.1	71.2	71.6
Ukraine	USDUAH (eop)	28.30	27.80	27.30	26.60	27.30	27.40	27.40	27.80	28.20
Croatia	EURHRK (eop)	7.6	7.6	7.5	7.5	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	1.16	1.17	1.17	1.18	1.18	1.19

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

\*\*No forecast available for Moldova and Albania

Source: Focus Economics

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