

March US CPI and real economy data, plus February real economy data from the euro area could be in the spotlight next week

Next week US CPI will be in the primary focus. March data will likely show the headline index move above 2%, but the key question is whether core inflation will start moving upwards significantly from the 1.3% level, as reopening unfolded and the recovery strengthened. Still with reopening, Israel's March CPI data could be also interesting, as the country is world leader in terms of herd immunity for covid-19. Further to these, March real economy data for the USA and China, and February activity data for the euro area could be market movers. Turkey's MPC meeting, as well as pandemic figures, are worth watching.

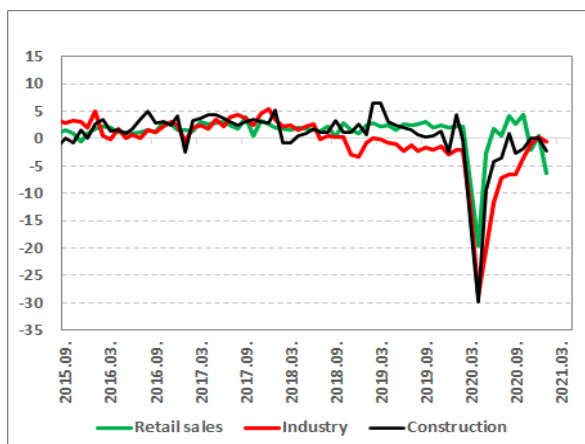
In the **Euro area**, the most interesting data will be published on Monday (February retail sales) and Wednesday (February industrial production). As regards *retail sales*, the eurozone suffered a sharp (5.9%) monthly fall in January on the back of a drop in non-food product sales, leaving them around 7% below their pre-pandemic level. Extended lockdowns in the region surely had their effect, still the size was much worse than the consensus. The question is whether some of this decline proves to be temporary. Indeed we have some ground for optimism, as German country data showed 1.2% gain for February after a 6.5% decline for January. At the same time, *industrial production* grew by 0.8% in January, despite supply chain problems, due to which motor vehicle production dropped by 8.6%. The outlook seems fairly uncertain for both retail sales and industrial production. In the former case, stringent lockdowns still constrain spending, in the case of the latter, while business surveys such as the manufacturing output component of the PMI and the IFO Business Climate Index suggested that output continued to expand at a decent pace in February, the currently available negative growth figures of large economies like Germany or France fully contradict this picture. The market consensus is a small plus for both ones, but downside risks are imminent, especially with industrial production.

On Tuesday, **US** authorities will publish the March *CPI*. Although the Fed recently has been trying to downgrade the importance of CPI data in the recovery phase, markets have not been fully convinced, as reflected by the sharp rise of inflation-linked 5Y swap rate, from 2.0% to 2.5%. Still, the rise in CPI inflation to 1.7% in February, from 1.4%, was largely due to higher energy prices, while core inflation remained subdued, dipping from 1.4% to 1.3%. In the meantime, March *retail sales* and *industrial production* data (due on Thursday) will likely show the strengthening of the recovery, after weakening in February. In that month, industrial production fell by 2.2% MoM, after four months of uninterrupted growth, largely a result of the severe storms that battered the country. This latter also had an effect on retail sales, which fell by 3.0% MoM, but this reflects more the fading of the boost from the USD 900bn fiscal stimulus. As the third stimulus checks arrived in March, and the winter effect faded, we expect a recovery in both indicators.

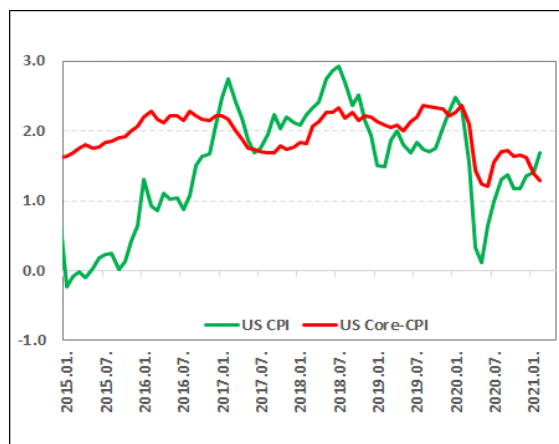
March real economy indicators will arrive from **China** on Friday. In the previous two months, *industrial production*, *retail sales* and *infrastructural investment* all posted around 33-35% YoY growth rates. The current data release

will likely show moderating, but still very dynamic activity growth due to base effects. Finally, in the emerging world, watch the *MPC meeting* (due on Thursday) in **Turkey**, where the key rate was increased by 200 bps last month on account of high inflation and a weakening currency. But since then, President Erdogan has fired the Central Bank Governor, and let in a more dovish successor. After this change, the USD/TRY jumped by roughly 11% and has remained at 8.18. The market is really confused what to expect. *Inflation* data for March will be released in **Israel**, the world leader in terms of opening on Wednesday; having vaccinated 60% of its population, it could be a good laboratory to indicate what to expect in terms of the economic effects of reopening.

Key monthly real economy indicators for the euro area (YoY, %)



US inflation (YoY, %)



Sources: Bloomberg, Refinitiv

What to watch next week

Data	Cd.	Event/Data	Period	Cons.	Prev.
2021 4. 12.	11 : 00 EZ	Retail sales (MoM, %)	Feb	1.0	-5.9
	20 : 00 US	Federal budget balance (USDbn)	Mar		-311.0
13.	3 : 00 CN	Export (YoY, %)	Mar	32.7	60.6
	10 : 00 IT	Industrial production (MoM, SA, %)	Feb		1.0
	11 : 00 DE	ZEW Economic Sentiment (points)	Apr	79.1	76.6
	14 : 30 US	core-CPI (MoM, SA, %)	Mar	0.2	0.1
	14 : 30 US	core-CPI (YoY, %)	Mar	1.6	1.3
	14 : 30 US	CPI (MoM, SA, %)	Mar	0.5	0.4
	14 : 30 US	CPI (YoY, %)	Mar	2.5	1.7
14.	11 : 00 EZ	Industrial production (MoM, %)	Feb	0.5	0.8
	13 : 00 IL	CPI (YoY, %)	Mar		0.0
	20 : 00 US	Beige Book	-	-	-
15	13 : 00 TR	Interest rate decision (%)	Apr	19.0	19.0
	14 : 30 US	New York Fed Manufacturing index (points)	Apr	18.2	17.4
	14 : 30 US	Initial jobless claims ('000s)	weekly		744.0
	14 : 30 US	Continuing jobless claims ('000s)	weekly		3734.0
	14 : 30 US	Retail sales (MoM, %)	Mar	5.5	-3.0
	15 : 15 US	Industrial production (MoM, %)	Mar	1.6	-2.2
	16 : 00 US	Business inventories (MoM, %)	Feb	0.4	0.3
		EZ	Eurogroup	-	-
16.	4 : 00 CN	Infrastructural spending (YoY, %)	Mar	25.3	35.0
	4 : 00 CN	Industrial production (YoY, %)	Mar	15.6	35.1
	4 : 00 CN	Retail sales (YoY, %)	Mar	27.2	33.8
	14 : 30 US	Building permits (annualized monthly, '000s)	Mar	1750.0	1720.0
	14 : 30 US	Housing starts (annualized monthly, '000s)	Mar	1600.0	1421.0
		EU	ECOFIN Meeting	-	-
16 : 00 US	Michigan Consumer confidence (preliminary, points)	Apr	88.9	84.9	

Moderate gains in stock markets as long-term yields declined and oil prices fell

Major European and US stock markets posted moderate gains in a weekly comparison as Treasury yields and oil prices fell. Markets assessed positively the recent US macro data (March labour market and non-manufacturing ISM) and welcomed the Biden administration's infrastructural spending plans. However on Friday, the higher than expected producer price data for March increased reflation fears and deteriorated the sentiment. In Europe, the mood was more muted in general during the week, as incoming macro data were rather mixed and most large countries are still struggling more with the pandemic.

Pandemic situation: stagnation in the USA, some improvement in Western and Central & Eastern Europe

The number of daily new covid cases stagnated in the USA at a relatively moderate level. Canada reported a quick jump in the same metric, almost reaching the same levels per capita as the USA. In Western Europe, the growth of the infection rate seems to be halted, most countries show falling daily case counts, from high levels. The situation in Sweden, France, and Italy is the worst in the region, while the first two have the highest case counts, the latter suffers from the highest deaths per population. Most countries passed the peak of their infection waves in the CEE region. Greece and Turkey are reporting record high daily case numbers locally.

Israel is still leading in vaccinations, 61% of the population received one dose and 56% is considered fully vaccinated. The UK, Hungary, Finland, and Canada are focusing on administering one dose per person, and managed to vaccinate 46%, 27%, 18%, 16% of their population, respectively. The USA administered at least one shot to one in three, and fully vaccinated almost one in five of Americans. Most Western European countries partially vaccinated about 11%-16%, and fully immunized about 4%-6% of their population.

Both European and US indices showed moderate gains in weekly comparison by Friday afternoon

In **Europe**, the *STOXX600* stood at 1.7% on Friday afternoon. Individual country indices grew to different degrees: *DAX*: 1.3%, *CAC40*: 1.8%, *FTSE100*: 3.1%, *FTSE MIB*: -0.6%. UK markets have performed better due to favourable pandemic figures as the country's vaccination strategy payed-off and the country is on the way of reopening. Financials, food and tech sectors performed best, all growing around 3.5% in weekly comparison. At the same time, oil&gas (-2.7%) and telco had a bad week (-1.1%)

In the **USA**, the *S&P* stood at 1.9% by Friday afternoon while the small-cap index *Russell 2000* even decreased by 0.5%. IT (3.3%), consumer discretionary (3.1%) and telco (2.6%) were booming, while energy (-3.3) and materials (0.2%) performed the weakest.

Long-term Treasury yields fell, as did oil prices; the dollar weakened

Long-term *US Treasury yields* have fallen by five basis points since last Friday, reverting back to around 1.67%, after increasing in the week before. In contrast, the *German 10Y Bund yield* increased by 4 bps, to -0.29%, while long-term yields in other European countries went up by 8-12 bps. The *dollar* weakened by 1% against major currencies, on account of improving risk sentiment. *Oil prices* fell by around 3.5% in weekly terms, correcting the increase last week.

Expectation for the eurozone's outlook strengthened in April, but February data disappointed; record strength in US service sector for March and producer prices increased more than expected

The week started on a strong note for the **euro-zone** as the *April Sentix confidence index* jumped to 13.1 points (from 5.0 points and beating the consensus of 6.7 points), a level last seen in 2018. However, the rest of the week was not so outstanding as February unemployment, at 8.3%, turned out above the consensus (8.1%), while Italy's March PMI, at 48.6 points, was still very weak and below the consensus (49.1 points). Further to this, the 1.6% MoM fall in German industrial production in February was much worse than the consensus (+1.5%) and followed a downwardly-revised fall of 2.0% MoM in January. This left industrial production 6.4% below its level in February 2020. Probably continued problems in the auto sector may have been a big factor as capital goods output fell by 3.2%. In contrast, exports grew by 0.9% MoM for the same month. However, French industrial production also disappointed, at -4.5% MoM, while the consensus was a minor growth.

The *account of March's ECB meeting* showed that the decision to increase asset purchases was agreed by all members, but it seems that all members could only agree as long as the total envelope of purchases remains unchanged i.e. more purchases now will be followed by less later on. Therefore it is not a surprise that purchases have not risen very far since then. As the ECB could have ramped them up much further, it seems that policymakers are broadly content with the current level of yields.

As for the **USA**, during an otherwise uneventful week, *ISM non-manufacturing PMI* reached 63.7 points in March, a record high level, significantly beating the consensus forecast (57.4) and the February value (55.3). At the same time, *factory orders* for February turned out slightly weaker than expected (-0.8 vs. -0.5% MoM). The *minutes of the latest Fed meeting* contained no major surprise. FOMC members stressed that 'economic activity and employment were currently well below levels consistent with maximum employment'. All members were content with the current level of asset purchases and stressed the benefit of outcome-based guidance, according to which the current level of asset purchases will be kept until 'substantial further progress is made towards the Committee's maximum-employment and price-stability goals would be realized'. March producer prices increased by 4.2% YoY, above the consensus of 3.8%, and well above the 2.8% for February, which increased market reflation fears.

China's Caixin non-manufacturing PMI improved to 54.3 in March, up from 51.5 points a month before.

Sectoral 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	4097.2	1.9	9.1	Stoxx 600	SXXP Index	437.1	1.7	9.5
IT	S5INFT Index	2459.6	3.3	7.3	Health care	SXDP Index	898.3	1.4	2.2
Health care	S5HLTH Index	1365.3	0.6	3.1	Industrial goods & services	SXNP Index	705.4	2.6	12.2
Financials	S5FINL Index	583.0	1.7	18.9	Banks	SX7P Index	129.4	0.4	19.6
Telco	S5TELS Index	250.4	2.6	12.8	Personal & households goods	SXQP Index	994.9	2.6	6.7
Consumer discretionary	S5COND Index	1396.4	3.1	7.2	Insurance	SXIP Index	314.9	0.5	12.8
Industrials	S5INDU Index	846.0	1.3	12.9	Food and beverages	SX3P Index	753.1	3.7	5.3
Consumer staples	S5CONS Index	708.3	1.5	1.7	Technology	SX8P Index	697.4	3.2	15.5
Utilities	S5UTIL Index	330.7	1.7	3.6	Utilities	SX6P Index	390.7	2.4	1.7
Energy	S5ENRS Index	367.3	-3.3	28.4	Oil & gas	SXEP Index	253.4	-2.7	7.2
Real estate	S5RLST Index	251.7	0.3	10.4	Chemicals	SX4P Index	1211.0	0.8	8.7
Materials	S5MATR Index	500.5	0.2	9.8	Construction & materials	SXOP Index	568.1	2.7	15.3
Source: Bloomberg					Telco	SXKP Index	227.5	-1.1	10.6
					Retail	SXRP Index	431.8	2.8	9.1
					Financial services	SXFP Index	666.6	3.5	9.9
					Basic resources	SXPP Index	578.3	1.8	15.8
					Real estate	SX86P Index	172.1	3.1	0.7
					Auto & parts	SXAP Index	646.0	-0.9	22.5
					Media	SXMP Index	318.5	2.0	12.5
					Travel & leisure	SXTP Index	269.1	1.1	20.0

Source: Bloomberg

Performance of the 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	4097	5.7	7.1	17.8	46.9	33.3	4.5	3.1	10.6	1.4	119.8	1.5	5.9
Europe	SXXP Index	437	4.0	6.3	18.0	31.7	54.7	2.1	1.5	4.6	1.1	176.6	0.3	6.0
Germany	DAX Index	15203	5.3	8.2	16.5	43.9	49.9	1.9	1.2	4.5	1.2	131.3	4.2	5.0
France	CAC Index	6174	4.2	8.2	24.8	37.0	56.0	1.9	1.4	3.1	1.1	192.4	12.4	8.2
Poland	WIG20 Index	1971	-1.1	-4.9	16.0	22.0	23.7	1.2	1.0	4.4	1.1	59.1	2.3	3.7
Czechia	PX Index	1093	2.6	1.6	25.3	30.1	21.6	1.3	1.6	6.1	1.1	147.6	-2.0	0.1
Hungary	BUX Index	43898	1.4	-1.1	30.4	30.0	21.4	1.2	1.0	5.2	1.1	55.0	25.9	8.2
Romania	BET Index	11239	5.9	10.8	27.1	38.2	12.8	1.1	1.6	9.2	1.5	33.1	-57.6	36.5
Bulgaria	SOFIX Index	504	3.3	11.7	19.1	13.2	18.1	0.5	0.7	2.9		64.0		
Russia	IMOEX Index	3487	0.2	0.9	23.0	29.1	19.8	1.2	1.4	6.0	1.5	53.4	20.8	16.0
Ukraine	PFTS Index	529	2.4	6.1	5.8	5.3								
Slovenia	SBITOP Index	1011	2.0	7.4	20.7	26.2	8.9	0.9	0.6	10.7	1.7	28.0		
Croatia	CRO Index	1888	1.3	4.5	16.9	19.2	113.0	1.0	1.1	1.1	1.3	54.6		
Serbia	BELEX15 Index	751	0.5	0.6	8.9	9.5	13.6	0.6	0.8	5.1	1.7	20.5		
Montenegro	MNSE10 Index	751	2.1	5.4	14.8	13.5	15.0	0.3	1.1	2.1	2.3	13.9		

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

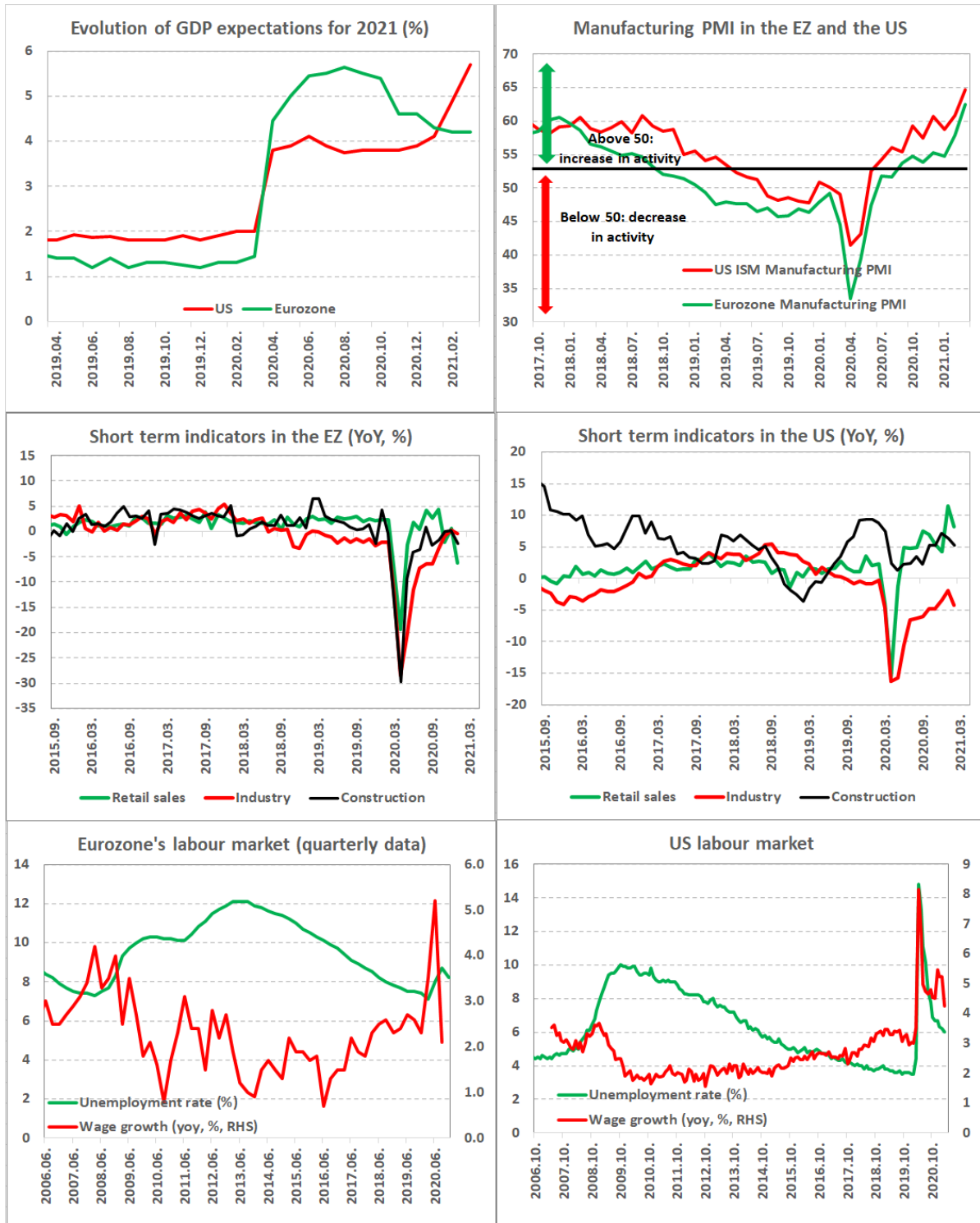
***Some of the country indices could be sector heavy (only a handful industry comprise the majority of the indices).

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

This week's data

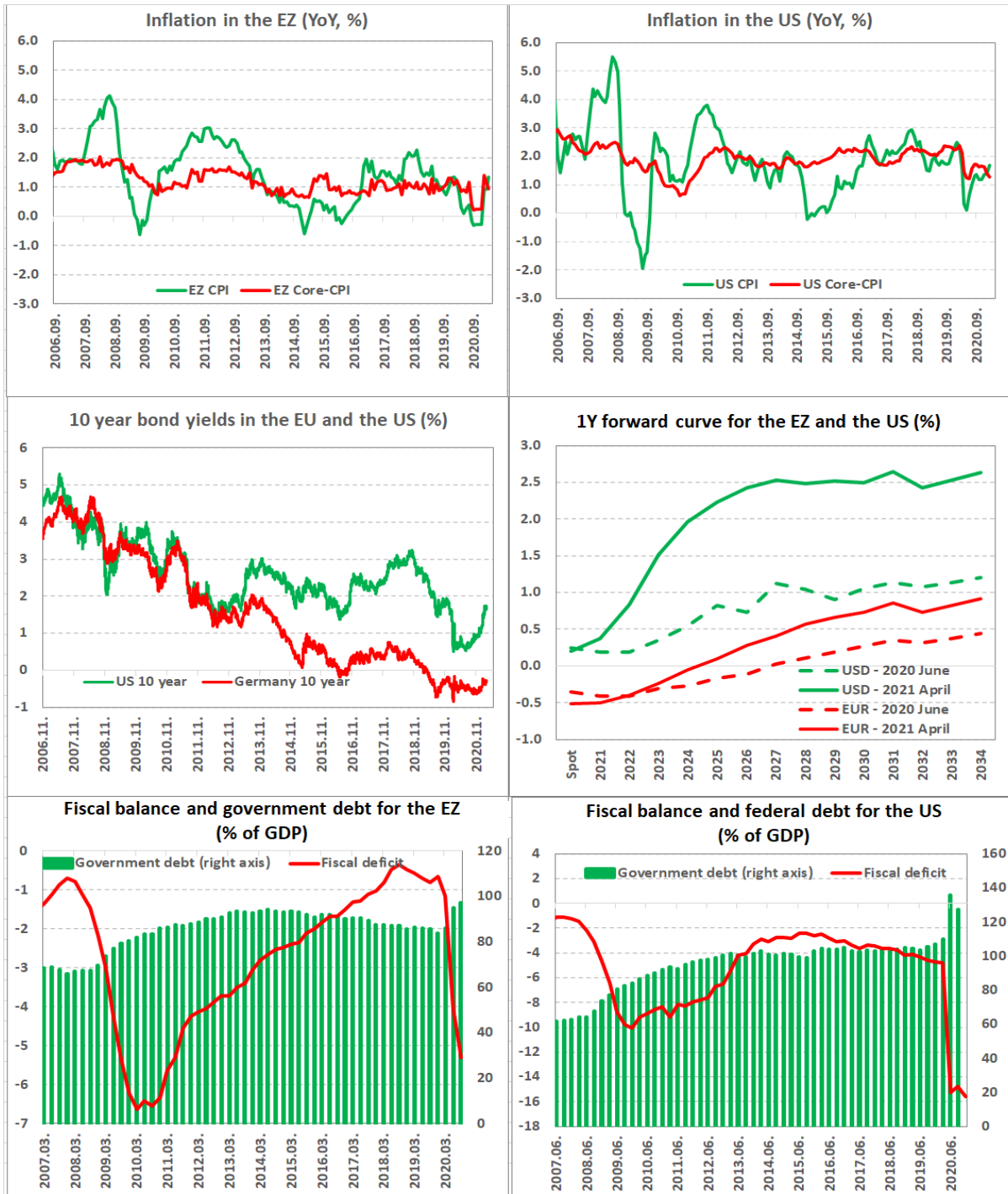
Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2021 4. 5. 16 : 00	US	Factory orders (MoM, %)	Feb	-0.8	-0.5	2.6
16 : 00	US	ISM non-Manufacturing PMI (points)	Mar	63.7	57.4	55.3
6. 3 : 45	CN	Caixin Services PMI	Mar	54.3	-	51.5
10 : 00	IT	Unemployment rate (%)	Feb	10.2	-	10.3
11 : 00	EZ	Sentix Investor confidence (points)	Apr	8.3	8.1	8.3
11 : 00	EZ	Unemployment rate (%)	Feb	8.3	8	8.3
7. 9 : 45	IT	Markit/IHS Services PMI (prelim.)	Mar	48.6	49.1	48.8
20 : 00	US	FOMC Minutes	Mar	-	-	-
8. 8 : 00	DE	Industrial orders (MoM, %)	Feb	1.2	1.2	0.8
13 : 30	EZ	ECB Minutes	Mar	-	-	-
14 : 30	US	Initial jobless claims ('000s)	weekly	744.0		728
14 : 30	US	Continuing jobless claims ('000s)	weekly	3734.0		3750
9. 8 : 00	DE	Industrial production (MoM, %)	Feb	-1.6	1.5	-2.5
8 : 00	DE	Export (MoM, SA, %)	Feb	0.9		1.4
8 : 45	FR	Industrial production (MoM, %)	Feb	-4.7	0.5	3.3
10 : 00	IT	Retail sales (MoM, SA, %)	Feb	6.6		-2.7

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	1.20	1.21	1.22	1.23	1.20	1.20
EURGBP	0.89	0.91	0.90	0.88	0.85	0.85	0.85	0.85	0.83	0.83
EURCHF	1.06	1.08	1.08	1.08	1.11	1.12	1.12	1.14	1.15	1.16
USDJPY	107.0	106.0	104.0	104.0	108.0	108.0	108.0	109.0	111.0	110.0

Source: Bloomberg

Regional macro forecast

Countries	GDP (yoy, %)					Countries	Fiscal balance (% of GDP)				
	2020	OTP		Focus Economics			2020	OTP		Focus Economics	
		2021	2022	2021	2022			2021	2022	2021	2022
Hungary	-5.0	4.9	6.1	4.5	4.7	Hungary	-8.5	-6.4	-3.8	-6.1	-4.0
Romania	-3.8	5.5	4.7	4.7	4.7	Romania	-9.7	-8.2	-6.5	-7.2	-5.4
Bulgaria	-3.8	3.4	4.6	3.4	4.0	Bulgaria	-3.6	-3.1	-1.5	-3.5	-1.9
Russia	-3.1	4.0	3.5	2.9	2.6	Russia	-3.8	-2.6	-1.2	-2.0	-0.7
Ukraine	-4.4	4.5	4.7	4.2	3.9	Ukraine	-6.0	-6.0	-4.0	-4.9	-3.2
Slovenia	-5.5	4.8	5.1	4.7	4.0	Slovenia	-8.3	-3.6	-2.8	-4.9	-3.1
Croatia	-8.4	5.5	6.1	4.5	4.9	Croatia	-8.0	-5.5	-3.0	-4.4	-2.9
Serbia	-1.0	4.2	5.9	4.7	4.3	Serbia	-8.1	-3.0	-1.5	-3.3	-1.7
Montenegro	-14.0	4.4	7.8	5.7	5.1	Montenegro	-9.9	-6.2	-2.5	-4.7	-3.4
Albania	-5.2	4.0	5.8	5.1	5.0	Albania	-7.3	-7.0	-3.0	-5.9	-4.0
Moldova	-7.7	4.9	7.5	4.5	4.9	Moldova	-6.7	-5.0	-4.0	-4.3	-3.4

Countries	Inflation (average (yoy), %)					Countries	Unemployment (%)				
	2020	OTP		Focus Economics			2020	OTP		Focus Economics	
		2021	2022	2021	2022			2021	2022	2021	2022
Hungary	3.3	3.4	3.4	3.2	3.1	Hungary	4.1	4.0	3.7	4.5	4.2
Romania	2.6	3.4	3.0	2.8	2.7	Romania	5.0	4.7	4.0	5.3	5.0
Bulgaria	1.7	1.8	2.1	1.9	2.2	Bulgaria	5.1	4.8	4.5	5.3	4.9
Russia	3.4	5.5	4.3	4.2	3.6	Russia	5.8	5.0	4.0	5.6	5.0
Ukraine	2.7	6.4	5.7	6.6	5.6	Ukraine	10.0	9.2	8.3	9.2	8.5
Slovenia	-0.3	1.0	1.7	1.0	1.5	Slovenia	4.9	4.7	4.5	5.6	5.1
Croatia	0.1	1.1	1.3	0.9	1.6	Croatia	7.5	7.0	6.0	9.0	8.1
Serbia	1.6	1.9	2.2	1.9	2.3	Serbia	9.0	9.7	9.0	9.7	9.2
Montenegro	-0.3	0.8	1.2	1.1	1.4	Montenegro	17.0	17.5	16.5	16.4	15.5
Albania	1.6	1.8	2.0	2.0	2.6	Albania	12.4	11.8	10.1	12.1	11.1
Moldova	3.8	3.2	3.5	3.3	4.5	Moldova	4.8	5.3	5.8	4.8	4.5

FX forecast for the 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	358.0	358.0	357.0	357.0	357.0	356.0	355.0	355.0
Romania	EURRON (eop)	4.87	4.88	4.90	4.92	4.94	4.92	4.93	4.93	4.96
Russia	USD RUB (eop)	73.9	73.6	72.6	71.6	71.0	71.0	70.7	71.5	71.3
Ukraine	USDUAH (eop)	28.34	27.98	27.99	28.33	28.72	28.76	28.97	29.08	29.36
Croatia	EURHRK (eop)	7.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Serbia	EURRSD (eop)	118.0	117.0	117.0	117.0	118.0	117.0	117.0	117.0	118.0
Montenegro	EURUSD (eop)	1.22	1.21	1.22	1.23	1.23	1.24	1.25	1.26	1.24

*Slovenia and Montenegro uses EUR as a base currency.

**No forecast available for Moldova and Albania

Source: Focus Economics

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This document was prepared on 12 April 2021.

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