

# OTP Weekly Outlook

## Next week:

- ECB Governing Council meeting and July's PMIs will be in the spotlight

## This week:

- Recession fears remained the main worry during the week in global equity markets.
- The June US CPI data caused yet another upside surprise, lifting expectations of a super-sized rate hike, but Fed officials cooled the market.
- IT yields came sharply down as investors turned to less risky assets.
- The EUR/USD fell below parity, but the euro bounced back to near 1.005.
- Crude oil, industrial and precious metal prices all declined.
- Europe still struggles with high TTF gas and electricity prices.

## ECB Governing Council meeting and July's PMIs will be in the spotlight

Date*	Cd.	Event/ Data	Period	Cons.	Prev.
2022 7. 19. 14 :30	US	Housing starts (annualized monthly, 000s)	Jun	1585	1549
14 :30	US	Building permits (annualized monthly, 000s)	Jun	1666	1695
20 16 :00	US	Existing home sales (annualized monthly, 000s)	Jun	5390	5410
16 :00	EZ	Consumer confidence (point)	Jul	-24.5	-23.6
21. 4 :30	JP	Interest rate decision (%)	21Jul	-0.1	-0.1
14 :15	EZ	Interest rate decision (deposit rate,%)	Jul	-0.25	-0.5
14 :15	EZ	Interest rate decision (lending rate,%)	Jul	0.25	0.0
14 :30	US	Continuing jobless claims (000s)	weekly		1331
14 :30	US	Initial jobless claims (000s)	weekly	240	244
16 :00	US	Leading index MoM (%)	Jun	-0.5	-0.4
22. 1 :30	JP	CPI (YoY,%)	Jun		2.5
1 :30	JP	core-CPI (YoY,%)	Jun	2.2	2.1
9 :15	FR	S&P Global Manufacturing PMI (points)	Jul	50.9	51.4
9 :15	FR	S&P Global Service PMI (points)	Jul	52.8	53.9
9 :30	DE	S&P Global Service PMI (points)	Jul	51.3	52.4
9 :30	DE	S&P Global Manufacturing PMI (points)	Jul	51.0	52.0
10 :00	EZ	S&P Global Manufacturing PMI (points)	Jul	51.0	52.1
10 :00	EZ	S&P Global Service PMI (points)	Jul	52.0	53.0
15 :45	US	S&P Global Manufacturing PMI (points)	Jul	52.0	52.7
15 :45	US	S&P Global Service PMI (points)	Jul	52.6	52.7

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

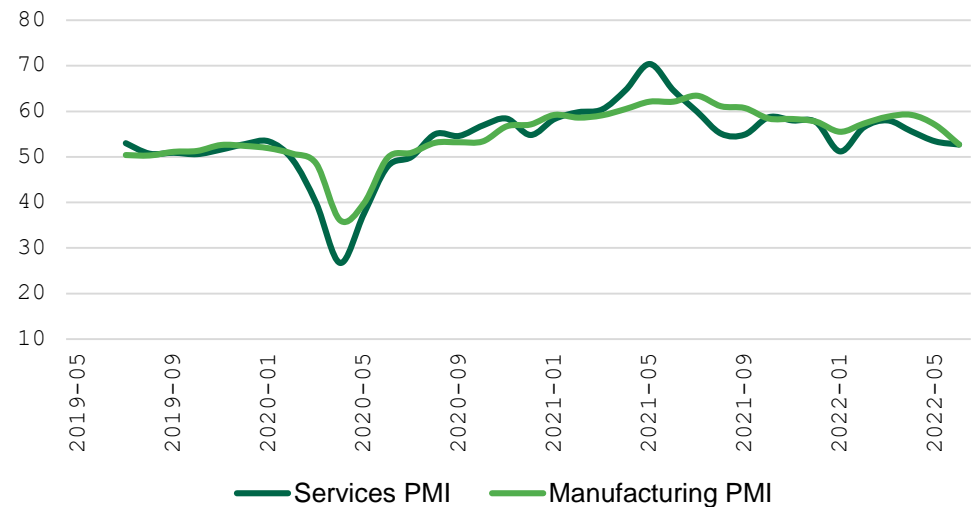
### 3 US: PMIs will be in the spotlight; the recession threat is rising

Date		Cd.	Event/Data	Period	Cons.	Prev.
2022.07.19	14:30	US	Housing starts (annualized monthly, 000s)	Jun	1585	1549
	14:30	US	Building permits (annualized monthly, 000s)	Jun	1666	1695
20.	16:00	US	Existing home sales (annualized monthly, 000s)	Jun	5390	5410
22.	15:45	US	S&P Global Manufacturing PMI (points)	Jul	52.0	52.7
	15:45	US	S&P Global Service PMI (points)	Jul	52.6	52.7

#### Key highlights

- **Expectations for a rate hike in the U.S. rise on the back of July's higher-than-expected inflation data**, which is running at its fastest pace since 1981. It has increased rate hike expectations, and elevated recession fears.
- **The PMIs from the USA are expected to show a slowdown in the expansion of activity, but remain slightly above 50 points (indicating expansion) for both services and manufacturing.**
- The momentum in the services sector is being hit mainly by soaring inflation, but concerns about a new wave of pandemic are also getting more attention.
- Industrial performance could be undermined not only by supply chain disruptions but also by a slowdown in the global economy.
- **Housing market data for June are coming.**

#### PMI indices



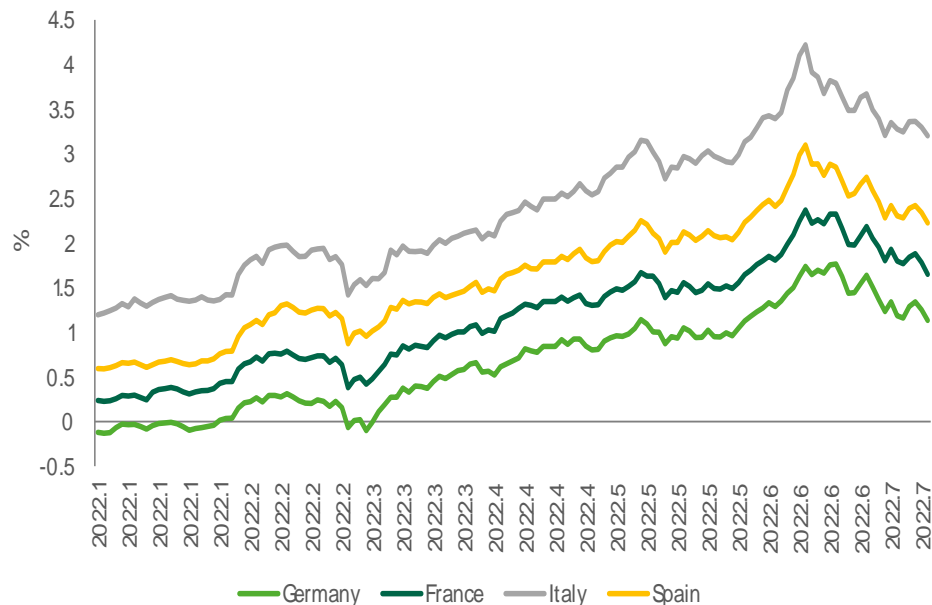
**Euro area: ECB to start rate hikes next week**

Date	Cd.	Event/ Data	Period	Cons.	Prev.
2022 7. 20 16 :00	EZ	Consumer confidence (point)	Jul	-24.5	-23.6
21. 14 :15	EZ	Interest rate decision (deposit rate,%)	Jul	-0.3	-0.5
14 :15	EZ	Interest rate decision (lending rate,%)	Jul	0.25	0.00
22. 9 :15	FR	S&P Global Manufacturing PMI (points)	Jul	50.9	51.4
9 :15	FR	S&P Global Service PMI (points)	Jul	52.8	53.9
9 :30	DE	S&P Global Service PMI (points)	Jul	51.3	52.4
9 :30	DE	S&P Global Manufacturing PMI (points)	Jul	51.0	52.0
10 :00	EZ	S&P Global Manufacturing PMI (points)	Jul	51.0	52.1
10 :00	EZ	S&P Global Service PMI (points)	Jul	52.0	53.0

**Key highlights**

- At its previous meeting, the **ECB Governing Council** paved the way for starting rate hikes in July. Back in June, it said to expect a 25 bps rate hike for the next meeting, and the Council also concluded to end net asset purchases from 1 July. However, it is clear that the ECB's task is far from easy, as rising intra euro spread led to an unscheduled Governing Council meeting in mid-June, when the Bank pledged that redemptions of its Pandemic Emergency Purchase Program will be reinvested flexibly, and it also promised to develop a new anti-fragmentation tool. Afterwards, spreads have declined somewhat. However, the key question is whether the different situation of Southern and Northern Europe will allow the ECB to deliver a „normal“ rate hike cycle to fight inflation.

**Euro area business confidence (points)**



5 This week's data: another upside surprise in US CPI

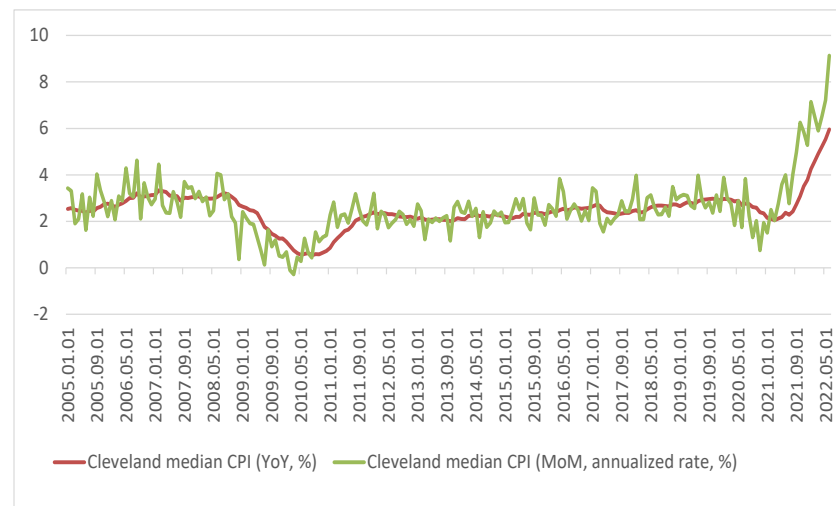
Date*	Time	Cd.	Event/ Data	Period	Fact	Cons.	Prev.
2022 7. 12.	11 :00	DE	ZEW Economic Sentiment (points)	Jul	-53.8	-38.0	-28
	13. 5 :00	CN	Export (YoY,%)	Jun	17.9	12.0	16.9
	11 :00	EZ	Industrial production MoM (%)	May	0.8	0.2	0.4
	14 :30	US	core-CPI MoM, SA, (%)		0.7	0.6	0.6
	14 :30	US	core-CPI (YoY,%)	Jun	5.9	5.7	6
	14 :30	US	CPI MoM, SA, (%)	Jun	1.3	1.0	1
	14 :30	US	CPI (YoY,%)	Jun	9.1	8.7	8.6
	20 :00	US	Federal budget balance (USDbn)	Jun	-8.9		-6.6
	20 :00	US	Beige Book		-	-	-
14.	14 :30	US	Initial jobless claims (000s)	weekly	244	240	235
	14 :30	US	Continuing jobless claims (000s)	weekly	1331		1375
15.	4 :00	CN	Infrastructural spending (YoY,%)	Jun	6.1		6.2
	4 :00	CN	Industrial production (YoY,%)	Jun	3.9		0.7
	4 :00	CN	Retail sales (YoY,%)	Jun	3.1		-6.7
	4 :00	CN	GDP (YoY,%)	Q2	0.4		4.8
	4 :00	CN	GDP QoQ, SA, (%)	Q2	-2.6		1.3
	14 :30	US	New York Fed Manufacturing index (points)	Jul	11.1	-1.25	-1.2
	14 :30	US	Retail sales MoM (%)	Jun	1.0	0.8	-0.3
		US	Industrial production MoM (%)	Jun	-0.2	0.2	0.2
	16 :00	US	Business inventories MoM (%)	May		1.2	1.2
	16 :00	US	Michigan Consumer confidence (preliminary, points)	Jul		49.4	50

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

### Key highlights

- The June **US CPI** data caused yet another upside surprise. Headline inflation rose to 9.1%, from 8.6%, well above the consensus of 8.7%. Core inflation was also bad news, which grew by 5.9%, a minor slowdown compared to 6.0% before, but above the consensus of 5.7%. Underlying inflation measures (e.g. median CPI MoM), are sharply on the rise, with no sign of peaking yet.
- Despite the lockdowns, **China's GDP** has grown by 0.4% YoY according to official data, even though based on high-frequency indicators a contraction was expected by certain analysts. The outlook is bleak due to the struggling property market and other structural problems.

### US underlying CPI measures



Recession fears have remained the main worry during the week in global equity markets. LT yields came sharply down. The EUR/USD fell below parity, but the euro bounced back to near 1.005. Crude oil, industrial and precious metal prices all declined. Europe still struggles with high TTF gas and electricity prices.

Indices	Last price	1week change (%)	YTD (%)	Interest rates	Last price	1week change (bps)	YTD (bps)	FX rates	Last price	1week change (%)	YTD (%)	Commodity	Last price	1week change (%)	YTD (%)
S&P500	3838	-1.6	-19.5	US 2 year	3.16	5.1	242.3	Dollar index	108.341	12	13.2	Brent	101.1	-5.5	30.0
Nasdaq Comp.	11305	-2.8	-27.7	US 10 year	2.95	-12.6	144.4	EURUSD	1.0046	-1.4	-11.6	WTI	97.6	-6.8	29.8
Dow Jones	30950	-1.2	-14.8	DE 2 year	0.46	-5.2	109.6	USDJPY	138.81	-2.0	-17.1	Natural Gas (TTF)*	160.4	-10.6	141.2
Russel2000	1728	-2.3	-23.0	DE 10 Year	1.16	-18.8	133.5	GBPUSD	1.1816	-1.8	-12.7	Gold	1703.0	-2.3	-6.9
Stoxx 600	411	-1.4	-15.7	FR 10 year	1.77	-11.0	157.3	AUDUSD	0.6759	-1.4	-6.9	Silver	18.5	-4.5	-20.8
DAX	12781	-1.8	-19.5	SP 10 year	2.31	-10.6	174.1	USDCAD	1.3066	-0.9	-3.3	Palladium	1841.2	-14.8	-3.3
CAC40	5983	-0.8	-16.4	IT 10 year	3.27	-1.1	210.0	USDCHF	0.9816	-0.4	-7.0	Copper	319.0	-9.7	-28.5
FTSE100	7123	-1.0	-3.5	UK 10 year	2.11	-12.6	113.7	NZDUSD	0.6142	-0.8	-10.0	Steel	910.0	-0.8	-36.6
FTSEMIB	20824	-4.4	-23.9	CH 10 year	0.73	-13.2	88.6	CNHUSD	6.775	-1.3	-6.2	Wheat	790.0	-10.2	2.5
Nikkei225	26788	1.0	-7.0	JP 10 year	0.23	-1.2	16.4	USDTRY	174283	-1.0	-23.7	Corn	606.3	-22.1	2.2
CSI300	4248.5	-4.1	-14.0	CN 10 year	2.79	-5.5	1.0	USDBRL	5.4446	-3.5	2.4	Electricity*	175.7	-51.7	87.9

Source: Bloomberg

\*In EUR/MWh

## Key highlights

- Recession fears are still the major drag on developed stock markets, as multi-decade high inflation in the US, political turmoil in Italy, uncertainties of gas supply in Europe and far from encouraging corporate earnings frighten off investors from equities.
- On the first two trading days of the week we could find bright spots in Europe as some bourses bagged modest gains but later, with worse-than-expected US June inflation data and disappointing earnings report from JP Morgan and Morgan Stanley, growth fears led major indices down. Friday may bring some uptick, despite GDP data showing sharp Q2 slowdown in China, but probably it will fail to lift the indices' weekly performance to positive territory.
- Uncertainties of European gas supply also made investors wary in Europe, while latest reports from automotive manufacturers Volkswagen and Renault showed how geopolitical tension with Russia took its toll on European corporates.
- Major stock indices **in Europe** are expected to end the week with 1-2% loss, with FTSE MIB underperforming the pan-European benchmark due to the political turmoil in Italy. **In the USA**, major stock indices may fall similarly to Western European markets (-1 to -3%). In terms of sector performance, only consumer staples is saved from huge losses in the S&P500 universe, while in Europe it is retail, utilities, personal & household goods, food & beverages and health care that are expected to remain flat, or gain. Energy, basic materials, and other cyclical stocks are the biggest drag on stock markets' performance on both sides of the Atlantic. Banks and insurance perform well below the benchmark Stoxx600 in Europe, while in the US, telcos declined the most.
- **Covid case counts** are still on the rise in Western Europe and in the US, subvariants of omicron BA.4 and BA.5 are dominant in these regions. According to experts, a highly contagious subvariant BA2.75 is also a mutation of concern, and while it is more frequent in India, it has been already detected all around the globe. A significant increase of infection rates was also reported from the CEE region, during the past few weeks.



## Key highlights

- The recently released US CPI data, showing inflation racing at its fastest pace in four decades, had lifted expectations that the Federal Reserve would go for a super-sized tightening of at least 100 basis points at its end-July meeting. But Fed Governor Christopher Waller and St. Louis Fed President James Bullard, generally considered policy hawks, said on Thursday they favoured a 75 bps move. Bonds remained in demand as investors avoid risky assets. **In the US, 10Y** yield fell below 3.0% by 13bps w/w, while the 2Y bond yield edged 5bps up. Moves were sharper in Europe, partly due to political turmoil in Italy but also as money markets dialled back some bets on European Central Bank policy tightening by year-end. **10Y Bund-yield** declined 19bps to 1.16% but Italy's benchmark yield dropped 1bps w/w after jumping 20bps on Thursday, while yields in other eurozone countries fell about 11bps.
- The euro fell below parity on Thursday after Italy's Prime Minister Mario Draghi offered, but failed, to resign. On Friday afternoon the **EURUSD** stands at 1.005 (-1.4%), and the Dollar Index shows 1.2% weekly gain.
- Global recession fears still weigh on commodity markets as well. Industrial metals dropped, with copper and palladium plunging more than 10%. **Oil** is on track for a considerable weekly loss, with prices hovering around 100 USD/bbl.
- Geopolitical risks and supply uncertainties put Europe's **gas and electricity** markets under pressure, with TTF gas price remaining high, despite falling to 160 EUR/MWh (-10%) after last weeks' peak, but electricity price still rallying high in one week into Thursday, to 328 EUR/MWh.



### Stock market and sector performance

Performance of US sectors				Performance of Europe's sectors			
Sector	Last price	1week change (%)	YTD(%)	Sector	Last price	1week change (%)	YTD(%)
S&P500	3838	-1.6	-19.5	Stoxx 600	411	-1.4	-15.7
IT	2292	-1.4	-25.0	Health care	1046	0.2	-3.3
Health care	1500	-1.6	-8.7	Industrial goods & services	605	-0.1	-24.1
Financials	518	-2.9	-20.3	Banks	117	-6.2	-19.1
Telco	187	-4.6	-29.9	Personal & household goods	930	-0.1	-15.6
Consumer discretionary	1126	-2.0	-30.1	Insurance	279	-3.8	-13.4
Industrials	728	-2.1	-18.7	Food and beverages	793	0.2	-8.9
Consumer staples	758	0.1	-5.8	Technology	554	-0.6	-31.4
Utilities	350	-1.4	-3.8	Utilities	359	-0.1	-11.4
Energy	520	-3.9	22.9	Oil & gas	298	-3.6	7.5
Real estate	255	-1.3	-21.5	Chemicals	1088	-2.0	-20.4
Materials	448	-2.4	-21.3	Construction & materials	488	-1.5	-24.4
Top US Mega-Cap Companies				Telco	231	-1.3	0.5
Company	Last price	1week change (%)	YTD(%)	Retail	304	0.9	-31.6
Alphabet	2261	-5.3	-22.0	Financial services	562	-2.9	-25.4
Amazon	114	-1.6	-31.8	Basic resources	527	-6.0	-12.3
Apple	150	2.2	-15.3	Real estate	137	-0.2	-30.0
Meta	162	-5.1	-51.8	Auto & parts	502	-3.0	-23.8
Microsoft	259	-3.4	-23.1	Media	317	0.4	-15.1
Tesla	728	-3.2	-31.1	Travel & leisure	175	-0.7	-24.6

Source: Bloomberg

## 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 (%)
													1264075	
Europe	SXXP Index	411	-0.5	-10.6	-14.5	-9.9	14.9	1.8	1.3	13.4	1.1	174.5	0.9	6.0
Germany	DAX Index	12781	-5.2	-9.8	-19.5	-18.2	11.4	1.4	0.9	13.6	1.1	110.6	2.3	5.8
France	CAC Index	5983	-0.8	-9.2	-16.3	-7.9	13.5	1.6	1.2	14.9	1.1	220.7	15.8	10.4
Poland	WIG20 Index	1614	-5.5	-22.9	-32.3	-28.6	5.6	0.9	0.6	17.0	1.2	55.6	7.6	25.5
Czechia	PX Index	1224	-6.3	-11.1	-15.3	2.2	9.5	1.1	1.1	11.7		165.8	2.5	9.2
Hungary	BUX Index	39557	0.6	-8.0	-24.9	-17.1	5.4	0.8	0.6	15.9	1.4	58.3	556.0	0.0
Romania	BET Index	12063	-0.1	-7.2	-11.8	0.3	1.9	0.6	0.1	37.2	0.7	119.4	23.1	3.2
Bulgaria	SOFIX Index	608	-0.6	-4.2	-5.5	7.8	5.3	0.7	0.8	13.3	2.3	57.5		
Russia	MOEX Index	2091	-9.8	-13.8	-41.9	-45.0	3.5	0.7	0.6	18.8	1.3	83.4	13.4	-2.1
Ukraine	PFTS Index	519	0.0	0.0	-0.7	-1.5	5.4	1.4	0.3	28.1	0.6	7.8		
Slovenia	SBITOP Index	1139	-0.7	-2.7	-13.5	-1.5	6.6	1.0	0.5	14.8	1.7	37.5	-4.3	
Croatia	CRO Index	1940	-4.8	-8.5	-10.7	0.1	7.6	0.9	0.5	10.1	1.6	35.4		
Serbia	BELEX15 Index	855	3.5	-0.1	3.2	11.1	7.9	0.7	0.6	9.1	1.6	16.3		
Montenegro	MNSE10 Index	814	4.0	5.1	4.9	10.0	70.0	0.3	0.8	0.2	2.2	12.6		

\*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	1.04	1.06	1.11	1.15
EURGBP	0.84	0.83	0.85	0.86	0.86	0.87	0.87
EURCHF	1.06	1.05	1.03	1.01	1.02	1.05	1.07
USDJPY	130	129.5	136	140	140	138	137.5

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	397	389	389	386	386	383	381
Romania	EURRON (€op)	4.95	4.94	4.95	4.99	5.03	5.06	5.09	5.12	5.12
Russia	USDRUB (€op)	74.3	84.1	51.2	66.2	69.9	74.1	77.8	78.5	80.6
Ukraine	USDUAH (€op)	27.3	29.5	29.4	33.4	34.7	33.3	33.4	32.3	32.3
Croatia	EURHRK (€op)	7.52	7.57	7.53	7.54	7.54	7.55	7.54	7.54	7.54
Serbia	EURRSD (€op)	117.6	117.7	117.3	117.6	117.6	117.6	-	-	-

\*No forecast available for Moldova and Albania

Source: Focus Economics

### Macro outlook in the region

Countries	GDP (yoy, %)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	7.1	5.0	2.0	4.3	2.9
Rom ania	5.9	4.3	2.4	4.0	3.6
Bulgaria	4.2	2.5	2.7	2.7	3.0
Russia	4.7	-5.5	0.8	-9.3	-2.1
Ukraine	3.4	-36.0	18.1	-36.3	12.0
Slovenia	8.1	5.6	2.5	4.5	2.9
Croatia	10.2	4.2	3.0	3.5	3.1
Serbia	7.4	3.2	3.4	3.1	3.5
Montenegro	12.4	4.2	3.3	3.7	3.9
Albania	8.5	3.2	3.0	2.9	3.3
Moldova	13.9	-6.2	-0.8	0.2	2.9

Countries	Fiscal balance (%of GDP)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	-7.3	-4.9	-3.5	-5.7	-4.0
Rom ania	-7.1	-6.5	-5.5	-6.7	-5.3
Bulgaria	-4.1	-3.6	-2.6	-4.0	-2.7
Russia	0.4	-2.1	-1.6	-1.7	-2.1
Ukraine	-3.5	-15.0	-10.0	-16.5	-13.0
Slovenia	-5.2	-2.9	-2.8	-4.4	-3.4
Croatia	-2.9	-2.5	-2.0	-3.0	-2.3
Serbia	-4.1	-4.0	-2.0	-3.8	-2.4
Montenegro	-2.1	-4.6	-3.5	-5.3	-4.0
Albania	-4.5	-5.5	-4.0	-4.7	-3.3
Moldova	-3.3	-8.0	-6.0	-6.2	-4.4

Countries	Inflation (average (yoy), %)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	5.1	12.4	10.4	10.1	6.5
Rom ania	5.0	12.4	9.3	11.9	7.1
Bulgaria	3.3	13.8	4.5	13.2	5.3
Russia	6.7	14.5	6.1	17.0	9.7
Ukraine	3.3	13.8	4.5	20.5	13.0
Slovenia	1.9	9.4	6.5	7.4	4.8
Croatia	2.6	10.2	6.7	8.7	4.2
Serbia	4.0	10.0	6.5	8.9	5.3
Montenegro	2.4	10.2	3.1	8.5	3.6
Albania	2.0	6.4	5.0	5.9	3.6
Moldova	5.3	28.0	18.0	22.6	9.3

Countries	Unemployment (%)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	4.1	3.7	3.9	3.8	3.7
Rom ania	5.6	5.4	5.0	5.5	5.3
Bulgaria	5.3	4.9	4.8	5.1	4.9
Russia	4.8	5.0	5.5	6.7	6.7
Ukraine	10.6	15.4	11.0	24.3	13.9
Slovenia	4.8	4.1	4.2	4.5	4.3
Croatia	7.6	6.8	6.0	7.5	7.1
Serbia	10.2	10.5	10.0	10.2	9.5
Montenegro	16.7	15.8	15.3	16.9	15.7
Albania	11.3	11.5	11.9	11.3	11.0
Moldova	3.9	6.3	7.3	3.8	3.9

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