OTP Weekly Outlook

Next week:

- *Energy prices, business and consumer confidence indices will be in the spotlight*

This week:

- *Stock markets recovered further in weekly terms, but the intra-week daily movements were more bumpy*
- *Energy prices fell in weekly terms, but partially reversed at the end of the week*
- *Long-term yields increased sharply, to weaken from Thursday*
- *USD weakened as risk aversion declined*
- *The FED will hike rates more swiftly than foreseen*
- *Euro area business confidence fell sharply*

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	4408.1	4.8	-7.5	US 2 year	1.95	20.1	121.6	Dollar index	98.421	-0.7	2.9	Brent	107	-5.1	37.4
Russel 2000	2066.9	4.4	-7.9	US 10 year	2.15	15.4	63.6	EURUSD	1.1029	1.1	-3.0	WTI	104	-5.0	38.1
Stoxx 600	451.8	4.8	-7.4	DE 2 year	-0.36	5.5	27.2	USDJPY	119.21	-1.6	-3.5	Natural gas	103	-22.3	54.3
DAX	14325.3	5.1	-9.8	DE 10 Year	0.36	11.6	54.4	GBPUSD	1.315	0.9	-2.8	Gold	1937	-2.6	5.9
CAC40	6588.7	5.2	-7.9	ES 10 year	1.31	7.5	74.8	AUDUSD	0.740	1.5	1.9	Silver	25	-2.9	7.8
FTSE100	7375.4	3.1	-0.1	UK 10 year	1.49	0.6	52.7	USDCAD	1.262	1.0	0.1	Palladium	2511	-10.6	31.8
FTSE MIB	24005.8	4.2	-12.2	IT 10 year	1.88	3.5	71.3	USDCHF	0.935	-0.1	-2.3	Copper	472	2.2	5.7
Nikkei 225	26827.4	6.6	-6.8	JP 10 year	0.20	2.1	13.8	NZDUSD	0.689	1.2	1.0	Steel	1130	0.4	-21.3
CSI 300	4265.9	-0.9	-13.7	CH 10 year	2.80	0.8	2.8	CNHUSD	6.374	-0.2	-0.3	Wheat	1064	-2.4	38.0

Source: Bloomberg

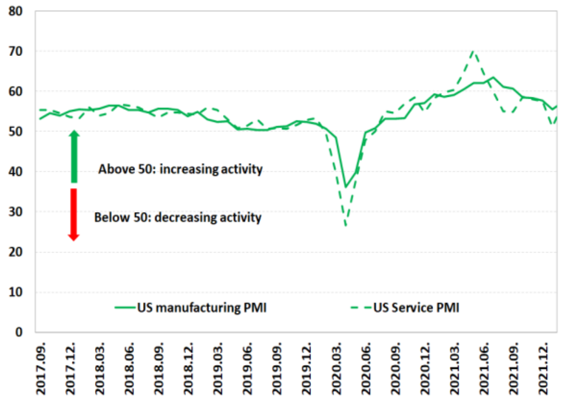
Energy prices, business and consumer confidence indices will be in the spotlight

While news concerning the Russia Ukraine conflict still dominated market sentiment the Fed's first rate hike and its hawkish tone also affected markets this week. Next week no publication of ground-breaking macro news could be expected. We will have a bunch of business confidence indices (most notably the internationally comparable Markit PMI-s) from Europe and the US. The interesting point is that these will be March releases, which already contain the effect of the escalating Russia-Ukraine conflict. It's clear that the conflict will affect Europe much more than the US. However, the consensus seems to indicate a minor fall for the European PMI-s, similar to what could be seen in the US. As incoming business confidence indices so far (Sentix and ZEW), suggested a sharp decline in sentiment, to levels not seen before 2020 summer, significant downside surprises could not be ruled out for next week's European indicators. Additionally, movements in energy prices will remain a key trigger for market movements, as a renewed significant increase to levels seen two weeks ago (e.g. TTF above EUR/MWH 200, Brent USD 130/barrel) could slowdown European growth sharply, possibly even sending it to recession.

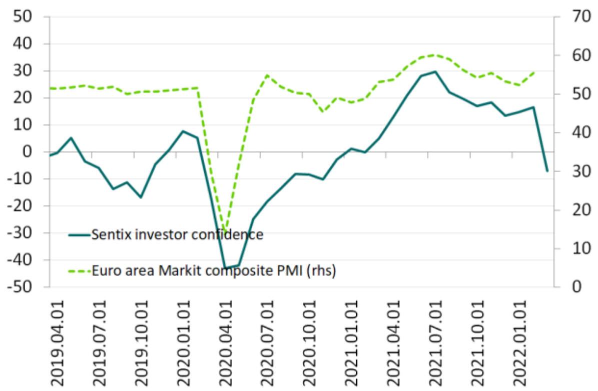
From the **euro area**, the *Markit PMI-s* will be published on Thursday. Back in February, there was a visible rebound in the composite PMI, from 52.3 in January to 55.8 in February, which was much better than the consensus. It was driven mainly by a jump in the Services PMI, which rose to 55.8, while the Manufacturing Output PMI stayed at a high level. Country breakdown showed that conditions improved more rapidly in France than in Germany. Supplier delivery times and backlogs of work eased; but they were both still high by past standards. Surveys show that inflationary pressures remained very strong: the output price component of the euro-zone Composite PMI reached its highest level on record, and the input price component was at its second highest. The key question is the extent of fall in business sentiment in March, and the Russia-Ukraine conflict's possible effect on price pressures. In this latter respect, probably its worth to remember, than last week European natural gas spot prices exceeded EUR 200 MWH, a roughly tenfold increase from 2019. Although energy prices have moderated this week, they are still way above the levels, that could have been observed a month ago. Furthermore, while the March consensus for the indices seems to a indicate a minor fall, this is in sharp contrast with the recently published Zew and Sentix indicators, which posted a sharp fall already in March. In light of this, significant downside surprises could easily happen. The March *consumer confidence index,* which will be out already on Monday, will be also worth to follow, for similar reasons as with the Markit data.

In the **USA**, the focus will be on *Markit PMI-s*, due on Thursday, as well. Back in February indices for February turned out above expectations. The composite PMI edged-up to 55.9 from 51.1 points, as the omicron wave subsided, and economy activity seemed to strengthen. On the price front, inflationary pressures intensified again in both the manufacturing and the service sector, firms hiked their selling prices at the fastest rate on record in services and highest since 2020 November for manufacturing. The current question for March is the extent of the deterioration of business sentiment and whether the Russia-Ukraine conflict has added to input price pressures. Nevertheless these effects are likely to be moderate compared to what could be expected in Europe. This was also visible with the relatively decent Philadelphia Fed Manufacturing Index this week, which rose to 27.4 in March of 2022 from 16 in February and above market expectations of 15. Additionally, February *housing data* (new and pending home sales) will likely point to a robust market.

US markit PMI-s



Euro area business confidence



Sources: Bloomberg , Refinitiv

What to watch for the next week

Data					Cd.	Event/Data	Period	Cons.	Prev.
2022	3. 21.	8	:	30	EZ	C. Lagarde speech (Institute Montaigne)	-		-
	23.	8	:	00	UK	Inflation (YoY, %)	Feb	5.9	5.5
		15	:	00	US	New home sales (annualized monthly, '000s)	Feb	815.0	801.0
		16	:	00	EZ	Consumer confidence (point)	Mar	-12.3	-8.8
	24.	9	:	15	FR	Markit Manufacturing PMI (points)		55.1	57.2
		9	:	15	FR	Markit Service PMI (points)	Mar	55.0	55.5
		9	:	30	DE	Markit Service PMI (points)	Mar	54.3	55.8
		9	:	30	DE	Markit Manufacturing PMI (points)	Mar	55.0	58.4
		10	:	00	EZ	Markit Manufacturing PMI (points)	Mar	56.0	58.2
		10	:	00	EZ	Markit Service PMI (points)	Mar	54.3	55.5
		10	:	30	UK	Manufacturing PMI (points)	Mar	57.1	58.0
		10	:	30	UK	Service PMI (points)	Mar	59.0	60.5
		13	:	30	US	Durable goods orders (MoM, %)	Feb	-0.5	1.6
		13	:	30	US	Initial jobless claims ('000s)	weekly	208.0	214.0
		13	:	30	US	Continuing jobless claims ('000s)	weekly		1419.0
		14	:	45	US	Markit Manufacturing PMI (points)	Mar	55.0	57.3
		14	:	45	US	Markit Service PMI (points)	Mar	56.0	56.5
	25.	8	:	00	UK	Retail sales (MoM, %)	Feb	0.8	1.9
		10	:	00	DE	IFO Economic sentiment index (points)	Mar	94.0	98.9
		15	:	00	US	Pending home sales (MoM, %)	Feb	1.5	-5.7

Stock markets recovered further in weekly terms, but the intra-week daily movements were more bumpy

The week started in generally positive mood, as markets have continued to correct the risk-off sentiment of the three weeks after the escalation of the Russia Ukraine conflict. Energy prices fell on ceasefire plans, which moved stock markets and yields upwards ahead of the FED meeting, growth worries also moderated. Wednesday evening, the FED started the tightening cycle by a 25-bps hike as expected, but the FOMC was more hawkish than foreseen in terms of the projected rate hikes for the rest of the year. Still, markets were happy with the outcome, as they understood, the FED believed the US economy to be strong and resilient. The sentiment was also boosted by the Chinese prime minister's promise to support the economy with monetary and fiscal measures amidst problem with the real estate sector and covid lockdowns. However already from Thursday, energy prices have started to increase again, as investors had begun to realize that the position of the two sides in the Russia-Ukraine conflict is still far enough not to ensure a cease fire in the very short-term. This has led to a stock market sell-off on Friday and long-term yields turned downwards. Still, after this rollercoaster during the week, stock markets still seem to close the week with a visible plus, yields have moved up sharply, energy prices fell, and the USD weakened.

Energy prices fell further on ceasefire plans, after the correction during the previous week

Oil prices were set for a second straight weekly loss (-5%) on previous optimism about ceasefire plans but found a floor above US 100 a barrel on Friday after volatile trading this week with no easy replacement for Russian barrels in sight in a market already marked by tight supply. The supply crunch from traders avoiding Russian barrels, stuttering nuclear talks with Iran, dwindling oil stockpiles and worries about a surge of COVID-19 cases in China hitting demand have combined to produce a rollercoaster ride for crude prices.

As regards European *natural gas prices*, the weekly fall seems more sizable (-22%), however the correlation with oil was obvious. Until Wednesday prices fell below EUR/MWH 100, which were partly corrected during the rest of the week.

Stock markets seem to close the week in a 4-5% plus in Europe and overseas

In **Europe**, the *STOXX600* is heading to end the week with a 4.8% increase. In terms of sector performance, with the exception of oil&gas (-0.9%) all components are expected to close in green. The biggest weekly increase is observable with financial services (8.2%), technology (7.4%) and auto&parts and media (both 7.1%). Among national stock markets, the *DAX* posted a 5.1% increase, the *CAC40* grew by 5.2%, *FTSE MIB* by 4.2%, while *FTSE100* by 3.1%. In general European markets stand 7-12% below end 2021 values.

In the **USA**, the *S&P 500* stood at a 4.8% increase in weekly terms by Friday afternoon. All components increased but energy (-4.0%). The largest gains were observable with consumer discretionary (7.2%) , IT (6.2%) and financials (6.0%). Out of the other large indices, the *Dow* seems to increase by 4.2%, while the *Nasdaq Composite* by 6.6%. The small cap *Russel2000* could increase by 4.4%. Major US seem to be in 5-12% minus compared to end 2021 levels.

Long-term yields continued to rise, the USD has weakened further

The rollercoaster was also typical for bond yields, which increased until Wednesday, to fell afterwards. The *US10Y* reached 2.185% by Wednesday, the *German 10Y bund* reached 0.389%, to fell back partially for the rest of the week. The US10Y increased by 15 bips, the Germany 10Y by 12 bips in weekly terms. Euro area yields on the Southern periphery increased less 3-7 bips, probably on President Lagarde's recent statement that the ECB is willing to use its balance sheet in future to contain sovereign spreads. The *USD* has weakened in weekly terms by 0.7% against major currencies. However, it also gained some momentum on Friday in the more negative mood.

The FED will hike rates more swiftly than foreseen; euro area business confidence fell sharply in March

In the **USA**, the *FED* brought the inevitable, by starting the rate hike cycle by 25 bps as expected. However there were a few other interesting announcements, which surprised markets. First , the dot plot contained still six rate hikes still this year, meaning a FED funds rate close to 2% (between 1.75-2.0% to be precise). The statement said that "ongoing increases in the target range will be appropriate", while in the past two tightening cycles the Fed was able to reassure that policy accommodation could be withdrawn at a "gradual" or "measured" pace. This suggest that with record high inflation and full employment, FOMC members do not seem to hesitate. The pace of tightening is then expected to slow in 2023, however, the median projection pointed to a 25bp rate hike at every other meeting next year, taking the target range to between 2.75% and 3.00% by end-2023. That would take the policy rate slightly above the median estimate of the neutral rate, which was lowered trivially to 2.4%. The statement noted that the FOMC members "expect to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting". At the press conference, Chair Powell said that the Fed will publish the details of its plan in the upcoming minutes and will be ready to launch QT at the next policy meeting in early May. The Fed's new economic projections suggest that officials are particularly worried about the potential for core inflation to remain high, with the median forecast showing core PCE inflation at 4.1% in the final quarter of this year. The median GDP growth projection for this year was revised down heavily from 4.0%, to 2.8%.

In the **euro area**, the *ZEW* index for Germany was the second business confidence indicator for March, after last week's Sentix, and posted a similar large fall (from 54.3 to -39,3) well below the consensus (16.8). Eurozone *industrial production* for February stagnated, which was also worse than the consensus (0.4% MoM).

As for **China**, apart from covid, good news came as the key February indicators turned out well above expectations. *Industrial production* strengthened to 7.5% from 4.3% (consensus 4.0%), *retail sales* to 6.7% from 1.7% (consensus: 3.8%), *fixed asset investments* 12.2% from 5.4% (consensus: 5.4%).

This week's data

Data			Cd.	Event/Data	Period	Fact	Cons.	Prev.
2022	3. 14.	9 : 00	ES	Retail sales (YoY, %)	Jan	4.0		-2.4
	15.	3 : 00	CN	Industrial production (YoY, %)	Feb	7.5	4.0	4.3
		3 : 00	CN	Retail sales (YoY, %)	Feb	6.7	3.8	1.7
		3 : 00	CN	Infrastructural spending (YoY, %)	Feb	12.2	5.4	4.9
		8 : 00	UK	Unemployment rate (%)	Jan	3.9		4.1
		11 : 00	DE	ZEW Economic Sentiment (points)	Mar	-39.3	16.8	54.3
		11 : 00	EZ	Industrial production (MoM, %)	Jan	0.0	0.4	1.3
		13 : 30	US	New York Fed Manufacturing index (points)	Mar	-11.8	8.0	3.1
	16.	13 : 30	US	Retail sales (MoM, %)	Feb	0.3	0.4	4.9
		15 : 00	US	Business inventories (MoM, %)	Jan	1.1	1.1	2.4
		19 : 00	US	Interest rate decision (%)		0,25-0,5	0,25-0,5	0-0,25
	17.	12 : 00	TR	Interest rate decision (%)	Mar	14.0		14.0
		13 : 00	UK	Interest rate decision (%)	Mar	0.8		0.5
		13 : 30	US	Building permits (annualized monthly, '000s)	Feb	1859.0	1873.0	1895.0
		13 : 30	US	Housing starts (annualized monthly, '000s)	Feb	1769.0	1695.0	1638.0
		13 : 30	US	Initial jobless claims ('000s)	weekly	214.0		1494.0
		13 : 30	US	Continuing jobless claims ('000s)	weekly	1419.0		227.0
		14 : 15	US	Industrial production (MoM, %)	Feb	0.5	0.5	1469.0
	18.	0 : 30	JP	core-CPI (YoY, %)	Feb	0.6		0.2
		0 : 30	JP	CPI (YoY, %)	Feb	0.9		0.5
		4 : 00	JP	Interest rate decision (%)		-0.1		-0.1
		15 : 00	US	Existing home sales (annualized monthly, '000s)	Feb	6020.0	6150.0	6490.0
		15 : 00	US	Leading index (MoM, %)	Feb	0.3	0.2	-0.3

Sector performance in the USA and Europe

Performance of US sectors

Sector	Bloomberg ticker	Last price	1 week change (%)	YTD (%)
S&P500	SPX Index	4408.1	4.8	-7.5
IT	S5INFT Index	2680.8	6.2	-12.3
Health care	S5HLTH Index	1581.0	5.4	-3.8
Financials	S5FINL Index	640.4	6.0	-1.5
Telco	S5TELS Index	229.3	4.4	-14.3
Consumer discretionary	S5COND Index	1410.4	7.2	-12.4
Industrials	S5INDU Index	859.0	4.0	-4.0
Consumer staples	S5CONS Index	769.4	3.3	-4.4
Utilities	S5UTIL Index	358.9	0.9	-1.3
Energy	S5ENRS Index	557.1	-4.0	31.8
Real estate	S5RLST Index	294.1	2.6	-9.4
Materials	S5MATR Index	532.7	3.9	-6.5

Source: Bloomberg

Performance of Europe's sectors

Sector	Bloomberg ticker	Last price	1 week change (%)	YTD (%)
Stoxx 600	SXXP Index	451.8	4.8	-7.4
Health care	SXDP Index	1045.0	4.6	-3.4
Industrial goods & services	SXNP Index	707.5	6.0	-11.2
Banks	SX7P Index	137.5	6.6	-5.2
Personal & households goods	SXQP Index	965.5	4.9	-12.4
Insurance	SXIP Index	315.4	3.8	-2.1
Food and beverages	SX3P Index	802.6	5.9	-7.7
Technology	SX8P Index	667.4	7.4	-17.3
Utilities	SX6P Index	379.0	1.3	-6.4
Oil & gas	SXEP Index	300.0	-0.9	8.3
Chemicals	SX4P Index	1222.2	5.7	-10.6
Construction & materials	SXOP Index	586.7	5.9	-9.1
Telco	SXKP Index	227.3	3.5	-1.1
Retail	SXRP Index	342.4	0.9	-23.0
Financial services	SXFP Index	680.2	8.2	-9.7
Basic resources	SXPP Index	682.7	0.2	13.6
Real estate	SX86P Index	186.0	3.7	-5.2
Auto & parts	SXAP Index	561.2	7.1	-14.9
Media	SXMP Index	352.2	7.1	-5.5
Travel & leisure	SXTP Index	212.6	5.5	-8.5

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	4408	1.4	-4.6	-0.6	12.6	22.7	4.4	2.8	20.7	1.3	111.8	2.3	7.1
Europe	SXXP Index	452	-2.0	-4.7	-2.2	5.9	15.8	1.9	1.5	14.2	1.1	162.2	0.5	10.6
Germany	DAX Index	14325	-4.8	-7.8	-7.5	-3.0	14.5	1.7	1.1	13.3	1.1	118.3	-10.2	3.0
France	CAC Index	6589	-4.9	-4.9	0.3	8.7	15.4	1.8	1.4	14.6	1.1	188.6	15.5	17.8
Poland	WIG20 Index	2094	-2.3	-4.6	-10.2	6.8	8.8	1.2	0.9	13.5	1.2	52.2	6.5	-8.0
Czechia	PX Index	1324	-7.7	-4.8	1.4	20.8	14.0	1.6	1.8	10.9	0.9	156.6	3.3	25.0
Hungary	BUX Index	44045	-12.3	-13.4	-15.9	-0.9	5.9	1.0	0.7	16.7	1.3	53.7	116.9	-11.1
Romania	BET Index	12578	-4.6	0.8	2.1	16.0	9.7	1.2	1.5	12.3		58.4	6.5	30.9
Bulgaria	SOFIX Index	602	-3.6	-2.9	8.2	22.0	7.1	0.7	0.6	10.0	3.5	64.8		
Russia	IMOEX Index	2470	-27.2	-33.6	-38.8	-29.5				17.2	1.4	75.1	119.2	27.9
Ukraine	PFTS Index	519	0.1	-0.8	-1.3	0.5	3.9	1.5	0.4	14.5	0.5	3.4		
Slovenia	SBITOP Index	1179	-7.1	-4.5	1.4	19.8	7.2	1.0	0.5	14.2	1.7	33.6		
Croatia	CRO Index	2067	-2.5	1.6	5.0	11.4	12.8	1.0	1.2	8.8	1.6	38.5		
Serbia	BELEX15 Index	807	-6.7	-2.2	1.1	6.1	10.4	0.7	0.6	6.7	1.7	19.0		
Montenegro	MNSE10 Index	771	-1.8	0.1	-0.6	3.7	63.8	0.3	0.9	0.8	2.0	13.4		

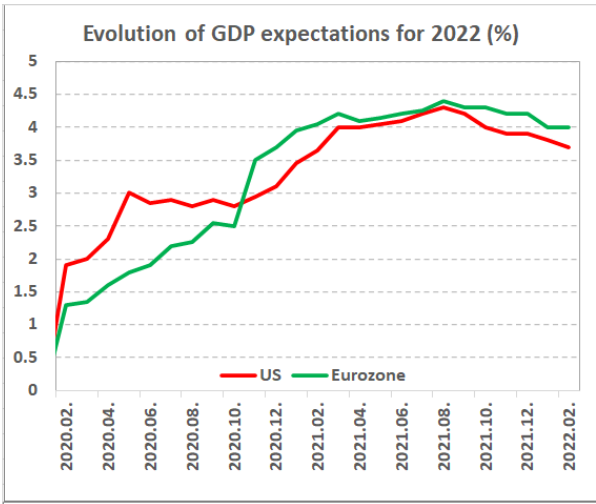
*Price to earnings (P/E) ratio is calculated with the 12M trailing EPS in the denominator.

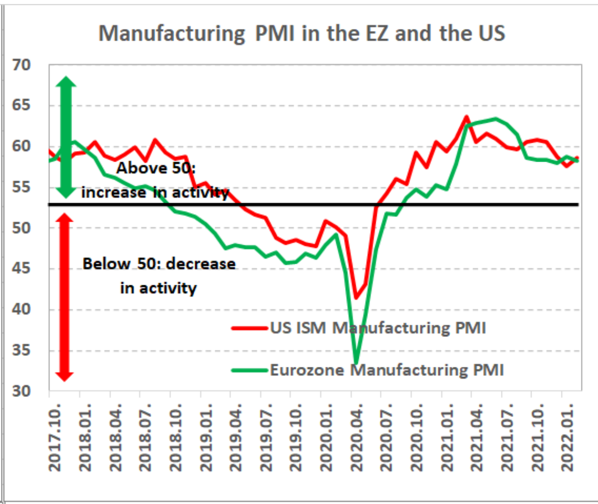
***Some of the country indices could be sector heavy (only a handful industry comprise the majority of the indices),

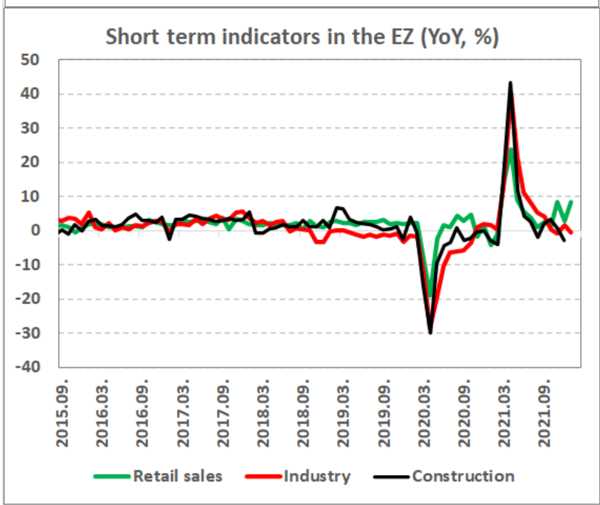
***therefore direct comparison of valuation metrics alone could be misleading.

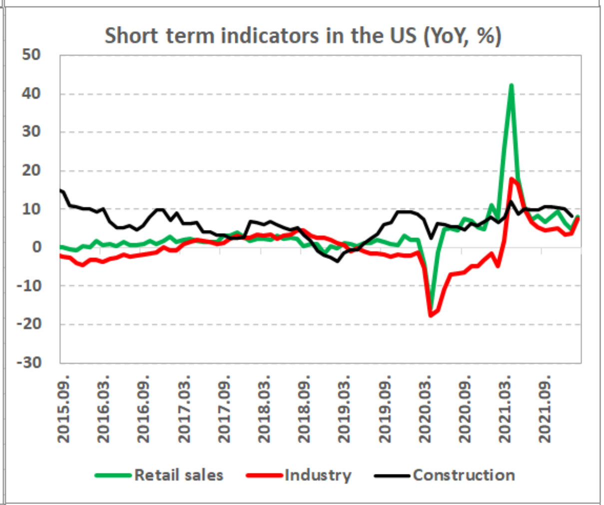
Data updated at 16:00 (CEST)

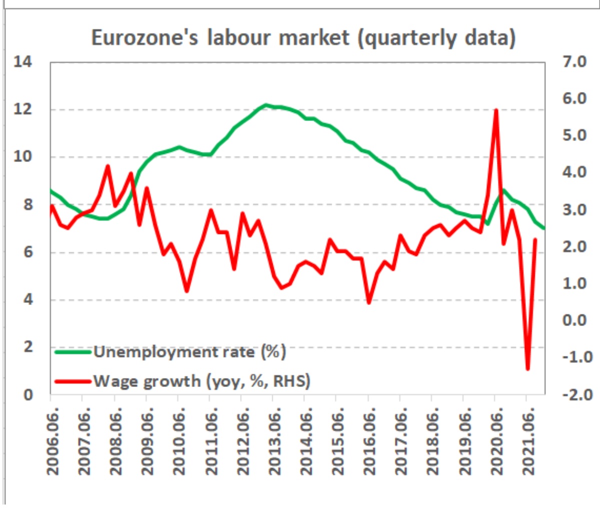
Eurozone and US chart set

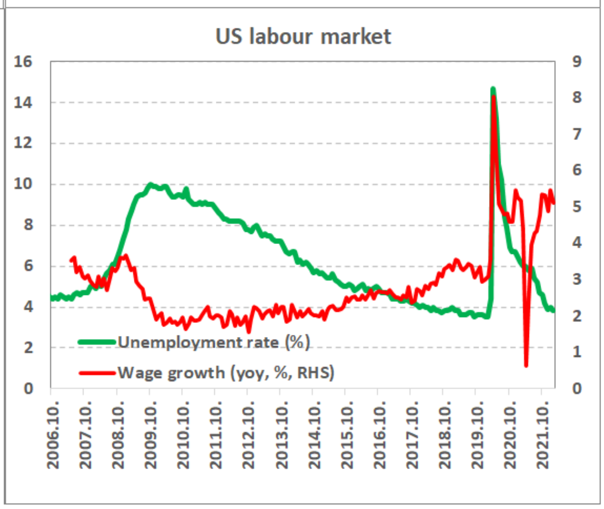






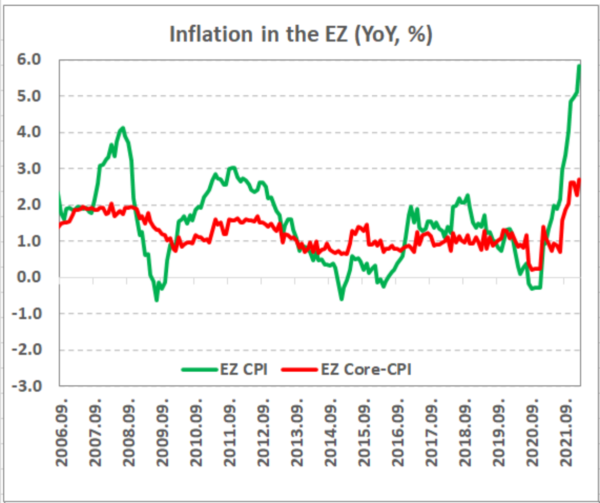


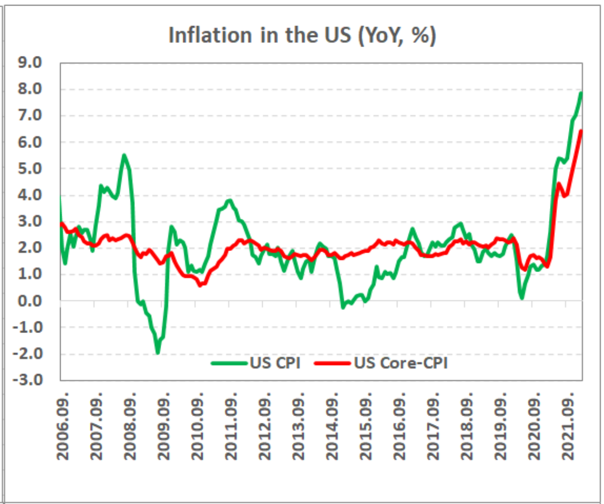


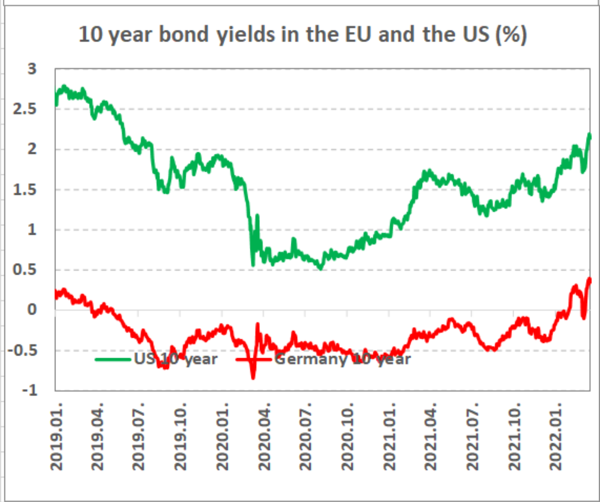


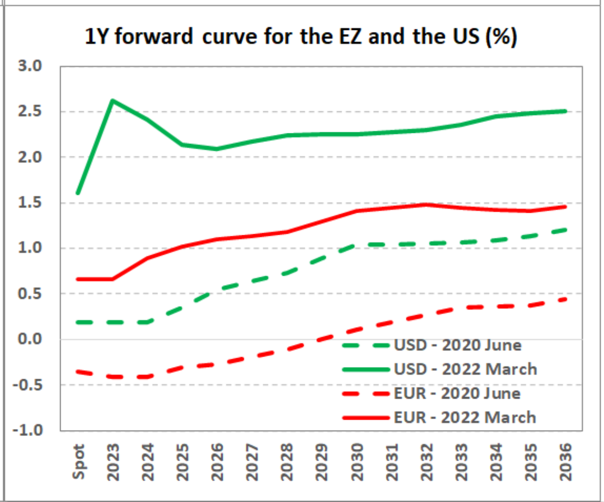
Source: Refinitiv

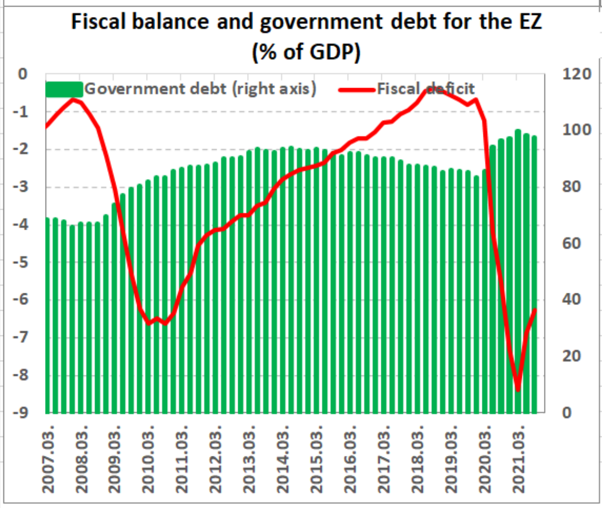
Eurozone and US chart set

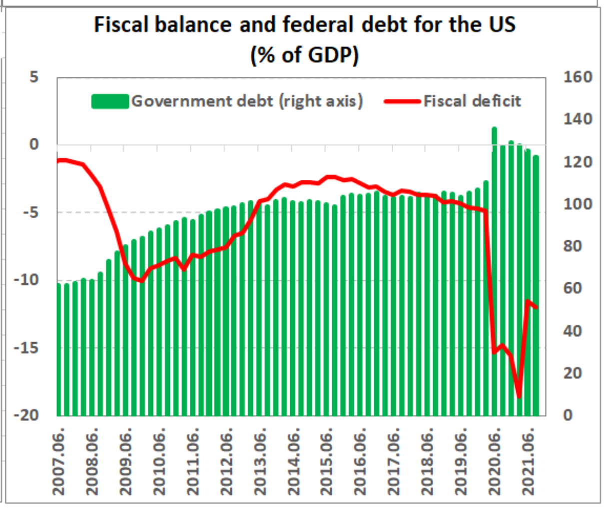












Source: Refinitiv

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	1.15	1.18	1.20
EURGBP	0.89	0.91	0.90	0.88	0.86	0.85	0.84	0.84	0.84	0.86
EURCHF	1.06	1.08	1.08	1.08	1.10	1.08	1.06	1.07	1.11	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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