

OTP Weekly Outlook

 **otp** Global Markets

Next week's spotlight:

- February inflation data from the USA
- Governing Council meeting in the euro area
- January-February activity data from China

This week:

- Job growth was stronger than expected in January, but wage growth slowed more than foreseen
- Mixed January real economy data from the euro area
- Though Jerome Powell's testimonies and Friday's US labour market report were expected to define this week's market movements, liquidity problems of one of the largest lenders in the Silicon Valley highlighted the potential vulnerability of the banking sector in the current interest rate environment.
- Rate hike expectations eased, but the turmoil in the financial sector also led IT yields down, and equities suffered considerable losses this week.
- The euro gained, the EUR/USD climbed to 1.067
- Crude oil prices declined around 5%, while the TTF gas price surged 10%.

Next week's spotlight: February inflation data from the USA; Governing Council meeting in the euro area; January-February activity data from China

Date*		Cd.	Event/Data	Period	Cons.	Prev.
2023 3. 14.	13 :30	US	core-CPI M oM ,SA,%)	Feb	0.4	0.4
	13 :30	US	core-CPI YoY,%)	Feb	5.5	5.6
	13 :30	US	CPI M oM ,SA,%)	Feb	0.4	0.5
	13 :30	US	CPI YoY,%)	Feb	6.0	6.4
15.	3 :00	CN	Industrial production YoY,%)	Jan-Feb	2.6	1.3
	3 :00	CN	Retail sales YoY,%)	Jan-Feb	3.4	-1.8
	3 :00	CN	Infrastructure spending YoY,%)	Jan-Feb	4.0	5.1
	11 :00	EZ	Industrial production M oM ,%)	Jan	0.5	-1.1
	13 :30	US	New York Fed Manufacturing index (points)	Mar	-7.5	-5.8
	13 :30	US	Producer Prices YoY,%)	Feb	5.5	6.0
	13 :30	US	Producer Prices M oM ,%)	Feb	0.3	0.7
	13 :30	US	Retail sales M oM ,%)	Feb	-0.1	3.0
	15 :00	US	Business inventories M oM ,%)	Jan	0.0	0.3
	16.	13 :30	US	Building permits (annualized monthly, 000s)	Feb	1340
13 :30		US	Housing starts (annualized monthly, 000s)	Feb	1305	1309
13 :30		US	Initial jobless claims (000s)	weekly		211.0
13 :30		US	Continuing jobless claims (000s)	weekly		1718
14 :15		EZ	Interest rate decision (lending rate,%)	Mar	3.5	3.0
14 :15		EZ	Interest rate decision (deposit rate,%)	Mar	3.0	2.5
17.	14 :15	US	Industrial production M oM ,%)	Feb	0.4	0.0
	15 :00	US	Leading index M oM ,%)	Feb	-0.2	-0.3
	15 :00	US	Michigan Consumer confidence (preliminary, points)	Mar	67.0	67.0

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

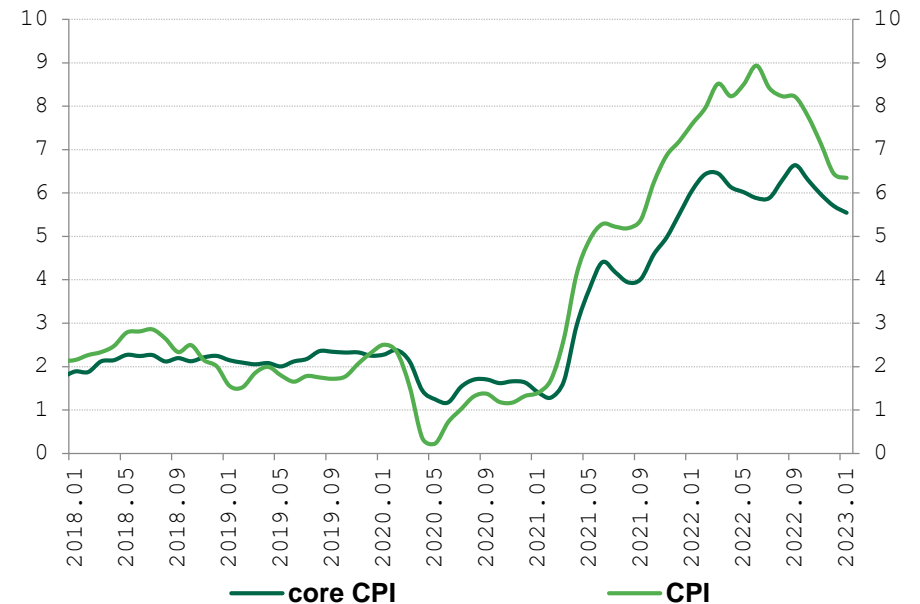
US: February inflation data will be in the spotlight

Date	Time	Cd.	Event/ Data	Period	Cons.	Prev.
2023.03.14	13:30	US	core-CPI (M oM ,SA,%)	Feb	0.4	0.4
	13:30	US	core-CPI (YoY,%)	Feb	5.5	5.6
	13:30	US	CPI (M oM ,SA,%)	Feb	0.4	0.5
	13:30	US	CPI (YoY,%)	Feb	6.0	6.4
15.	13:30	US	New York Fed M anufacturing index (points)	M ar	-7.5	-5.8
	13:30	US	Producer Prices (YoY,%)	Feb	5.5	6
	13:30	US	Producer Prices (M oM ,%)	Feb	0.3	0.7
	13:30	US	Retail sales (M oM ,%)	Feb	-0.1	3
17.	14:15	US	Industrial production (M oM ,%)	Feb	0.4	0
	15:00	US	M ichigan Consumer confidence (prelim inary,	M ar	67	67.0

Key highlights

- The unexpected January data gave special weight to **Jerome Powell's usual Senate hearing**, where he said that interest rates were likely to peak higher than previously anticipated, and if the incoming data justify faster tightening, the Fed would be ready to increase the pace of rate hikes.
- Since then, the market eagerly has been watching every piece of data arriving ahead of the March rate decision meeting, but this is especially true for **inflation**. Markets now expect a further easing of price pressure in February, but the slowdown should be slight, especially of core CPI. Data in line with expectations would leave no doubt that we will see another 25 bps rate hike at the March meeting, pushing the base rate up to 4.75-5.0%. The priced in future maximum of the interest rate is 5.5%.
- **February's Producer Price Index and monthly economic indicators** are also due, which **should not leave markets cold** this time either, after the surprises caused by January's data releases.

CPI data



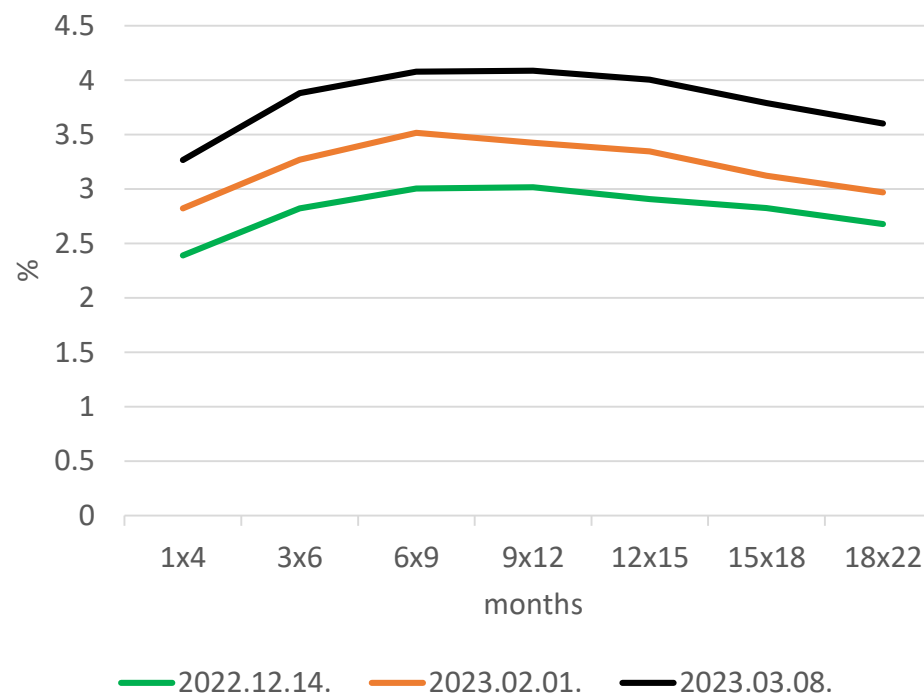
In the spotlight in the euro area: Governing Council meeting

Date	Cd.	Event/ Data	Period	Cons.	Prev.
2023 3. 15. 11 :00	EZ	Industrial production M o M ,%)	Jan	0.5	-1.1
14 :15	EZ	Interest rate decision (lending rate,%)	Mar	3.5	3.0
14 :15	EZ	Interest rate decision (deposit rate,%)	Mar	3.0	2.5

Key highlights

- A lot of important data releases occurred since the early February **ECB Governing Council meeting**. On the face of it, the current GDP profile is not that different from what was envisaged in the ECB baseline scenario for 2023. (ECB: 0.5%, current market cons: 0.4%), while the sharp fall in natural gas prices puts downside risk to the December headline HICP forecast of the ECB for 2023 (ECB: HICP: 6.3, market: 5.5%). However, inflation could be easily more persistent than foreseen before, as up to February, core inflation has been moving up (latest: 5.6%), and stubborn underlying inflation measures (around 6%) question the realism of the ECB's December 4.2% core rate forecast for 2023. Not surprisingly, most decision-makers have sent hawkish messages recently, and markets have started to price an interest rate peak at 4.1%, rather than 3.5% at the time of the February meeting. Hence, while a 50 bps hike could be taken almost for granted at the next meeting, the communication of future steps will have primary importance, just as the new 2024 HICP forecast, which is already the policy horizon.

FRA pricing for euro area short term interest rates, %



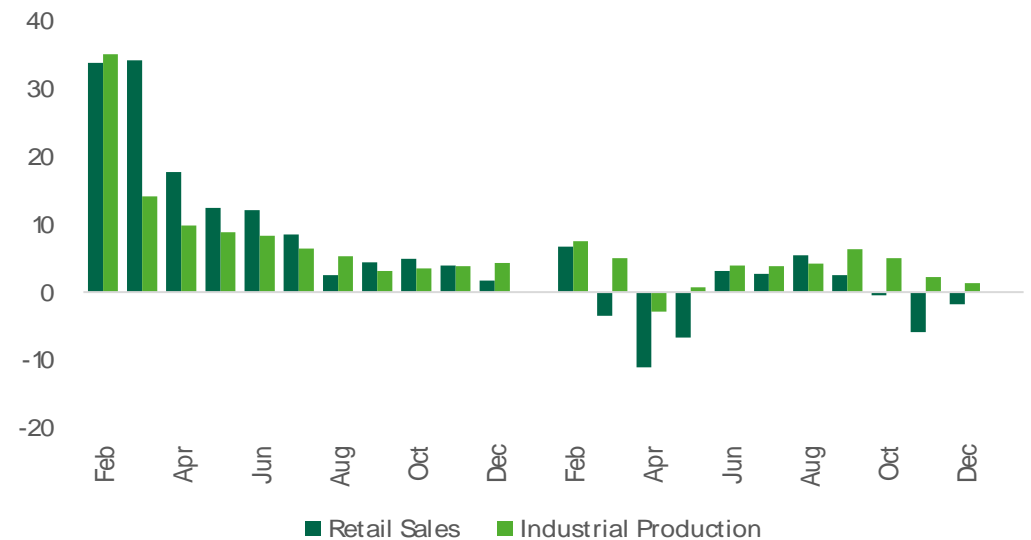
China: Rebound in retail sales and industrial production is expected in January-February as the latest Covid wave has subsided quickly

Date		Cd.	Event/Data	Period	Cons.	Prev.
2023.03.15	3:00	CN	Industrial production (YoY,%)	Jan-Feb	2.6	1.3
	3:00	CN	Retail sales (YoY,%)	Jan-Feb	3.4	-1.8
	3:00	CN	Infrastructural spending (YoY,%)	Jan-Feb	4.0	5.1

Key highlights

- **Industrial production and retail sales are expected to rebound in January-February**
- In December, **infections increased to a record level** as the government gave up its nearly three-year-long zero-Covid policy and cancelled strict lockdown measures
- High infection rates had a **negative impact on industrial production and especially on retail sales** in December
- However, the latest wave of the epidemic has subsided quickly, and **the economy has rebounded in early 2023**
- The economic plans detailed at the National People’s Congress in the beginning of March suggest less fiscal support for the economy this year than expected which promises **slower economic growth once the post-Covid rebound peters out.**
- There is a clear push, however, to **boost housing demand** which will help property developers

Chinese industrial production and retail sales (YoY, %)



This week's data: Job growth was stronger than expected in January, but wage growth slowed more than foreseen; Mixed January real economy data from the euro area

Date*		Cd.	Event/ Data	Period	Fact	Cons.	Prev.
2023 3. 6.	10 :30	EZ	Sentix Investor confidence (points)	Mar	-11.1	-6.5	-8.0
	11 :00	EZ	Retail sales MoM (%)	Jan	0.3	1.0	-2.7
	16 :00	US	Factory orders MoM (%)	Jan	-1.6	-1.8	1.7
7.	4 :00	CN	Export YoY (%)	Feb	-6.8	-10.0	-9.9
	9 :00	DE	Industrial orders MoM (%)	Jan	1.0	-0.9	3.2
8.	8 :00	DE	Industrial production MoM (%)	Jan	3.5	1.4	-3.1
	8 :00	DE	Retail sales MoM (%)	Jan	-0.3	2.0	-5.3
	14 :15	US	ADP non-farm employment MoM (000s)	Feb	242	200	106
	16 :00	US	Job Openings (million)	Jan	10.8	10.5	11.0
	20 :00	US	Beige Book	Mar	-	-	-
9.	14 :30	US	Continuing jobless claims (000s)	weekly	1718	1659	1649
	14 :30	US	Initial jobless claims (000s)	weekly	211	195	190
10.	4 :00	JP	Interest rate decision (%)	Mar	-0.1	-0.1	-0.1
	14 :30	US	Average earnings YoY (%)	Feb	4.6	4.7	4.4
	14 :30	US	Average earnings MoM (%)	Feb	0.2	0.3	0.3
	14 :30	US	Unemployment rate (%)	Feb	3.6	3.4	3.4
	14 :30	US	Non-farm payroll MoM (000s)	Feb	311	205	517
	20 :00	US	Federal budget balance (USDbn)	Feb			-39

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

Key highlights

- February brought another stronger than foreseen growth in **US nonfarm payrolls** (311,000 vs an expectations of 205,000). This in itself may have raised rate expectations, however the fact that **wage growth** was weaker than expected (0.2% vs 0.3% MoM), and the activity and **unemployment rate** edged up was rather dovish news. The **Beige book** suggested slightly increased economic activity in early 2023.
- Incoming **euro area** data were rather mixed. **Retail sales** picked up much less than expected after the sharp fall in December, while **German industrial production** strongly rebounded. Among the negative news, the **Sentix business confidence** stopped improving in March, after continuous increase for four months in a row.

Although Jerome Powell's testimonies and Friday's US labour market report were expected to define this week's market movements, liquidity problems of one of the largest lenders in the Silicon Valley highlighted the potential vulnerability of the banking sector. Though rate hike expectations eased, turmoil in the financial sector also led LT yields down, while equities also suffered considerable losses this week. The euro gained. Crude oil prices declined around 5%, while the TTF gas price surged 10%.

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	3883	-4.0	1.1	US 2 year	4.62	-23.5	19.6	Dollar index	104.456	-0.1	0.9	Brent	81.8	-4.7	-4.8
Nasdaq Comp.	11256	-3.7	7.5	US 10 year	3.71	-23.8	-16.1	EURUSD	1.0674	0.4	-0.3	WTI	75.8	-4.9	-5.5
Dow Jones	32228	-3.5	-2.8	DE 2 year	3.02	-18.4	27.9	USDJPY	134.63	0.9	-2.6	NatGas (TTF, front-month)*	49.4	10.1	-33.2
Russel2000	1789	-7.2	1.6	DE 10 Year	2.44	-27.1	-12.4	GBPUSD	1.2092	0.5	0.1	Gold	1860.7	0.2	2.0
Stoxx 600	452	-2.7	6.3	FR 10 year	2.95	-24.3	-15.5	AUDUSD	0.663	-2.1	-2.7	Silver	20.6	-2.9	-13.9
DAX	15336	-1.6	10.1	SP 10 year	3.48	-17.9	-17.1	USDCAD	1.3777	-1.3	-1.6	Palladium	1396.9	-4.2	-22.1
CAC40	7181	-2.3	10.9	IT 10 year	4.25	-27.1	-44.5	USDCHF	0.9189	1.9	0.6	Copper	403.0	-1.2	5.8
FTSE100	7713	-3.0	3.5	UK 10 year	3.57	-27.8	-9.6	NZDUSD	0.6164	-0.9	-2.9	Steel	1060.0	1.0	42.5
FTSEMIB	27001	-3.0	13.9	CH 10 year	1.29	-21.8	-28.7	CNHUSD	6.9283	-0.5	-0.1	Wheat	653.5	-6.8	-17.5
Nikkei225	28144	0.8	7.9	JP 10 year	0.40	-10.1	-1.4	USDTRY	18.9617	-0.9	-1.3	Com	620.0	-3.9	-8.6
CSI300	3967.1	-4.0	2.5	CN 10 year	2.88	-4.3	4.0	USDBRL	5.1741	0.5	2.1	Electricity (APX)*	113.3	-8.3	524.7

Source: Bloomberg

*In EUR/MWh

Key highlights: Although Jerome Powell's testimonies and Friday's US labour market report were expected to define this week's market movements, liquidity problems of a largest lender in the Silicon Valley highlighted the potential vulnerability of the banking sector. The rate hike expectations eased, but the turmoil in the financial sector also led LT yields deeply down, and equities suffered considerable losses this week. The euro gained. Crude oil prices declined around 5%, while the TTF gas price surged 10%.

- **LT yields and stock indices in the US and Western Europe** fell after a week of hectic movements. Market sentiment has been hit hard by Jerome Powell's semi-annual testimony to the Congress with the Fed's Chairman signalling even quicker pace of rate hikes to come to battle persistent inflation that sent equity markets down. Investors were also wary ahead of the US February payroll report, with Mr Powell mentioning this data point as one of the key indicators to be closely monitored. Ahead of this, Wednesday's ADP report brought strong labour market data but the US initial jobless claims published yesterday exceeded projections, cooling interest rate hike expectations. Thursday's turmoil in the banking sector caused by one of the main lenders to technology companies, SVB Financial Group also led yield lower. Higher-than-expected non-farm payrolls but rising unemployment rate and lower-than-expected wage dynamics in February contributed further to the easing of rate hikes fears but the recent turbulence in the banking sector also led LT yields further lower. On Friday afternoon, **US 10Y yields** show 24bps weekly decline to 3.7% and **10Y Bund yield** is near 2.4% (-27bps). Ahead of the recent NFP report, the market was increasingly betting that March's rate decision by the Fed would be a half-ppt hike, but after the release a 25bps rate hike seems more probable, though next week's US CPI may change the expectations on the Fed's forthcoming rate decision.
- After Mr Powell's testimony to the Congress, the US dollar strengthened, the **EUR/USD** dropped to 1.053 from near 1.07 on Monday. In the second half of the week, the euro steadily resumed as rate hike fears in the USA eased and today's labour market report also helped the euro to gain, sending the EUR/USD to 1.067 (+0.4%).
- **Major stock indices** are in for considerable losses after the previous week's gain. Expectations ahead of Mr Powell's testimony weighed on equities, later the hawkish testimony led equities lower. Thursday's banking sector turmoil, caused by SVB Financial Group, weighed on both the banking and the technology sectors in the USA, after SVB announced a share issue to bolster its balance sheet after severe liquidity problems. The SVB-related market turmoil weighed on the markets on Friday as well: the Dow may lose 3.5% this week, while the SPX is on track for 4.0% decline, and the Nasdaq Composite is in for 3.7% loss. **In Europe**, stocks seem to suffer about 2-3% drop this week, with the FTSE underperforming the pan-European benchmark with 3.0% weekly loss. In terms of sector performances, basic resources and banks (financials) are this week's main laggards both in the USA and Western Europe, but real estate sector also deeply underperforms in Europe.
- **Crude oil prices** declined more than 5% this week as rate hike fears intensified and expectations on increasing recessionary risks that could dampen energy demand weighed on commodity prices. **The TTF natural gas** prices surged 10% this week amid concerns over the impact of LNG terminal closures in France due to protests against pension reform.

Stock market and sector performance

Performance of US sectors			
Sector	Last price	1week change (%)	YTD (%)
S&P500	3883	-4.0	1.1
IT	2409	0.8	10.9
Health care	1455	-2.1	-8.3
Financials	556	-5.4	-2.4
Telco	173	-0.7	8.7
Consumer discretionary	1083	-2.6	7.7
Industrials	851	-1.7	2.4
Consumer staples	745	-1.4	-4.4
Utilities	330	0.4	-7.8
Energy	638	-2.8	-5.1
Real estate	234	-3.9	0.6
Materials	502	-4.3	2.6
Key US Tech companies			
Company	Last price	1week change (%)	YTD (%)
Alphabet	92	-1.9	4.2
Amazon	91	-4.0	8.4
Apple	149	-1.3	14.8
Meta	180	-2.7	49.8
Microsoft	249	-2.4	3.9
Tesla	169	-14.5	37.3

Source: Bloomberg

Performance of Europe's sectors			
Sector	Last price	1week change (%)	YTD (%)
Stoxx 600	452	-2.7	6.3
Health care	981	-1.9	-1.6
Industrial goods & services	700	-2.6	10.0
Banks	157	-6.4	11.9
Personal & household goods	1050	-1.7	9.3
Insurance	331	-2.5	3.7
Food and beverages	768	-0.8	3.0
Technology	651	-2.5	12.7
Utilities	366	-0.2	1.7
Oil & gas	356	-1.9	3.4
Chemicals	1193	-3.1	4.5
Construction & materials	591	-2.3	15.9
Telco	214	-0.5	13.1
Retail	353	-2.1	17.7
Financial services	598	-5.1	6.1
Basic resources	604	-8.2	-3.6
Real estate	115	-7.1	-2.0
Auto & parts	627	-4.2	19.0
Media	359	-1.7	9.7
Travel & leisure	228	-1.9	15.5

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	452	-1.4	2.8	7.4	5.7	13.4	1.9	1.3	12.1	1.1	160.2	0.4	-0.3
Germany	DAX Index	15336	0.2	6.7	17.2	14.1	12.2	1.6	0.9	11.4	1.1	111.7	66.9	3.7
France	CAC Index	7181	0.7	7.5	15.6	15.7	12.6	1.8	1.2	11.9	1.1	181.0	8.6	-5.7
Poland	WIG20 Index	1795	-2.9	3.7	17.0	-8.9	6.1	1.0	0.6	16.9		52.5	-0.5	-23.4
Czechia	PX Index	1372	-0.6	17.0	14.4	6.9	8.6	1.0	1.0	11.7		154.0	4.7	-13.6
Hungary	BUX Index	42677	-7.2	-3.4	4.3	1.5	4.2	0.8	0.5	16.8		54.7	33.9	-14.9
Romania	BET Index	12399	1.2	1.2	4.4	4.0	4.6	1.1	0.9	22.7		59.9	-171.3	-28.3
Bulgaria	SOFIX Index	633	3.0	4.8	4.6	11.0	5.4	0.8	0.4	15.0	2.2	50.2		
Russia	MOEX Index	2275	0.6	4.5	-6.2	-7.9	2.3	0.5	0.5	18.8	1.3	69.4	31.7	-15.0
Ukraine	PFTS Index	507	0.0	-2.3	-2.3	-2.3								
Slovenia	SBITOP Index	1196	1.4	10.9	11.4	10.7	6.8	0.9	0.5	16.1		33.8		
Croatia	CRO Index	2267	6.1	17.3	14.3	15.5	634.0	64.7	59.7	9.6	1.6	32.5	2.4	1316.4
Serbia	BELEX15 Index	894	1.8	10.2	5.5	7.3	457.5	63.8	44.7	13.9	1.8	17.0	0.0	-72.2
Montenegro	MNSE10 Index	1026	-1.6	12.7	26.7	31.0	12.9	0.3	0.7	0.7	2.2	6.6		

*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	1.01	1.00	1.12	1.14
EURGBP	0.84	0.83	0.85	0.85	0.88	0.9	0.89
EURCHF	1.06	1.05	1.03	0.97	0.98	1.01	1.05
USDJPY	130	129.5	136	136	144.5	138	136.5

Source: Bloomberg

Country	FX pair	2022.Q3	2022.Q4	2023.Q1	2023.Q2	2023.Q3	2023.Q4	2024.Q1	2024.Q2	2024.Q3
Hungary	EURHUF (€op)	423	400	395	394	393	394			
Romania	EURRON (€op)	4.95	4.95	4.96	5.01	5.03	5.01	5.1	5.11	5.12
Russia	USDRUB (€op)	61.1	73	69.5	71.9	74.2	76.6	77.8	77.2	78.7
Ukraine	USDUAH (€op)	36.9	36.9	38.7	39.4	41.5	42.5	44.2	44.5	43.1
Serbia	EURRSD (€op)	117	117	117	117	118	118	117	117	117

*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	4.6	0.8	4.6	0.1
Rom ania	5.9	4.8	2.8	4.4	2.3
Bulgaria	7.6	3.1	1.4	3.3	1.2
Russia	5.6	-2.1	0.5	-2.1	-2.2
Ukraine	3.4	-30.4	2.6	-31.8	2.5
Slovenia	8.2	5.4	1.5	5.4	1.0
Croatia	13.1	6.3	1.6	6.1	1.0
Serbia	7.5	2.3	1.6	2.3	2.0
Montenegro	13.0	5.7	2.3	6.0	2.5
Albania	8.5	4.2	2.9	3.6	2.3
Moldova	13.9	-6.9	-1.5	-2.9	1.4

Countries	Fiscal balance (%of GDP)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	-7.1	-5.7	-3.7	-5.9	-4.2
Rom ania	-7.1	-6.0	-5.0	-6.2	-5.0
Bulgaria	-3.9	-3.4	-3.4	-3.3	-3.4
Russia	0.4	-2.3	-3.8	-2.0	-3.0
Ukraine	-3.5	-25.0	-15.0	-21.6	-19.0
Slovenia	-4.7	-2.3	-4.6	-3.5	-4.3
Croatia	-2.6	-1.0	-2.0	-1.8	-2.4
Serbia	-4.1	-3.3	-3.3	-3.3	-2.8
Montenegro	-2.1	-4.3	-5.1	-5.3	-4.9
Albania	-4.5	-2.2	-3.0	-3.5	-3.2
Moldova	-2.6	-5.0	-4.0	-4.9	-5.2

Countries	Inflation (average (yoy), %)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	5.1	14.5	19.0	14.6	17.6
Rom ania	5.0	13.7	10.0	13.7	10.4
Bulgaria	3.3	15.3	10.7	15.3	9.7
Russia	6.7	13.8	5.5	13.8	6.4
Ukraine	3.3	15.3	10.7	20.2	19.5
Slovenia	2.0	9.3	6.5	9.3	6.7
Croatia	2.6	10.7	8.6	10.8	7.2
Serbia	4.0	11.9	10.5	12.0	10.6
Montenegro	2.4	13.0	8.8	13.0	7.6
Albania	2.0	6.7	5.3	6.7	4.4
Moldova	5.3	28.6	13.6	28.7	12.2

Countries	Unemployment (%)				
	OTP			Focus Economics	
	2021	2022	2023	2022	2023
Hungary	4.1	4.1	4.1	3.6	4.2
Rom ania	5.6	5.6	5.8	5.6	5.6
Bulgaria	5.3	4.3	5.0	4.3	4.6
Russia	4.8	3.9	4.0	3.9	4.3
Ukraine	10.6	35.0	27.6	26.6	22.4
Slovenia	4.8	4.2	4.4	4.2	4.3
Croatia	7.6	7.0	7.0	6.6	6.7
Serbia	10.2	9.4	10.0	9.7	9.7
Montenegro	16.7	15.2	16.3	15.2	15.6
Albania	12.0	10.3	9.8	10.8	10.5
Moldova	3.9	3.5	4.3	3.0	3.6

Source: Focus Economics, OTP Research Center

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