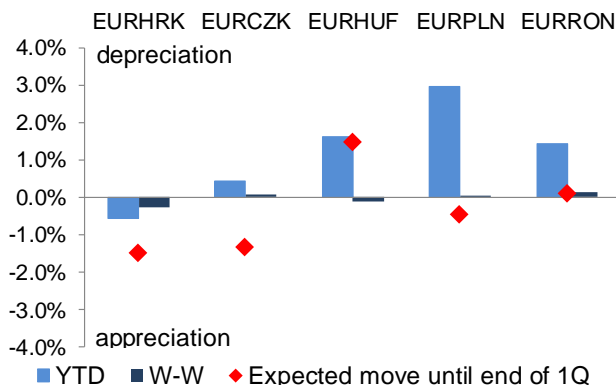


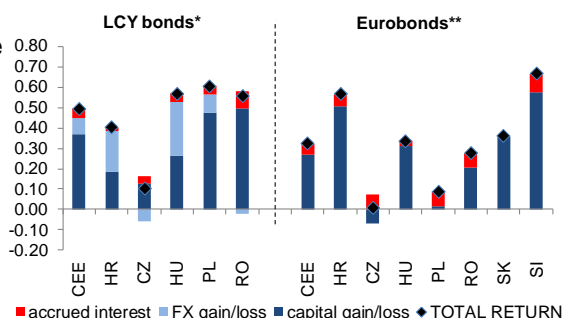
# CEE Market Insights

## Market outlook

Currencies did not show any spectacular moves last week in CEE. Friday's inflation was rather high in Hungary, but the forint did not appreciate further. The ECB's rather dovish new growth and inflation forecasts likely overruled the high inflation reading as far as the markets see it, and prevented the further strengthening of the HUF. We concur with this view in that we expect only gradual monetary tightening, so some slight forint weakening is penciled in from our side against the euro. We still see a gradual appreciation of the CZK for the coming months, due to the likely increase in the interest rate differential.



The ECB's comments on Thursday definitely left their mark on CEE bond and rates markets, as most of them fell notably post-announcement. In some countries, yields have limited room to fall further, however. [Poland's recently announced fiscal package](#) could potentially bring the deficit to much higher levels, likely putting a floor to yield levels, while Romania's fiscal issues are still not solved yet. Conditional on the increase of Bund yields, we see CEE yields edging slightly up in the coming months.



## Looking ahead this week:

Monday	Tuesday	Wednesday	Thursday	Friday
<b>CZ:</b> CPI, Trade Balance <b>SK:</b> Industry, Trade Balance <b>HU:</b> Trade Balance <b>SI:</b> Industry	<b>RO:</b> CPI, Trade Balance <b>SI:</b> Trade Balance <b>HR:</b> CPI <b>RS:</b> CPI, Trade Balance	<b>RO:</b> Industry, Wages <b>SK:</b> Wages <b>HR:</b> Retail	<b>CZ:</b> Retail <b>SK:</b> CPI <b>HU, HR:</b> Industry	<b>CZ:</b> Industry <b>PL, HR:</b> CPI

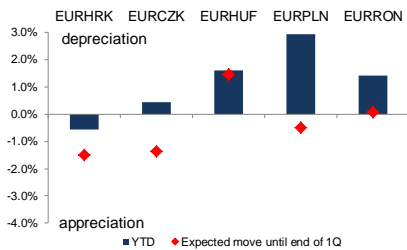
There will be plenty of data releases this week, but the most important will be inflation releases. In the Czech Republic and Romania, inflation is expected to print above the target, driven mostly by food and fuels/energy in February. Elsewhere, however, inflation is expected to have remained at more modest levels; especially in Poland and Croatia, annual inflation figures are seen to come in rather low (at 1.0% and 0.3%, respectively). In Romania, we expect to see some news with regards to possible amendments to the controversial taxes (banking, energy, pension system), as the deadline for the appeal on S&P keeping the outlook from being cut to negative expires at the end of this week.

## In case you missed it last week...

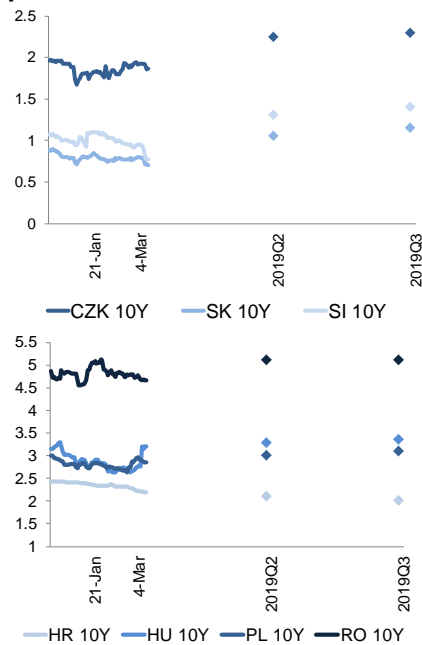
- PL:** Policy rate kept unchanged at 1.5%, as expected
- RS:** Base rate unchanged at 3% - no surprise
- RO, HU, SK:** Retail sales bounced back substantially in January
- HR, HU:** Industry increased above expectations in January
- HU:** Tax-filtered core inflation came in at 3.2% y/y in February
- RO, SK:** Economic growth confirmed at 4.1% y/y in Romania and 3.6% y/y in Slovakia for 4Q18

## Yields mostly down, currencies little changed in CEE

### YTD change on FX market



### 10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

### On global markets:

This week, US retail sales and US CPI have the potential to give the EURUSD direction. However, the most important events will be a series of votes in the British Parliament on Brexit, possibly clarifying the future path of the country and the economic impact for the Eurozone.

### CEE currencies:

Currencies did not show any spectacular moves last week in CEE. International developments moved the yields and rates more, but not regional currencies that much. The appreciation of the USD vs. the euro after the ECB's announcements on Thursday moved the Polish zloty and Hungarian forint to somewhat weaker levels. Friday's inflation was rather high in Hungary, with tax-filtered core inflation at well above 3%, which would trigger monetary tightening. The forint did not appreciate further, however. In our view, the ECB's rather dovish new growth and inflation forecasts likely overruled the high inflation reading as far as the markets see it, and prevented the further strengthening of the HUF. We concur with this view in that we expect only gradual monetary tightening, so some slight forint weakening is penciled in from our side against the euro. We still see a gradual appreciation of the CZK for the coming months. Although the ECB was perceived as rather dovish, the CNB has already been expecting a dovish ECB before the meeting. Thus, we stick to our call for at least one hike in August, with risks for a hike in May already. The higher interest rate differential should favor the koruna.

### CEE rates and yields:

The ECB's comments on Thursday definitely left their mark on CEE bond and rates markets, as most of them fell notably post-announcement. Apart from decreases in LCY yields, Eurobonds were also worth looking at in Croatia, as yields on euro-denominated bonds fell roughly 10bp w/w (~20bp m/m). It is important to note that there was a benchmark change in Hungary, as the 10Y was switched to the HGB 30/A from the 27/A, creating an artificial jump in yields w/w last week. In some countries, yields have limited room to fall further, however. Poland's recently announced fiscal package could potentially bring the deficit to much higher levels, likely putting a floor to yield levels, while Romania's fiscal issues are still not solved yet. After Bund yields dropped substantially last week, they are very far from consensus forecasts as well. Conditional on the increase of Bund yields, we see CEE yields edging slightly up in the coming months.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>11-Mar</b>							
	CZ	Trade Balance	Jan		17.6	19.27	Significant positive seasonal factor affected trade balance in January; compared with last year, we expect slightly lower surplus, mainly due to slowdown in Germany
	SK	Industrial Production (y/y)	Jan		4.50%	2.6%	Industrial production growth may inch higher, aided by new car plant's output
9:00	CZ	CPI (y/y)	Feb	2.6%	2.60%	2.5%	Solid domestic demand and higher labor costs of firms contribute significantly to CPI inflation above target; moreover, energy prices increased in January, which will affect y/y inflation during whole year
9:00	CZ	CPI (m/m)	Feb	0.1%	0.10%	1%	Increase in food prices stood behind slight increase in price level in February
9:00	HU	Trade Balance	Jan P		180	393	
9:00	SK	Trade Balance	Jan		182	-129.3	Foreign trade balance is expected to have improved somewhat from very tepid December
10:30	SI	Industrial Production (y/y)	Jan		-2.0%	-3.1%	Industrial production is seen bringing another negative figure (affected by high base effect), albeit at lower pace
<b>12-Mar</b>							
8:00	RO	CPI (y/y)	Feb	3.40%	3.40%	3.32%	Inflation close to upper limit of NBR's target
8:00	RO	CPI (m/m)	Feb	0.35%	0.4%	0.83%	More expensive fuels, food, tobacco and weaker leu in February
8:00	RO	Trade Balance	Jan		-0.9	-1715.9	Imports are growing faster than exports
10:30	SI	Trade Balance	Jan		-50	-0.14	January release expected to bring stronger import increase vs. export growth
11:00	HR	PPI (y/y)	Feb			0.3%	
12:00	RS	CPI (y/y)	Feb		2.2%	2.1%	We expect higher food prices, especially given double-digit rise in vegetable prices, to remain main inflationary driver; overall inflation is forecasted to remain stable well within lower part of target band
12:00	RS	Trade Balance	Jan			-667.1	
<b>13-Mar</b>							
8:00	RO	Industrial Production (y/y)	Jan		2.5%	-1%	Modest growth rates of industrial production due to headwinds from Eurozone
8:00	RO	Wages (y/y)	Jan		14.0%	12.48%	Strong wage increases in public sector
9:00	SK	Wages (y/y)	Jan			2.9%	
11:00	HR	Retail Sales (y/y)	Jan		3%	4%	Retail trade seen entering 2019 on favorable footing, with consumption maintaining solid growth dynamics
<b>14-Mar</b>							
9:00	CZ	Retail Sales (y/y)	Jan	0.9%	4.2%	0.1%	Growth in retail sales is being supported by strong labor market and positive sentiment of households
9:00	SK	CPI (y/y)	Feb		2.2%	2.2%	Inflation rate is expected to have remained at 2.2% in February
9:00	SK	CPI (m/m)	Feb		0.2%	1.1%	Small monthly increase of consumer prices is anticipated
<b>15-Mar</b>							
9:00	CZ	Industrial Production (y/y)	Jan	1.6%	2.1%	-1.4%	Despite slowdown in Eurozone, domestic as well foreign demand remained relatively high at beginning of 2019; however, firms are facing capacity constraints and lack of new available employees
10:00	PL	CPI (y/y)	Feb	1.2%	1.0%	0.9%	Inflation should marginally pick up in February
11:00	HR	CPI (y/y)	Feb		0.3%	0.2%	February inflation expected to remain at similar levels vs. YE18

Sources: Bloomberg, Reuters

## Capital market forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia 10Y</b>	2.19	2.10	2.00	2.00	2.00
spread (bps)	213	162	141	129	123
<b>Czech Rep. 10Y</b>	1.87	2.24	2.29	2.34	2.44
spread (bps)	180	176	170	163	167
<b>Hungary 10Y</b>	3.20	3.28	3.35	3.41	3.45
spread (bps)	313	280	276	270	268
<b>Poland 10Y</b>	2.86	3.00	3.10	3.20	3.40
spread (bps)	280	252	251	249	263
<b>Romania10Y</b>	4.67	5.10	5.10	5.20	5.30
spread (bps)	460	462	451	449	453
<b>Slovakia 10Y</b>	0.70	1.05	1.15	1.25	1.45
spread (bps)	64	57	56	54	68
<b>Slovenia 10Y</b>	0.77	1.30	1.40	1.50	1.60
spread (bps)	70	82	81	79	83
<b>Serbia 5Y</b>	3.54	3.93	3.90	3.90	3.95
<b>DE10Y (BBG)*</b>	<b>0.06</b>	<b>0.48</b>	<b>0.59</b>	<b>0.71</b>	<b>0.77</b>

3M Money Market Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia</b>	0.49	0.50	0.50	0.50	0.50
<b>Czech Republic</b>	2.03	2.01	2.18	2.19	2.19
<b>Hungary</b>	0.14	0.35	0.70	0.85	0.90
<b>Poland</b>	1.72	1.73	1.73	1.73	1.73
<b>Romania</b>	3.11	2.80	2.80	2.80	2.60
<b>Serbia</b>	2.98	3.01	3.05	3.05	3.30
<b>Eurozone</b>	-0.31	-0.30	-0.30	-0.30	-

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>EURHRK</b>	7.41	7.30	7.42	7.45	7.42
forwards		7.41	7.41	7.41	7.41
<b>EURCZK</b>	25.64	25.30	25.10	24.80	24.65
forwards		25.66	25.66	25.66	25.66
<b>EURHUF</b>	315.4	320.0	322.0	322.0	322.0
forwards		318.5	318.5	318.5	318.5
<b>EURPLN</b>	4.30	4.28	4.26	4.25	4.23
forwards		4.30	4.30	4.30	4.30
<b>EURRON</b>	4.75	4.75	4.75	4.77	4.78
forwards		4.75	4.75	4.75	4.75
<b>EURRSD</b>	118.1	117.9	117.8	118.0	118.2
forwards		-	-	-	-
<b>EURUSD</b>	1.12	1.12	1.14	1.16	-

Key Interest Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia</b>	0.30	0.30	0.30	0.30	0.30
<b>Czech Republic</b>	1.75	1.75	2.00	2.00	2.00
<b>Hungary</b>	0.90	0.90	0.90	0.90	0.90
<b>Poland</b>	1.50	1.50	1.50	1.50	1.50
<b>Romania</b>	2.50	2.50	2.50	2.50	2.50
<b>Serbia</b>	3.00	3.00	3.00	3.00	3.25
<b>Eurozone</b>	0.00	0.00	0.00	0.00	-

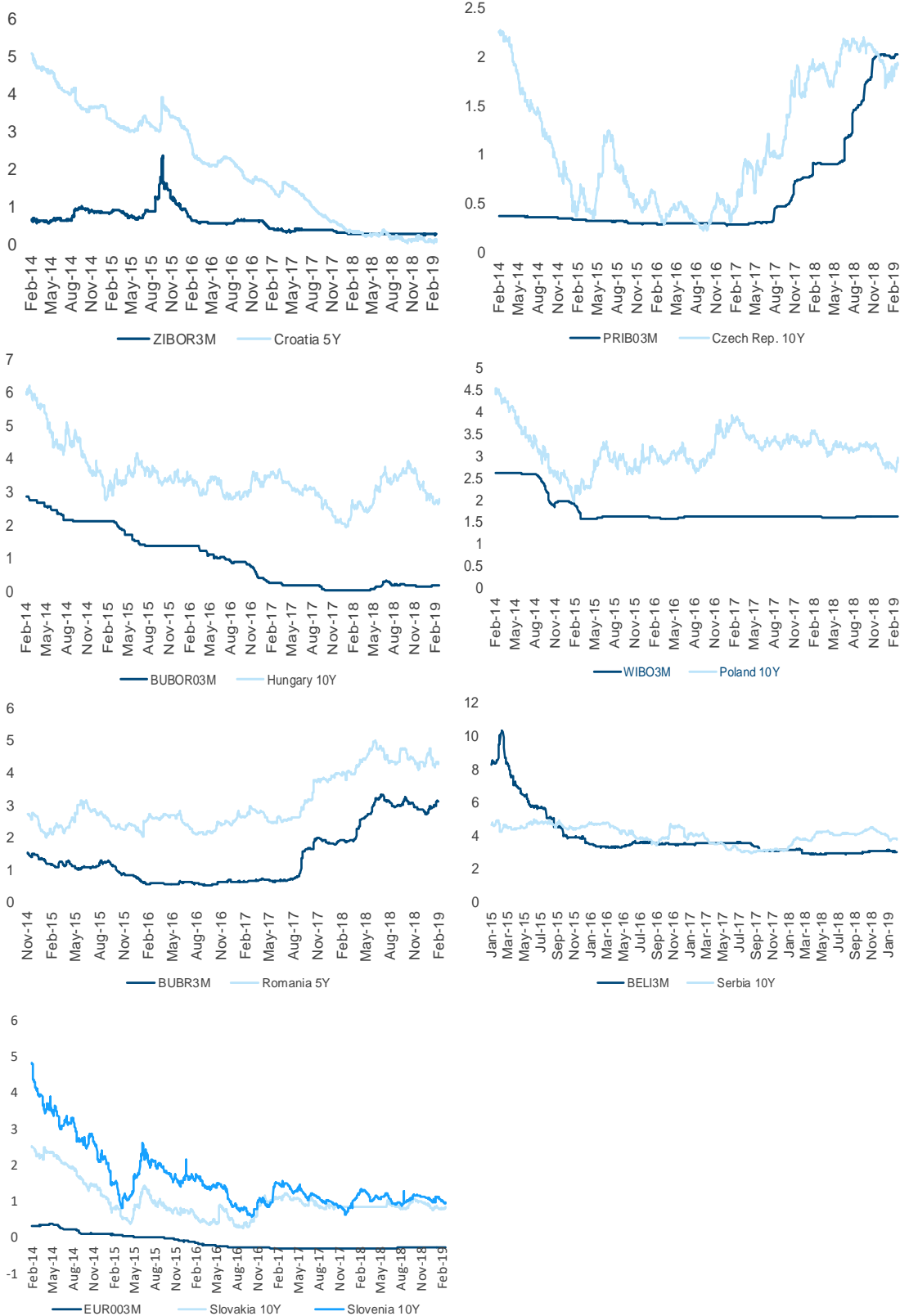
## Macro forecasts

Real GDP growth (%)	2017	2018f	2019f	2020f	Average inflation (%)	2017	2018f	2019f	2020f	Unemployment (%)	2017	2018f	2019f	2020f
Croatia	2.9	2.6	2.3	2.3	Croatia	1.1	1.5	1.0	1.2	Croatia	11.3	8.6	7.8	7.3
Czech Republic	4.5	3.0	2.5	2.8	Czech Republic	2.4	2.2	2.3	2.0	Czech Republic	2.4	2.4	2.5	3.0
Hungary	4.1	4.9	3.8	2.9	Hungary	2.4	2.8	2.8	3.1	Hungary	4.2	3.7	3.8	3.9
Poland	4.8	5.1	3.8	3.3	Poland	2.0	1.6	1.7	2.4	Poland	7.2	6.1	6.3	6.4
Romania	7.0	4.1	3.1	2.7	Romania	1.3	4.6	3.2	2.8	Romania	4.9	4.2	3.8	4.0
Serbia	2.0	4.3	3.3	2.9	Serbia	3.1	2.0	2.1	2.4	Serbia	14.1	13.3	12.6	12.1
Slovakia	3.2	4.1	3.4	3.6	Slovakia	1.3	2.5	2.5	2.5	Slovakia	8.1	6.7	6.3	5.8
Slovenia	4.9	4.5	3.6	3.3	Slovenia	1.4	1.7	1.6	1.7	Slovenia	6.6	5.5	4.9	4.7
<b>CEE8 average</b>	<b>4.7</b>	<b>4.4</b>	<b>3.4</b>	<b>3.1</b>	<b>CEE8 average</b>	<b>1.9</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>	<b>CEE8 average</b>	<b>6.2</b>	<b>5.3</b>	<b>5.2</b>	<b>5.3</b>

Public debt (% of GDP)	2017	2018f	2019f	2020f	C/A (%GDP)	2017	2018f	2019f	2020f	Budget Balance (%GDP)	2017	2018f	2019f	2020f
Croatia	77.5	74.1	71.4	69.3	Croatia	4.0	2.3	1.6	0.5	Croatia	0.8	0.2	0.0	-0.5
Czech Republic	34.7	33.2	32.1	31.4	Czech Republic	1.1	0.6	0.5	0.6	Czech Republic	1.5	1.5	1.1	0.9
Hungary	73.3	70.9	68.8	66.8	Hungary	3.2	1.2	0.3	0.8	Hungary	-2.2	-2.0	-1.8	-1.8
Poland	50.6	49.9	50.1	49.3	Poland	0.2	-0.4	-0.5	-0.7	Poland	-1.7	-0.4	-1.8	-2.5
Romania	35.2	35.1	35.9	36.6	Romania	-3.2	-4.7	-5.0	-4.8	Romania	-2.9	-3.0	-3.0	-2.5
Serbia	57.9	53.6	51.5	49.4	Serbia	-5.2	-5.2	-5.5	-5.2	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	49.0	48.3	46.6	Slovakia	-2.0	-1.5	-0.9	0.2	Slovakia	-0.8	-0.8	-0.7	-0.4
Slovenia	72.4	67.8	65.9	62.7	Slovenia	7.2	7.6	7.4	6.7	Slovenia	0.0	0.0	0.50	0.3
<b>CEE8 average</b>	<b>50.2</b>	<b>48.8</b>	<b>48.2</b>	<b>47.3</b>	<b>CEE8 average</b>	<b>0.2</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-0.8</b>	<b>CEE8 average</b>	<b>-1.1</b>	<b>-0.6</b>	<b>-1.2</b>	<b>-1.5</b>

Note: \*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

## Appendix



Note: \*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

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11 March 2019

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