

# OTP Weekly Outlook

## Next week:

- The Russia-Ukraine conflict and the FOMC meeting will be in the spotlight

## This week:

- European stock markets recovered partly from the last three weeks' fall
- US markets seem to decline mildly in weekly terms
- US inflation reached almost 8% in February
- The ECB speeds-up tapering
- Long-term yields increased sharply
- EUR strengthened as risk aversion declined
- Energy prices declined as Europe refrains from sanctioning Russian energy



### Market summary table

Indices	Last price	1 week change (%)	YTD (%)	Interest rates	Last price	1 week change (bps)	YTD (bps)	FX rates	Last price	1 week change (%)	YTD (%)	Commodity	Last price	1 week change (%)	YTD (%)
S&P500	4283.8	-1.0	-10.1	US 2 year	1.74	26.2	100.6	Dollar index	98.598	-0.1	3.1	Brent	110	-6.8	41.5
Russel 2000	2024.1	1.2	-9.9	US 10 year	2.01	27.5	49.6	EURUSD	1.0981	0.5	-3.4	WTI	107	-7.7	42.0
Stoxx 600	433.6	2.8	-11.1	DE 2 year	-0.40	34.6	23.8	USDJPY	116.90	-1.8	-1.6	Natural gas	129	-36.5	94.0
DAX	13779.7	5.2	-13.3	DE 10 Year	0.28	35.1	46.0	GBPUSD	1.308	-1.1	-3.3	Gold	1975	0.2	8.0
CAC40	6303.5	4.0	-11.9	ES 10 year	1.26	29.8	70.1	AUDUSD	0.732	-0.7	0.8	Silver	26	0.3	10.6
FTSE100	7171.9	2.6	-2.9	UK 10 year	1.51	30.5	54.3	USDCAD	1.271	0.1	-0.6	Palladium	2774	-7.9	45.6
FTSE MIB	23228.2	3.4	-15.1	IT 10 year	1.87	33.2	69.7	USDCHF	0.932	-1.6	-2.0	Copper	463	-6.1	3.7
Nikkei 225	25162.8	-3.2	-12.6	JP 10 year	0.18	2.4	11.7	NZDUSD	0.684	-0.3	0.2	Steel	1143	-2.7	-20.3
CSI 300	4306.5	-4.2	-12.8	CH 10 year	2.79	-3.0	2.0	CNHUSD	6.352	-0.4	0.1	Wheat	1043	-22.6	35.3

Source: Bloomberg

**The Russia-Ukraine conflict and the FOMC meeting will be in the spotlight**

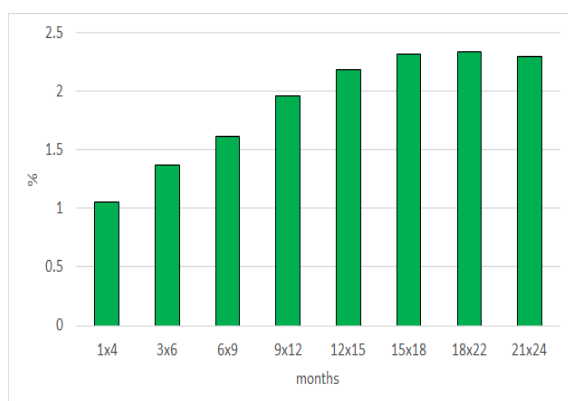
*While news concerning the Russia Ukraine conflict will surely still dominate market sentiment, it seems unlikely that the FED's first rate hike and its related communication will not affect investors. Hence the key date will be Wednesday, when the two-day sitting of the FOMC committee ends. In the euro area incoming news will be more limited, the January industrial production figure and the Zew business confidence from March could deserve some attention. From China, the February key monthly macroeconomic indicators (industrial production, retail sales, and fixed asset investments) will be published.*

In the **USA**, the *FOMC meeting* is expected to bring no surprise. By now practically all market participants expect a 25 bps base rate hike. This was not so clear a month ago, when after the publication of the January CPI, which caused upside surprise again (7.5% vs. 7.3%). Back then, a large chunk of the market started to price a 50 bps start for March, and 7-8 rate hikes for this year. However, since the start of the Russia-Ukraine military conflict, pricing has become more cautious, and the 25 bps hike for March seems to remain dominant. In addition, currently, most analysts expect 6-7 hikes till the end of this year, slightly less than before. Also importantly, the peak of the tightening cycle declined slightly. In the meantime, although FOMC members do not have any easy job it seems quite obvious that tightening should start even if cautiously. On the one hand the February job report suggested that labour force participation fully recovered from the covid shock, non-farm payroll employment was only 1.4 million short of the pre-covid peak, and with an unemployment rate at 3.8% the economy is practically at full employment. At the same time headline inflation is close to 8% and it will surely increase well above 8% by March. While the Russia-Ukraine conflict and the corresponding sanctions could derail the world economy, the real economy effects will be mostly felt in Europe in the form of slower growth, while higher energy prices will fuel inflation everywhere. Consequently it seems clear that the FED cannot refrain from starting monetary policy normalization already next week.

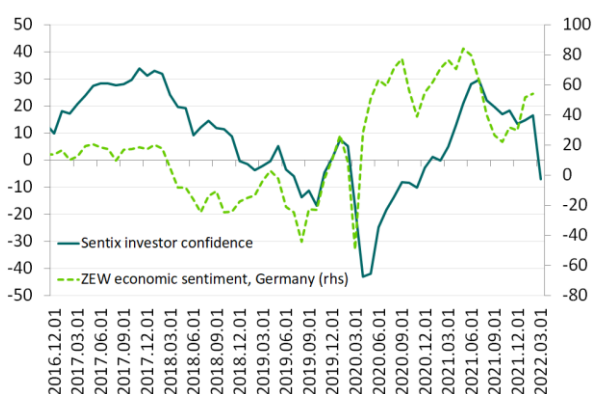
From the **euro area**, the second confidence index for March will come, now from Germany. The *Zew Economic Sentiment Index* is expected to fall to levels not seen since the spring of 2020 due to the Russian-Ukrainian conflict. The deterioration in economic sentiment was also well reflected in the Sentix Investor Confidence Index released this week. European economic actors are vulnerable to the

conflict through several channels. On the one hand, through foreign trade channels. Although direct foreign trade relations with the two countries are generally modest, the protracted nature of the conflict and sanctions are already leading to supply chain problems (automotive, food sectors etc.). In addition, and probably most notably, the drastic rise in energy prices is hitting all players sensitively. Finally, a significant increase in uncertainty will discourage investment. The January data on *industrial production* for the euro area, which will also be published on Tuesday, may also be interesting.

FRA pricing for the Fed Funds Rate (%)



Euro area business confidence



Sources: <https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html> , Refinitiv

What to watch for the next week

Data	Cd.	Event/Data	Period	Cons.	Prev.
2022 3. 14. 9 : 00	ES	Retail sales (YoY, %)	Jan		-2.3
15. 3 : 00	CN	Industrial production (YoY, %)	Feb	4.0	4.3
3 : 00	CN	Retail sales (YoY, %)	Feb	3.8	1.7
3 : 00	CN	Infrastructural spending (YoY, %)	Feb	5.4	4.9
8 : 00	UK	Unemployment rate (%)	Jan		4.1
11 : 00	DE	ZEW Economic Sentiment (points)	Mar	16.8	54.3
11 : 00	EZ	Industrial production (MoM, %)		0.4	1.2
13 : 30	US	New York Fed Manufacturing index (points)	Mar	8.0	3.1
16. 13 : 30	US	Retail sales (MoM, %)	Feb	0.6	3.8
15 : 00	US	Business inventories (MoM, %)	Jan	1.1	2.1
19 : 00	US	Interest rate decision (%)	-	0,25-0,5	0-0,25
17. 12 : 00	TR	Interest rate decision (%)	Mar		14.0
13 : 00	UK	Interest rate decision (%)	Mar		0.5
13 : 30	US	Building permits (annualized monthly, '000s)	Feb	1873	1895
13 : 30	US	Housing starts (annualized monthly, '000s)	Feb	1695	1638
13 : 30	US	Initial jobless claims ('000s)	weekly		
13 : 30	US	Continuing jobless claims ('000s)	weekly		
14 : 15	US	Industrial production (MoM, %)	Feb	0.5	1.4
18. 0 : 30	JP	core-CPI (YoY, %)	Feb		0.2
0 : 30	JP	CPI (YoY, %)	Feb		0.5
4 : 00	JP	Interest rate decision (%)	-		-0.1
15 : 00	US	Existing home sales (annualized monthly, '000s)	Feb	6150	6500
15 : 00	US	Leading index (MoM, %)	Feb	0.2	-0.3

**European stock markets recovered partly from the last three weeks' fall, while US markets seem to produce a small minus in weekly terms**

*Although this week was still to a large extent moved by news on the Russia-Ukraine military conflict and the corresponding sanctions, macro news have started to move markets again. Monday started by horrible fall both in Europe and U.S. as investor weighed the effect of potential sanctions on Russian energy. Risk aversion skyrocketed just like energy prices, the USD strengthened, reached 1.0854, as US and UK have announced their ban on Russian energy exports. From Tuesday some correction has been observed, as investors assessed that markets probably fell enough (in Europe 15-15%, in the US 7-10%), and the meeting between Russian and Ukrainian foreign ministers had a temporary positive effect. The week brought sharp increase in yields, as US inflation reached 7.9%, and the ECB announced an acceleration of tapering of asset purchases. Energy prices, which increased sharply until Tuesday have eventually turned to substantial fall as Europe seems to refrain on sanctioning Russian energy. Finally, European stock markets seem to close the week in a visible plus, after three weeks of fall, while US counterparts fell mildly, although US President Biden's announcement of further sanctions in the course of the evening could change the latter picture.*

**Stock markets seem to close the week in visible increase in Europe, mild fall in the US**

In **Europe**, the *STOXX600* is heading to end the week with a 2.8% increase. Although this is far from correcting previous falls, this is the first weekly plus in three weeks. In terms of sector performance, with the exception of food and beverages (-2.2%) all components are expected to close in green. The biggest weekly increase is observable with travel&leisure (6.4%), insurance (6.1%) and industrial goods (5.2%). Among national stock markets, the *DAX* performed the best with a 5.2% increase, although it had been underperforming its peers during the previous weeks. *CAC40* grew by 4.0%, *FTSE MIB* by 3.4%, while *FTSE100* by 2.6%.

In the **USA**, the *S&P 500* stood at a smaller fall of 1.0% in weekly terms by Friday afternoon. Out of its components, only energy (1.9%) and utilities (0.2%) were in the green territory, while all the rest of the sectors have declined. The biggest fall was observed for consumer staples (-4.1%). Out of the other large indices, the *Dow* seems to fall by 0,6%, while the *Nasdaq Composite* by 1.4%. The small cap *Russel2000* could increase by 1.2%

**Long-term yields started a renewed rise, the Euro has strengthened**

Long-term yields on Treasury markets have corrected last week's fall. the *US10Y Treasury yield* had exceeded 2% again during Friday, although

fell back minorly later, but increased almost 28 bips in a week. The *German bund* moved from negative area to above 0.28%, i.e. by 35 bips upwards. Euro area periphery yields have increased also by around 30 bips. The *EUR* gained momentum, especially against the USD, as risk aversion has declined somewhat.

**Energy prices fell substantially as Europe refrained from sanctioning Russian energy and Russian oil and gas seems to flow to Europe uninterruptedly**

Both *oil* and *natural gas* prices fell substantially. Natural gas prices, which closed above EUR 200/MWH on Monday, eventually declined below EUR 130/MWH, pointing to a more than 36% fall in weekly terms. *Oil* prices showed a smaller move, the Brent closed the highest, at almost USD 128/barrel on Tuesday, and eventually fell back to below 110, a close to 8% decline in weekly terms. The fall was driven by easing of fears of European sanctions on Russian energy and hopes that the US could bring additional oil supply from Venezuela and possibly Iran. The fact that Russia itself kept exporting energy in contractual terms was also important.

**February US inflation brought no shock, but the ECB's decision was assessed by markets to be more hawkish than foreseen**

In the **USA**, the *February CPI* turned out at 7.9%, just as expected, while core inflation at 6.4% was also in line with the consensus. Nevertheless both figures pointed to a sharp upward movement from January (0.5 and 0.4 ppts respectively). The increase was driven to the largest extent by energy prices, which is expected to jump significantly further in March on account of the Russia Ukraine conflict. The expectations for the March CPI could be way above 8%. Food products also had a significant contribution (MoM inflation was 1.0%). The former conflict will also have an upside effect on agricultural prices in the current season. Otherwise the data pointed to broad base price pressures. Once energy and food prices reached their peak, inflation could start to moderate, however core inflation will remain high for a more prolonged period.

In the **euro area**, the *ECB* managed to surprise the market, which assessed its decision to be more hawkish than foreseen. After yesterday's decision European yields have ratcheted-up. Nevertheless it is not fully clear that the market fully understood the message, the ECB wanted to deliver. Admittedly, the Bank seems to have sped-up the phase-out of asset purchases. Instead of October, the ECB now sees the APP at EUR 20 bn per months already by June. Furthermore, it also added that it will end net purchases completely in Q3, provided that "the incoming data support the expectation that the medium-term inflation outlook will not weaken". However another change seems to be less hawkish. Policymakers now plan to raise interest rates "some time after" (rather than "shortly" after) the end of net asset purchases, which means a de-linking the timing of its first rate hike from the end of net asset purchases, and possibly implies a longer gap between ending QE and the first rate hike. Still it could happen, that the Bank will not wait long, however this will depend on incoming data according to President Lagarde.



## This week's data

Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2022 3. 7.	4 : 00	CN Export (YoY, %)	Feb	16.3	15.0	20.9
	8 : 00	DE Industrial orders (MoM, %)	Jan	1.8	1.0	3.0
	8 : 00	DE Retail sales (MoM, %)	Jan	2.0	1.8	-5.5
	10 : 30	EZ Sentix Investor confidence (points)	Mar	-7.0	5.3	16.6
8.	8 : 00	DE Industrial production (MoM, %)	Jan	2.7	0.5	-0.3
	10 : 00	IT Retail sales (MoM, SA, %)	Jan	-0.5		0.9
	16 : 00	PL Interest rate decision (%)	Mar	3.5	3.3	2.8
9.	10 : 00	IT Industrial production (MoM, SA, %)	Jan	-3.4	0.0	-1.1
10.	13 : 45	EZ Interest rate decision (deposit rate, %)	Mar	-0.5	-0.5	-0.5
	13 : 45	EZ Interest rate decision (lending rate, %)	Mar	0.0	0.0	0.0
	14 : 30	US CPI (YoY, %)	Feb	7.9	7.9	7.5
	14 : 30	US CPI (MoM, SA, %)	Feb	0.8	0.8	0.6
	14 : 30	US core-CPI (YoY, %)	Feb	6.4	6.4	6.0
	14 : 30	US core-CPI (MoM, SA, %)	Feb	0.5	0.5	0.6
	14 : 30	US Continuing jobless claims ('000s)	weekly	1494.0		1476.0
	14 : 30	US Initial jobless claims ('000s)	weekly	227.0	216.0	215.0
	20 : 00	US Federal budget balance (USDbn)	Feb	-217.0		119.0
11.	16 : 00	US Michigan Consumer confidence (preliminary, points)	Mar	59.7	61.3	62.8



## 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	4283.8	-1.0	-10.1	Stoxx 600	SXXP Index	433.6	2.8	-11.1
IT	SSINFT Index	2575.3	-1.9	-15.7	Health care	SXDP Index	1002.4	1.9	-7.4
Health care	S5HLTH Index	1522.2	-1.3	-7.4	Industrial goods & services	SXNP Index	671.2	5.2	-15.8
Financials	S5FINL Index	614.5	-0.5	-5.5	Banks	SX7P Index	129.8	4.4	-10.5
Telco	S5TELS Index	222.8	-1.7	-16.7	Personal & households goods	SXQP Index	925.6	0.9	-16.0
Consumer discretionary	S5COND Index	1340.5	-0.8	-16.8	Insurance	SXIP Index	306.3	6.1	-4.9
Industrials	SSINDU Index	840.7	-0.7	-6.1	Food and beverages	SX3P Index	760.8	-2.2	-12.5
Consumer staples	S5CONS Index	758.0	-4.1	-5.8	Technology	SX8P Index	630.9	3.7	-21.8
Utilities	S5UTIL Index	359.2	0.2	-1.2	Utilities	SX6P Index	376.0	4.2	-7.1
Energy	S5ENRS Index	580.6	1.9	37.3	Oil & gas	SXEP Index	303.7	3.9	9.7
Real estate	S5RLST Index	291.6	-0.1	-10.2	Chemicals	SX4P Index	1167.0	1.6	-14.6
Materials	S5MATR Index	519.3	-0.3	-8.8	Construction & materials	SXOP Index	557.6	4.1	-13.7
Source: Bloomberg					Telco	SXXP Index	220.3	1.7	-4.2
					Retail	SXRP Index	342.6	4.2	-23.0
					Financial services	SXFP Index	630.9	5.4	-16.3
					Basic resources	SXPP Index	678.5	0.5	12.9
					Real estate	SX86P Index	179.9	4.0	-8.3
					Auto & parts	SXAP Index	531.8	1.1	-19.4
					Media	SXMP Index	329.9	1.0	-11.5
					Travel & leisure	SXTP Index	202.7	6.4	-12.8

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	4284	-3.1	-9.1	-3.9	8.7	22.0	4.3	2.7	20.7	1.3	111.8	1.1	6.3
Europe	SXXP Index	434	-7.7	-8.8	-7.0	2.2	14.8	1.8	1.4	14.2	1.1	161.6	0.7	10.5
Germany	DAX Index	13780	-10.7	-11.8	-11.7	-5.4	12.4	1.6	1.0	13.6	1.1	111.6	-0.8	3.6
France	CAC Index	6303	-10.1	-9.8	-5.4	4.5	14.7	1.7	1.3	14.8	1.1	188.5	19.9	17.7
Poland	WIG20 Index	2030	-7.9	-8.3	-14.0	1.8	8.5	1.2	0.9	13.5	1.2	52.2	3.5	-7.7
Czechia	PX Index	1303	-11.3	-7.3	1.4	21.4	15.0	1.5	1.8	9.9	1.0	155.0	3.5	23.4
Hungary	BUX Index	42746	-18.0	-16.3	-19.0	-2.4	5.7	1.0	0.7	16.7	1.3	53.7	208.4	-9.3
Romania	BET Index	12167	-9.0	-2.9	-1.9	13.5	9.9	1.1	1.4	12.1		49.8	111.3	28.4
Bulgaria	SOFIX Index	578	-7.2	-5.8	2.6	17.3	7.4	0.7	0.5	9.4	3.2	66.2		
Russia	IMOEX Index	2470	-30.3	-34.3	-38.3	-29.6				17.2	1.4	75.1	117.6	29.3
Ukraine	PFTS Index	519	0.1	-0.8	-1.4	0.5	3.9	1.5	0.4	14.5	0.5	3.4		
Slovenia	SBITOP Index	1082	-15.2	-12.2	-7.4	9.5	6.5	0.9	0.6	14.3	1.8	32.8		
Croatia	CRO Index	1978	-8.6	-1.9	0.3	6.1	12.2	1.0	1.1	8.8	1.6	38.5		
Serbia	BELEX15 Index	831	-3.4	0.3	2.7	11.3	10.8	0.7	0.7	6.7	1.7	19.0		
Montenegro	MNSE10 Index	783	0.1	2.1	1.1	6.7	64.8	0.3	0.9	0.8	2.0	13.4		

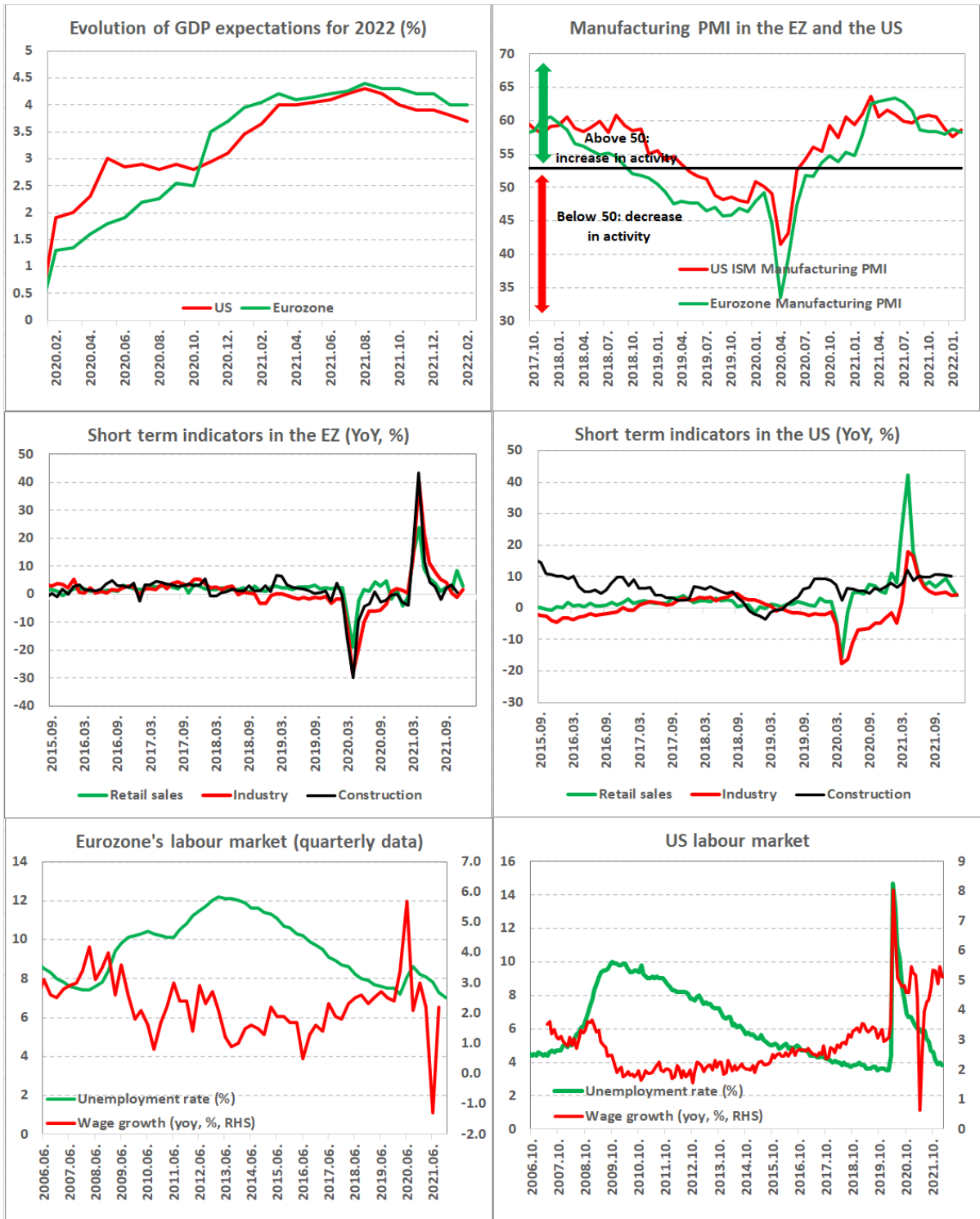
\*Price to earnings (P/E) ratio is calculated with the 12M trailing EPS in the denominator.

\*\*\*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.

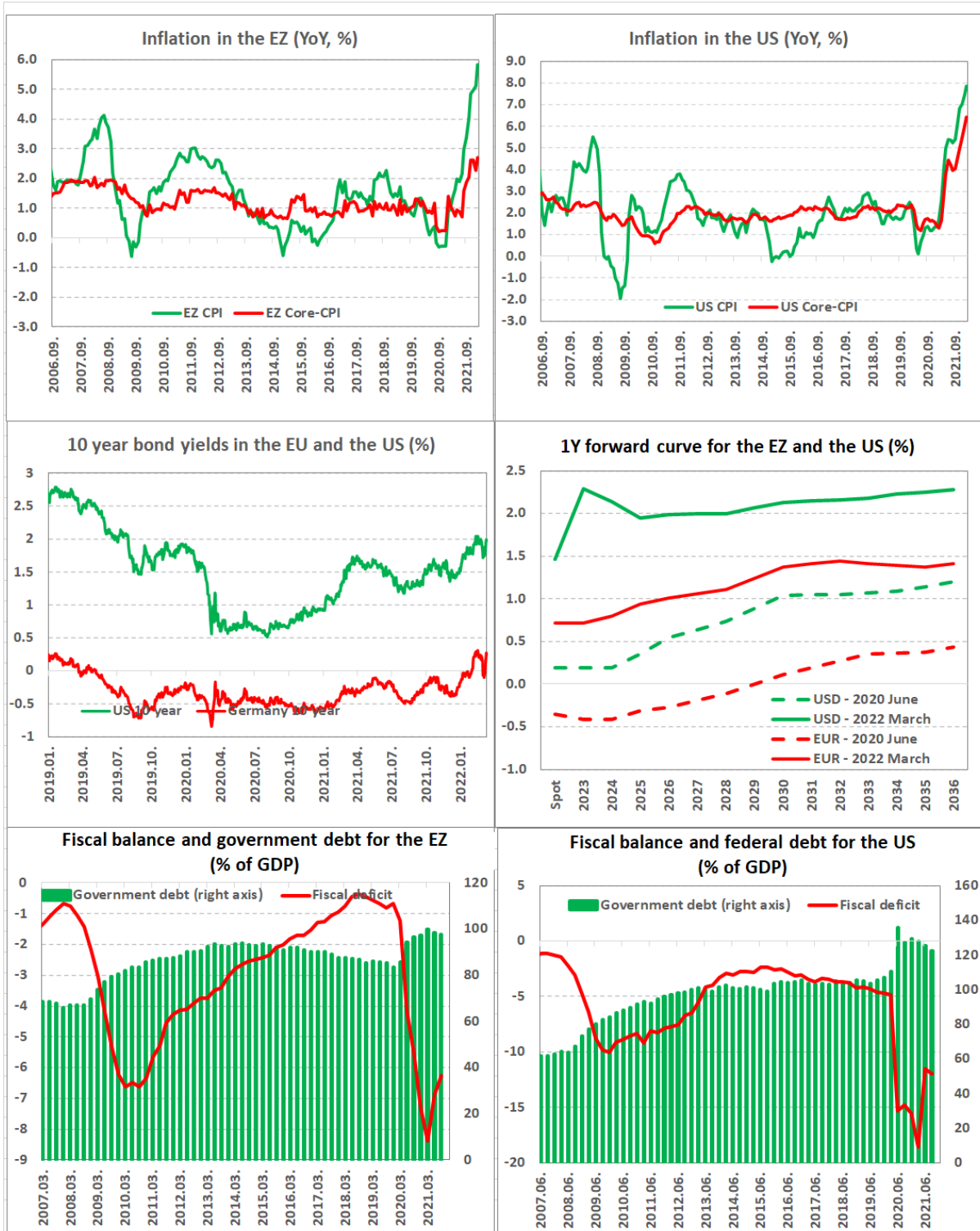
Data updated at 16:00 (CEST)

**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	1.16	1.18	1.20
EURGBP	0.89	0.91	0.90	0.88	0.86	0.85	0.84	0.84	0.84	0.87
EURCHF	1.06	1.08	1.08	1.08	1.10	1.08	1.06	1.07	1.10	1.10
USDJPY	107.0	106.0	104.0	104.0	109.0	111.5	114.0	116.0	115.0	109.0

Source: Bloomberg

## 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	369.0	359.0	357.0	358.0	357.0
Romania	EURRON (eop)	4.87	4.93	4.93	4.95	4.95	4.97	4.98	4.99	5.01
Russia	USDRUB (eop)	73.9	75.7	72.4	72.8	73.7	73.8	73.3	73.3	73.1
Ukraine	USDUAH (eop)	28.30	27.80	27.30	26.60	27.30	27.60	27.60	27.80	28.00
Croatia	EURHRK (eop)	7.6	7.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Serbia	EURRSD (eop)	117.6	117.6	117.6	117.6	117.6	117.8	117.8	117.8	117.8
Montenegro	EURUSD (eop)	1.22	1.18	1.19	1.16	1.14	1.13	1.13	1.13	1.14

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

\*\*No forecast available for Moldova and Albania

Source: Focus Economics

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