

Will there be high voltage (380) for EUR/HUF exchange rate in 2021?

We might see decent ups-and-downs in 2021. Economic performance, exchange rate, headline inflation are all expected to show significant swings throughout the current year. Events are likely to be mainly determined by the development of the COVID situation, as major risks are out of sight (eg.: Brexit, US elections, development of vaccine etc.).

2020 was an exceptional year due to the pandemic and the given responses to that. Henceforth performance measures in 2021 may show large deviation compared to 2020. That is the so called base effect. This phenomenon may exaggerate or mute performance this year, resulting distorted figures so it shall be well remembered when reading the numbers this year!

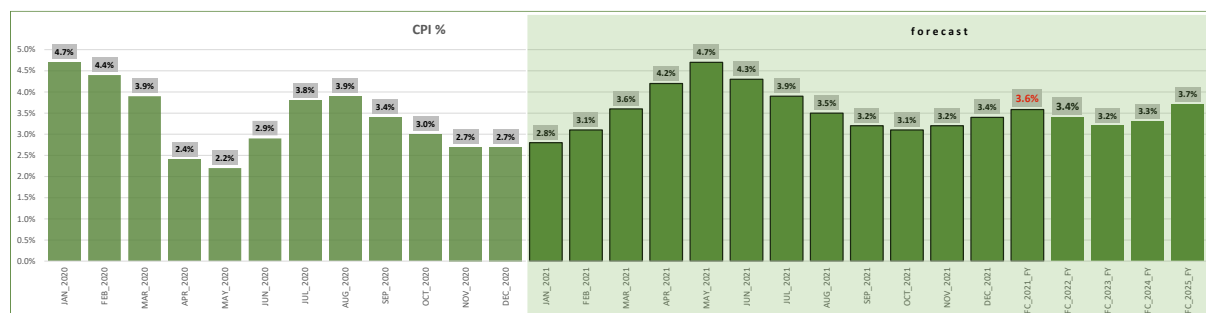
Against that backdrop we may see the inflation overshooting the tolerance range (3%+/- 1%), weaker Forint, accelerating and then subsequently slowing manufacturing, reviving tourism (though not before second half of 2021) or even higher tipping oil price, improving household construction, cancelled or collapsing office projects. In a nutshell: we are looking forward a quite interesting year in 2021, hopefully omitting external shocks. On top of that due to the economic recovery we expect the prices of raw materials to keep moving up, not solely energy but those that are essential for electronics as well. As for the better we expect less impetus from politics in 2021 compared to last year.

<i>SBHU Fcast</i>	2020	2021	2022	2023	2024
GDP	-6.7%	4.0%	3.5%	3.1%	3.0%
CPI	3.3%	3.6%	3.4%	3.2%	3.3%
EURHUF AVG	365.13	362.85	372.76	382.70	392.80
EURHUF EoY	351.16	371.00	382.67	392.65	402.89
3M BUBOR	0.70%	0.73%	0.93%	1.22%	1.45%

More detailed:

Inflation:

As for 2021 we expect the headline inflation to temporarily overshoot the 2020 average of 3.3%. On average we expect the headline CPI this year to come in at 3.6% with some upside risk. We foresee inflation peaking – especially if & when the current restrictions ease – significantly above 4% (at 4.7%), and then gradually slowing throughout the rest of the year.



Source: Stat. Office (KSH)

Forint, currencies:

We believe – if no external shocks apply – that the Forint is likely to weaken only moderately. According to our current standing the HUF could weaken 1.5% - 2.5% year-over-year. That does not necessarily exclude hard time (ie.: 380+) for the Hungarian currency. In spite of the often reiterated easy approach of the National Bank, we are convinced that the Hungarian Centralbank is having its focus on the exchange rate developments. We foresee the early and post summer periods to be crucial for the Forint. Against the USD we expect the HUF to perform well, mainly due to the expected EUR/USD developments. We expect the USD to underperform in 2021 depending on the US recovery and the

perception of the potential American economic performance (eg.: debt-to-GDP @ ~130% vs. the same of Europe’s ~100% level).

As Russian bank we focus on also the developments of the Russian Rubel. We believe that the future performance of the RUB is determined by two major factors:

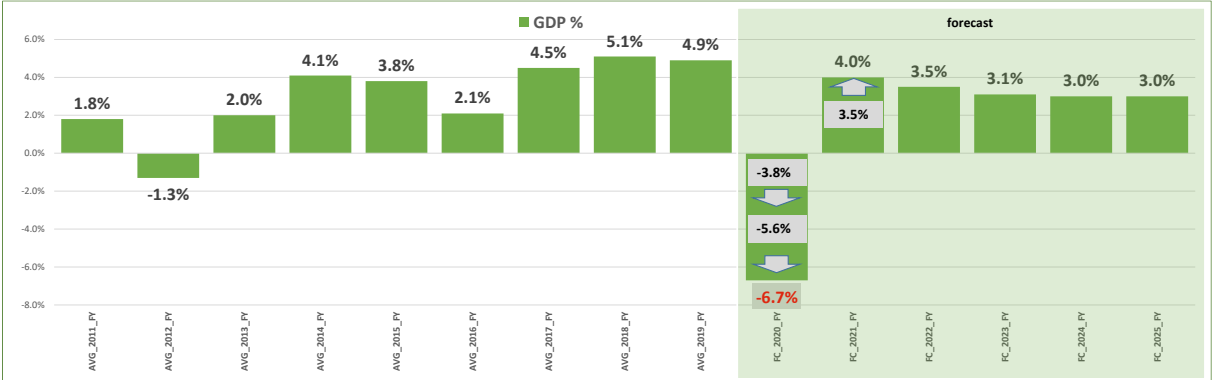
- 1) The development of the Russian – US relations;
- 2) Future changes in the price of the crude oil.

In the first case easing of sanctions could trigger significant strengthening of the Rubel, however this is not our base case currently.

The other factor is the „usual” oil price. Due to the global recovery, price of the black gold may stabilize over \$50, meaning app 10%-15% price increase on a yearly basis.

Economic performance, equities:

In 2021 we expect a solid recovery, influenced heavily by the extent and timing of lifting the restrictions, notwithstanding also supported by the base effect as well. Having no detailed figures on economic performance yet, we have only conservative estimations. We believe that the Hungarian economy may have contracted 6.5%-7% in 2020. Going from there partially due to the base effect and partially based upon the general recovery, we expect a better performance this year. However – according to our conservative approach we expect 4%-5% growth in 2021. Our relatively conservative approach is mainly based on the lagging vaccination and the reimposed restrictions due to the spreading new virus alterations.



Forrás:KSH,

We expect a mixed recovery picture for 2021. Tourism & travel is likely to get into gear only in the second half of the year. Catering is expected to revive only gradually, initially only supported by domestic demand

Construction may end up the year quite well in general, but certain segments may perform differentially. Public investment on infrastructure is expected to accelerate (esp. railway and bridge constructions). Housing and logistics related construction is also likely to outperform. On the contrary we see mounting risks to commercial property projects, especially office building constructions may suffer set-backs or get even cancelled.

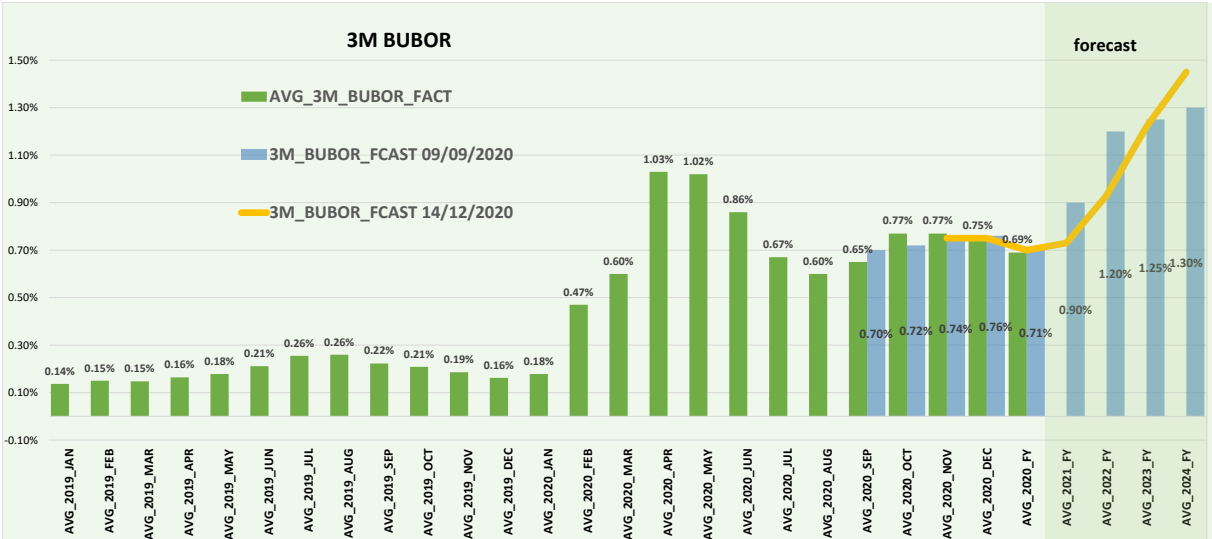
Manufacturing might have started to recover already in Q4’2020. However risk of supply chain disturbances could easily re-occur for manufacturing in 2021. Also household demand due to declining disposable income may impose uncertainties for the industry herein. Upon the above we see increasing risk to the downside for manufacturing later this year.

We suggest a very selective approach to equities. On a historical basis the current elevated valuations might have already priced in the long awaited recovery. Although some of these expectations may

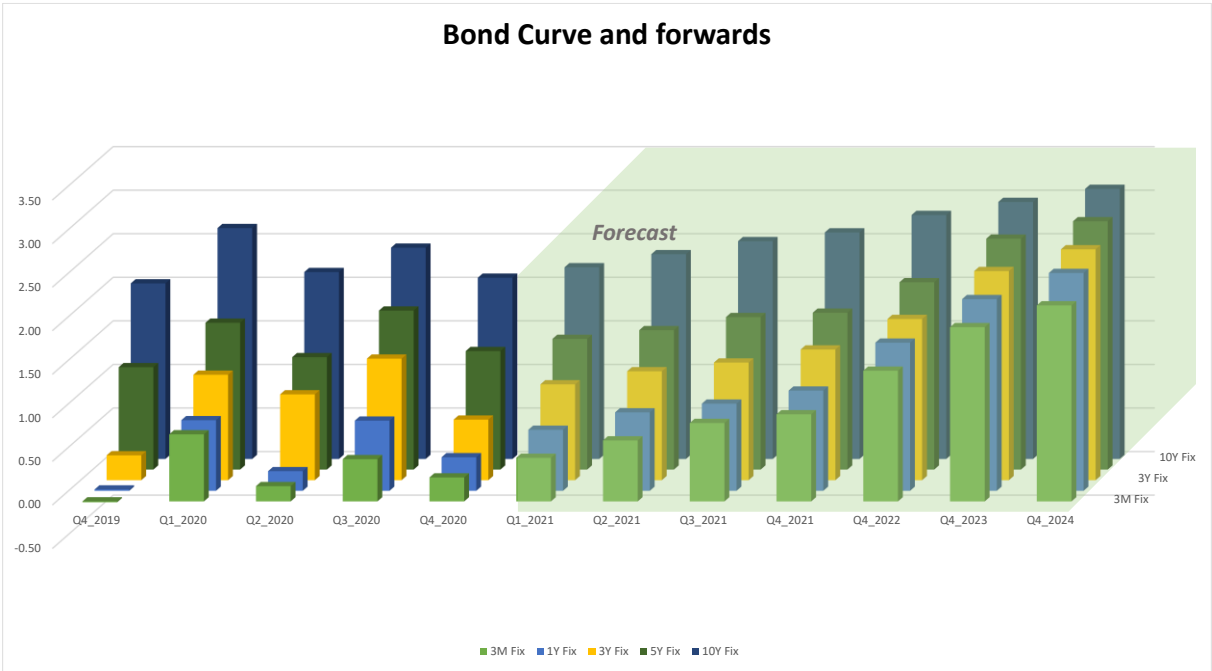
seem well founded, some may turn out to be too optimistic, even in the near future. Hungarian blue-chips have had an extremely good performance recently. As for banking stocks the post moratorium portfolio deterioration is imposing the largest risk. We have a neutral view on energy stocks in general. The pricing of telecom companies may have already passed their fundamentally justified valuation. Pharma stocks could perform quite well, especially still in the first half of 2021. We foresee increased probability of a stock market correction - if any- most likely not before the second half of this year.

Interest rates, yields:

We expect rates to rise moderately throughout 2021. We think that short-end interest rates could move up more than those of the longer-end (5yr+). Henceforth we foresee a the Hungarian yield curve to flatten. That is mainly supported by the bond buying of the Hungarian central bank. However it is quite uncertain how far international flows will support it.



Forrás:MNB, saját előrejelzés



Forrás:ÁKK, saját előrejelzés

We think that meaningful international central banks are likely to keep their own QE in place, but further increase of the current volumes for easing is rather unlikely. We expect monetary policy to

remain supportive, but it is going to aim for more targeted programs, similar to the ones the National Bank of Hungary has initiated, in order to foster investments. We think that neither the largest nor the local central banks will start raising rates in 2021. Furthermore we think they will remain quite tolerant towards the re-engaging inflation. We think monetary tightening is likely to happen first only next year gradually, although markets may start price it in prior to that.

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