

# OTP Weekly Outlook

 **otp** Global Markets

## Next week:

- FOMC meeting will be in the spotlight

## This week:

- Inflation fears and rate-hike expectations weighed on European and US stock markets
- ECB phases out APP in June, hikes rates from July, likely to or above 2% by Q2 2023. 50 bps steps also within the cards
- US CPI for May caused yet another upside surprise, and drove the EURUSD down to near 1.05
- LT yields showed double-digit increase again with US 10Y T-bond yield rising to 3.11% and 10Y Bund yielding 1.5%.
- Solid US fuel demand and fears of potential supply disruption in Europe supported rising oil prices

### FOMC meeting will be in the spotlight

Date*		Cd.	Event/Data	Period	Cons.	Prev.
2022 6. 14.	11 : 00	DE	ZEW Economic Sentiment (points)	Jun	-27.5	-34.3
15.	4 : 00	CN	Industrial production (YoY, %)	May	-0.5	-2.9
	4 : 00	CN	Retail sales (YoY, %)	May	-7.3	-11.1
	4 : 00	CN	Infrastructural spending (YoY, %)	May	6.0	6.8
	11 : 00	EZ	Industrial production MoM, %)	Apr	0.5	-1.8
	14 : 30	US	Retail sales MoM, %)	May	0.2	0.9
	14 : 30	US	New York Fed Manufacturing index (points)	Jun	5.0	-11.6
	16 : 00	US	Business inventories MoM, %)	Apr	1.3	2
	20 : 00	US	Interest rate decision (%)	Jun	1.25-1.5	0.75-1
16.	13 : 00	UK	Interest rate decision (%)	Jun		1
	14 : 30	US	Building permits (annualized monthly, 000s)	May		1823.0
	14 : 30	US	Housing starts (annualized monthly, 000s)	May	1738	1724
	14 : 30	US	Initial jobless claims (000s)	weekly	210	229
	14 : 30	US	Continuing jobless claims (000s)	weekly		1306
17.	5 : 00	JP	Interest rate decision (%)	Jun		-0.1
	15 : 15	US	Industrial production MoM, %)	May	0.8	1.1
	16 : 00	US	Leading index MoM, %)	May	-0.4	-0.3

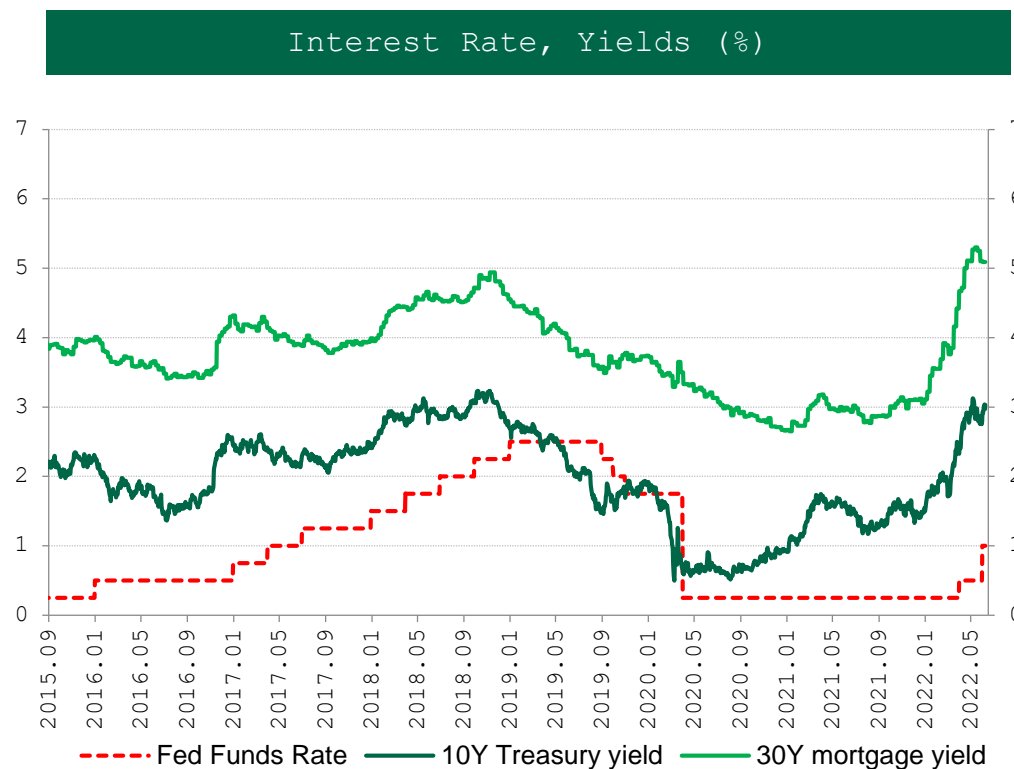
\* The time, when most likely market-mover data could come out is indicated in red.

**US: The FOMC meeting will be in the spotlight, the Fed Funds Rate is expected to rise by another 50 basis points**

Date		Cd.	Event/Data	Period	Cons.	Prev.
2022.06.15	14:30	US	Retailsales M oM (%)	May	0.2	0.9
	14:30	US	New York Fed Manufacturing index (points)	Jun	5.0	-11.6
	16:00	US	Business inventories M oM (%)	Apr	1.3	2.0
	20:00	US	Interest rate decision (%)	Jun	125-15	0.75-1.0
17.	15:00	US	Industrial production M oM (%)	May	0.8	1.1

Key highlights

- **The Fed Funds Rate is expected to rise by another 50 bp to 1.25-1.5%.**
- The market expects the Fed Funds rate to rise to 3% by the end of the year. The interest rate peak could be around 3.75% next year.
- In addition to the rate increases, the Fed in June has begun reducing the asset holdings on its nearly \$9 trillion balance sheet. By September, the balance sheet reduction will be as much as \$95 billion a month. According to Federal Reserve Vice Chair, Lael Brainard, the QT could be equal to 2-3 more rate hikes by the time the process is finished.
- As price pressure remained strong in May, the Fed should use its policy tools more aggressively, even if recession fears are intensifying.



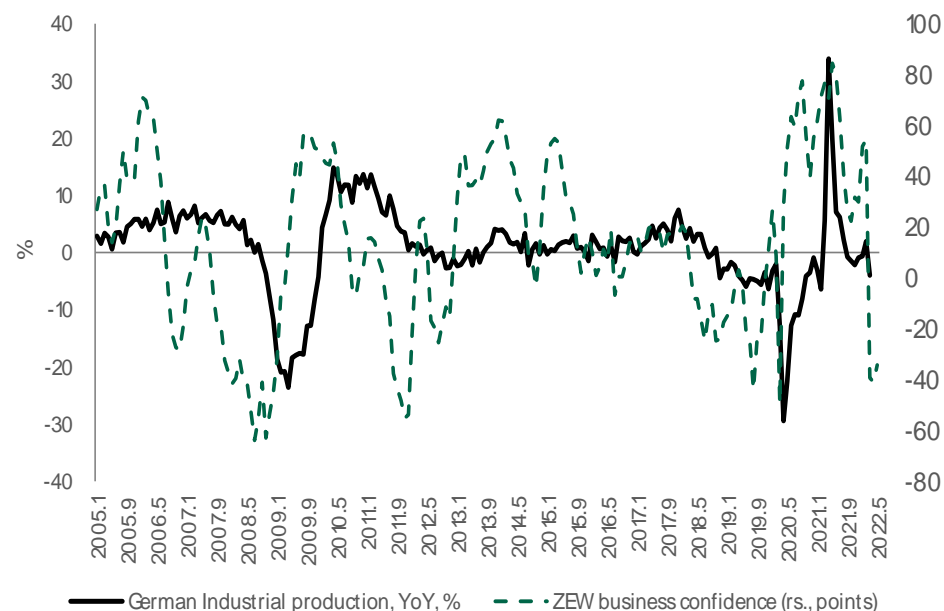
**Euro area: The ZEW index and euro area industrial production should be followed**

Date	Cd.	Event/ Data	Period	Cons.	Prev.
2022 6. 14. 11 :00	DE	ZEW Economic Sentiment (points)	Jun	-27.5	-34.3
15. 11 :00	EZ	Industrial production (MoM, %)	Apr	0.5	-1.8

**Key highlights**

- This week few interesting data releases will be published. One exception is the **German ZEW business confidence** for June, which has some predictive power for German industrial production. The question is whether the indicator will remain deep in the negative territory as in the past few months, which very likely implies a fall in German industry for Q2.
- Another data release will be the **euro area industrial production** figure for April. Taking into account the releases of large economies' data, it will quite likely show a small MoM increase.

German industrial production and the ZEW business confidence



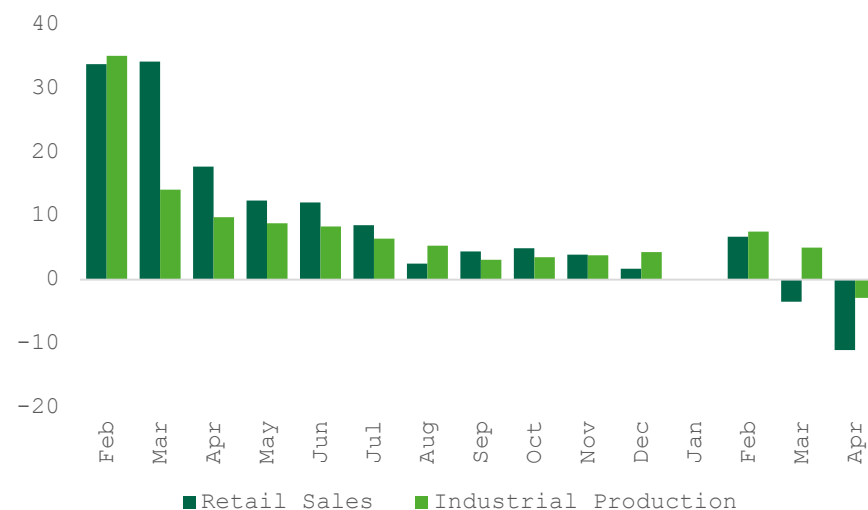
## China: Industrial production is expected to have partly resumed, while consumption has still struggled in May

Date	Cd.	Event/Data	Period	Cons.	Prev.
2022.06.15	4:00	CN Industrial Production YoY	May	-0.5	-2.9
	4:00	CN Retail Sales YoY	May	-7.3	-11.1
	4:00	CN Fixed Asset Investment (YTD) YoY	May	6.0	6.8

### Key highlights

- Export has rebounded in May which suggests that **industrial production** resumed despite strict Covid restrictions.
- **Retail sales**, however, could be weighed down by lockdowns as the rising, but still below 50-point reading of the Caixin services PMI showed last week
- **Investment** is expected to slow further as the struggling property market and weak consumption are hurting the Chinese economy.
- Some **Covid restrictions** were re-introduced early June in some major cities days after those were relaxed, due to new infections. This could hurt services and consumption in June as well if they persist.

### Chinese industrial production and retail sales (YoY, %)



# WEEKLY REPORT - 14 June 2022



## This week's data: hawkish ECB and upside surprise in US CPI

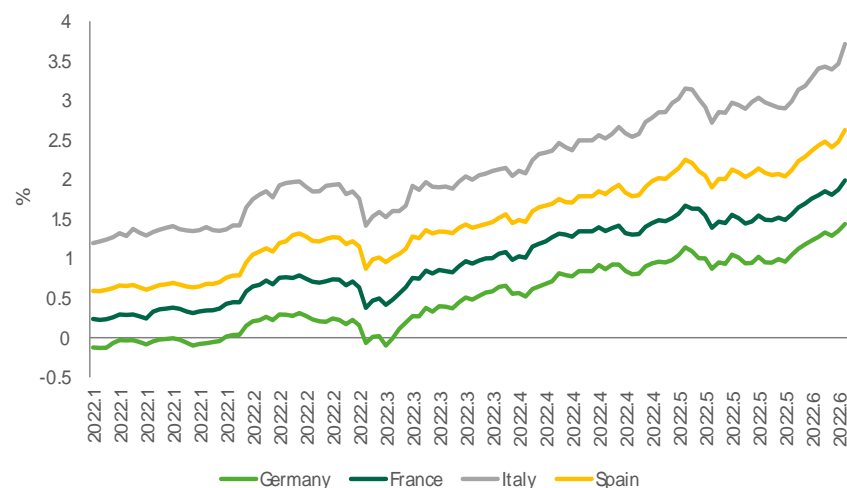
Date*	Cd.	Event/ Data	Period	Fact	Cons.	Prev.
2022 6. 6. 3 :45	CN	Cakin Services PM I	May	41.4		36.2
7. 8 :00	DE	Industrial orders MoM (%)	Apr	-2.7	0.3	-4.7
10 :30	EZ	Sentix Investor confidence (points)	Jun	-15.8	-20.0	-22.6
8. 8 :00	DE	Industrial production MoM (%)	Apr	0.7	1.0	-3.9
10 :00	IT	Retail sales MoM, SA, (%)	Apr	0.0		-0.5
9. 5 :00	CN	Export YoY, (%)	May	16.9	8.0	3.9
13 :45	EZ	Interest rate decision (lending rate, %)	Jun	0.0	0.0	0
13 :45	EZ	Interest rate decision (deposit rate, %)	Jun	-0.5	-0.5	-0.5
14 :30	US	Initial jobless claims (000s)	weekly	229	202	200
14 :30	US	Continuing jobless claims (000s)	weekly	1306		1306
10. 10 :00	IT	Industrial production MoM, SA, (%)	Apr	1.6	-1.6	0.2
14 :30	US	core-CPI MoM, SA, (%)	May	0.6	0.5	0.6
14 :30	US	core-CPI YoY, (%)	May	6.0	5.9	6.2
14 :30	US	CPI MoM, SA, (%)	May	1.0	0.7	0.3
14 :30	US	CPI YoY, (%)	May	8.6	8.3	8.3
16 :00	US	Michigan Consumer confidence (preliminary, points)	Jun	50.2	58.1	58.4
20 :00	US	Federal budget balance (USDbn)	May			30.8

\*The time, when most likely market-mover data could come out is indicated in red.

### Key highlights

- The **ECB Governing Council** revealed details of the pace of monetary tightening. The Council stated that asset purchases will end by 1 July. It also suggested a 25 bps hike for the June meeting, which could be followed by larger rate hikes, if the medium-term inflation outlook persists or deteriorates. This latter element was hawkish news for markets. Meanwhile **German industrial orders** fell significantly, suggesting more gloomy outlook.
- May **US inflation rate** increased again to 8.6%, while the market expected stagnation at 8.3%. Core declined to 6.0% from 6.2%, but still above expectations (5.9%).

### Euro area 10Y government bond yields (%)



**Inflation fears and rate-hike expectations weighed on European and US stock markets, with May US CPI rising to 8.6% ; LT yields climbed steeply; the EURUSD sank to 1.05**

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	3944	-4.0	-17.3	US 2 year	2.96	30.7	222.7	Dollar index	104.076	1.9	8.8	Brent	122.7	2.5	57.8
Nasdaq Comp.	11402	-5.1	-27.1	US 10 year	3.11	17.8	160.1	EURUSD	1.0514	-1.9	-7.5	WTI	121.4	2.1	61.4
Dow Jones	31527	-4.2	-13.2	DE 2 year	0.93	28.3	156.1	USDJPY	134.2	-2.5	-14.2	Natural Gas (TTF)*	82.7	-1.0	24.3
Russel 2000	1825	-3.1	-18.7	DE 10 Year	1.47	19.2	164.4	GBPUSD	1.2355	-1.1	-8.7	Gold	1831.0	-1.1	0.1
Stoxx 600	424	-3.7	-13.1	FR 10 year	2.05	24.7	185.1	AUDUSD	0.7052	-2.2	-2.9	Silver	21.4	-2.2	-8.0
DAX	13851	-4.2	-12.8	SP 10 year	2.71	27.5	214.6	USDCAD	1.2805	-1.6	-1.3	Palladium	1907.6	-3.8	0.1
CAC40	6205	-4.3	-13.2	IT 10 year	3.71	31.2	253.9	USDCHF	0.9892	-2.7	-7.7	Copper	430.1	-3.8	-3.6
FTSE100	7317	-2.9	-0.9	UK 10 year	2.39	23.2	141.8	NZDUSD	0.6363	-2.3	-6.8	Steel	1150.0	-0.4	-19.9
FTSE MIB	22688	-6.1	-17.0	CH 10 year	1.10	9.6	124.9	CNHUSD	6.7341	-1.2	-5.6	Wheat	1066.5	2.5	38.4
Nikkei 225	27824	0.2	-3.4	JP 10 year	0.25	1.6	18.2	USDTRY	17.0342	-3.4	-21.9	Corn	768.0	5.6	29.5
CSI 300	4239	3.7	-14.2	CN 10 year	2.79	-0.2	3.0	USDBRL	5.0005	-4.5	11.5	Electricity*	111.6	16.5	19.4

\* In EUR/MWh

Source: Bloomberg

### Key highlights

- Global **stock markets** started the week on a positive note with major stock indices closing with gains. Further easing of covid restrictions in Shanghai and increased speculation that government crackdown on the technology industry in China is softening was supporting the positive sentiment.
- However, this market optimism was short-lived in Europe, as German factory orders fell behind expectations. Growth fears made investors wary ahead of ECB's Governing Council meeting on Thursday and the release of latest US inflation data on Friday.
- News from the US corporate sector like Target's profit warning – the latest from big US retailers – also contributed to risk-off mood while long-term government yields kept on creeping higher. The Atlanta Fed's GDPNow tracker, which pointed to an 0.9% annualized growth in Q2 down from estimated 1.3% increase released last week, also sent warning signs to market participants.
- At its very much awaited meeting of the ECB, policy makers adopted a more hawkish tone than expected, that deteriorated sentiment and pushed European stock markets lower.
- Friday's trade in European stock markets shows that sentiment is hit by ECB's tightening pledge while the news that the cities of Beijing and Shanghai are back on COVID-19 alert may further strengthen equity investors' risk awareness. Equity indices in the US opened in the negative range and major European bourses extended declines after worse-than-expected CPI data were released.
- On a weekly basis, major European stock indices are expected to close the week in the red with about 3% loss, though UK's FTSE 100 may get away with smaller decline. US indices are also heading towards 4% weekly loss.
- Among sectors, only energy showed modest gains in the USA (S&P500) and financial, IT and real estate may suffer the biggest loss. In Europe, none of the sectors could benefit from the current environment, but real estate, financial services and banks decline the most (Stoxx600).
- Rate-hike expectations in the euro area led **LT yields** higher with double-digit yield rise in Germany and France, while bond yields of Southern Europe's periphery countries climbed near 30bps this week. Following the announcement of President Lagarde after the ECB's policy meeting yesterday, the market predicts that the eurozone's key interest rate will rise by 25 bps each month and reach the 2-2.25% level by next spring. Two-year U.S. Treasury yields rose to their highest level in three-and-a-half years after the data showing acceleration in consumer prices. 10Y Treasury yields jumped to 3.11% on Friday afternoon.
- The euro lost steam, the **EUR/USD** sank near 1.05 after the US CPI data, the Dollar Index gained 1.9% during the week.
- **Oil** is on track for another weekly gain supported by solid fuel demand in the US and fears of potential supply disruption in Europe due to Norwegian oil workers' strike on Sunday. The prospect of reaching a nuclear deal with Iran and the lifting of U.S. sanctions on the Iranian energy sector also seems to be receding, after it began removing essentially all the International Atomic Energy Agency monitoring equipment installed under the deal. Brent and WTI is set to post about 2% weekly gain.
- TTF **natural gas** price rose to 83 EUR/MWh.



### Stock market and sector performance

Performance of US sectors				Performance of Europe's sectors			
Sector	Last price	1 week change (%)	YTD (%)	Sector	Last price	1 week change (%)	YTD (%)
S&P500	3944	-4.0	-17.3	Stoxx 600	424	-3.7	-13.1
IT	2301	-5.8	-24.7	Health care	997	-3.0	-7.9
Health care	1457	-3.5	-11.4	Industrial goods & services	623	-4.1	-21.8
Financials	543	-6.0	-16.4	Banks	130	-5.2	-10.6
Telco	192	-4.0	-28.1	Personal & households goods	911	-3.6	-17.4
Consumer discretionary	1138	-5.2	-29.4	Insurance	291	-3.5	-9.8
Industrials	768	-4.6	-14.2	Food and beverages	745	-4.5	-14.4
Consumer staples	737	-3.5	-8.3	Technology	578	-3.4	-28.3
Utilities	359	-4.6	-1.4	Utilities	373	-3.5	-7.9
Energy	681	0.6	61.1	Oil & gas	345	-0.7	24.8
Real estate	258	-5.7	-20.5	Chemicals	1202	-4.5	-12.0
Materials	513	-5.4	-9.9	Construction & materials	524	-4.3	-18.9
Top US Mega-Cap Companies				Telco	227	-4.1	-1.2
Company	Last price	1 week change (%)	YTD (%)	Retail	307	-1.9	-31.0
Alphabet	2241	-2.2	-22.6	Financial services	585	-5.5	-22.4
Amazon	112	-8.3	-32.7	Basic resources	663	-3.5	10.4
Apple	139	-4.3	-21.7	Real estate	148	-6.1	-24.8
Meta	181	-4.9	-46.1	Auto & parts	562	-2.6	-14.8
Microsoft	258	-4.6	-23.4	Media	311	-3.2	-16.7
Tesla	712	1.2	-32.6	Travel & leisure	193	-2.9	-17.1

### Summary of regional stock markets' performance

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 (%)
Europe	SXXP Index	424	0.9	-0.8	-10.9	-6.7	15.3	1.8	1.3	13.5	1.1	174.2	0.0	5.2
Germany	DAX Index	13851	2.3	3.0	-11.3	-11.0	12.4	1.5	1.0	13.6	1.1	110.6	-0.2	7.3
France	CAC Index	6205	1.4	0.0	-11.2	-5.2	14.0	1.6	1.2	14.9	1.1	220.5	9.6	9.4
Poland	WIG20 Index	1721	0.1	-12.6	-22.3	-23.1	6.0	1.0	0.6	17.0	1.2	55.5	8.2	29.1
Czechia	PX Index	1318	1.5	2.6	-6.2	11.7	10.2	1.2	1.2	11.7		165.8	1.7	25.5
Hungary	BUX Index	38961	-4.2	-7.3	-23.7	-19.6	5.4	0.8	0.6	16.1	1.4	58.7	512.2	8.1
Romania	BET Index	12386	1.6	3.9	-1.2	9.0	2.4	1.1	0.1	20.6	0.9	43.5	-66.3	-5.2
Bulgaria	SOFIX Index	620	3.3	8.7	1.1	14.5	5.5	0.8	0.8	13.3	2.3	58.6		
Russia	IMOEX Index	2285	-4.5	-7.5	-39.2	-40.3	3.8	0.7	0.7	18.8	1.3	83.3	-17.8	-6.0
Ukraine	PFTS Index	519	0.0	0.0	-0.8	-2.3	5.4	1.4	0.3	28.1	0.6	7.8		
Slovenia	SBITOP Index	1172	5.1	8.5	-5.0	3.5	6.8	1.0	0.5	14.8	1.7	37.5		
Croatia	CRO Index	2102	0.3	7.1	4.2	7.3	8.6	1.0	0.5	9.7	1.5	38.1		
Serbia	BELEX15 Index	827	0.3	-0.8	-0.2	5.8	7.6	0.6	0.6	9.1	1.6	16.4		
Montenegro	MNSE10 Index	785	0.6	0.2	2.3	1.4		0.3	0.8	-0.3	2.0	13.6		

\*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.

## FX outlook

FX pair	2021.Q4	2022.Q1	2022.Q2	2022.Q3	2022.Q4	2023.Q4	2024.Q4
EURUSD	1.14	1.12	1.06	1.07	1.08	1.15	1.17
EURGBP	0.84	0.83	0.85	0.85	0.86	0.86	0.87
EURCHF	1.06	1.05	1.03	1.04	1.05	1.1	1.08
USDJPY	130	129.5	136	137	138.5	138.5	138

Source: Bloomberg

Country	FX pair	2021.Q4	2022.Q1	2022.Q2	2022.Q3	2022.Q4	2023.Q1	2023.Q2	2023.Q3	2023.Q4
Hungary	EURHUF (€op)	369	367	379	379	379	374	373	374	369
Romania	EURRON (€op)	4.95	4.94	4.94	4.97	5	5.04	5.06	5.08	5.08
Russia	USDRUB (€op)	74.3	84.1	71.4	76.9	79.6	86	90.6	92.5	94.7
Ukraine	USDUAH (€op)	27.3	29.5	31.3	32.1	32.7	32	32	32.3	32.4
Croatia	EURHRK (€op)	7.52	7.57	7.54	7.54	7.54	7.55	7.54	7.54	7.54
Serbia	EURRSD (€op)	117.6	117.7	117.9	117.8	117.8	117.7	-	-	-

\*No forecast available for Moldova and Albania

Source: Focus Economics

### Macro outlook in the region

Countries	GDP (yoy, %)				
	OTP			Focus Economics	
	2020	2021	2022	2021	2022
Hungary	7.1	5.0	2.0	3.8	3.3
Rom ania	5.9	4.3	2.4	3.5	3.7
Bulgaria	4.2	2.5	2.7	2.6	3.2
Russia	4.7	-8.5	-0.8	-9.8	-1.4
Ukraine	3.4	-36.0	18.1	-36.8	12.5
Slovenia	8.1	5.6	2.4	4.3	2.9
Croatia	10.2	4.2	3.0	3.3	3.6
Serbia	7.4	3.2	3.7	3.5	3.8
Montenegro	12.4	3.7	3.3	3.9	3.9
Albania	8.5	3.2	3.0	3.0	3.3
Moldova	13.9	-6.2	-0.8	-0.3	2.9

Countries	Fiscal balance (%of GDP)				
	OTP			Focus Economics	
	2020	2021	2022	2021	2022
Hungary	-7.3	-4.9	-3.5	-5.7	-4.1
Rom ania	-7.1	-7.5	-6.0	-6.7	-5.5
Bulgaria	-4.1	-4.1	-2.6	-3.9	-2.8
Russia	0.4	-2.2	-1.8	-2.0	-1.6
Ukraine	-3.5	-15.0	-9.0	-17.1	-12.4
Slovenia	-5.2	-4.2	-3.1	-4.4	-3.0
Croatia	-2.9	-2.5	-2.0	-3.0	-2.3
Serbia	-4.1	-4.0	-2.0	-3.7	-2.3
Montenegro	-2.1	-5.1	-3.5	-5.2	-3.8
Albania	-4.5	-5.5	-4.0	-4.8	-3.3
Moldova	-3.3	-8.0	-6.0	-5.9	-4.0

Countries	Inflation (average (yoy), %)				
	OTP			Focus Economics	
	2020	2021	2022	2021	2022
Hungary	5.1	9.4	6.4	9.4	5.5
Rom ania	5.0	12.3	8.7	10.5	6.2
Bulgaria	3.3	13.2	4.1	12.0	4.9
Russia	6.7	14.8	6.3	19.8	11.5
Ukraine	3.3	13.2	4.1	22.5	14.4
Slovenia	1.9	8.5	5.2	7.0	4.3
Croatia	2.6	8.9	5.6	7.5	3.5
Serbia	4.0	6.3	3.5	8.5	4.8
Montenegro	2.4	9.2	2.6	8.1	3.6
Albania	2.0	6.4	5.0	5.9	3.6
Moldova	5.3	28.0	18.0	21.4	8.6

Countries	Unemployment (%)				
	OTP			Focus Economics	
	2020	2021	2022	2021	2022
Hungary	4.1	3.8	3.8	3.8	3.7
Rom ania	5.6	5.4	5.0	5.6	5.3
Bulgaria	5.3	4.5	4.3	5.2	4.8
Russia	4.8	6.5	6.5	7.4	7.0
Ukraine	10.6	15.4	11.0	23.5	14.0
Slovenia	4.8	4.5	4.2	4.5	4.4
Croatia	7.6	6.8	6.0	7.4	7.1
Serbia	10.2	10.2	9.5	10.1	9.4
Montenegro	16.7	16.0	15.5	16.9	15.8
Albania	11.3	11.5	11.9	11.2	11.0
Moldova	3.9	6.3	7.3	3.8	3.7

Source: Focus Economics, OTP Research Center

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## WEEKLY REPORT - 14 June 2022



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