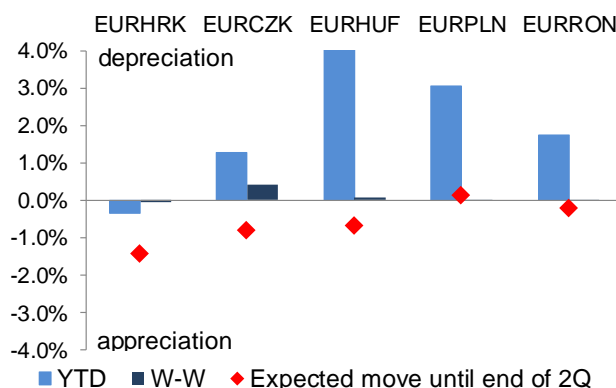


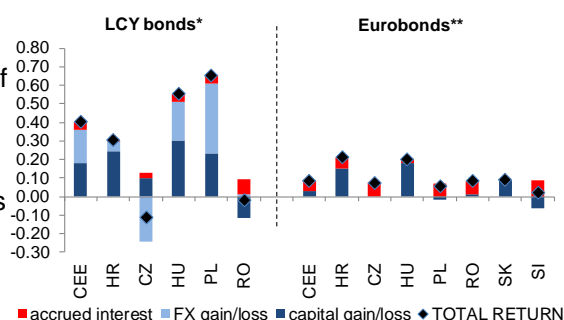
CEE Market Insights

Market outlook

Regional currency markets were strongly influenced by international developments last week, which, in the absence of important macro releases, could remain the likely pattern this week as well. The relative weakness of the koruna could continue if the prospects for Brexit and global trade wars do not improve. After the resignation of the British PM, there is potential that Brexit developments could influence regional currency markets this week, too.



Yields mostly followed Bund developments last week and, as macro releases will be relatively scarce this week, international developments could continue to mostly shape local rate and yield developments. The rate decision itself of the Hungarian central bank may be watched by investors, but we do not expect any material change. The statement has some potential to affect markets if there is any reference to the recently weaker HUF. As flash GDP figures were also already released earlier in most CEE countries, we do not expect these to influence regional markets that much either.



Looking ahead this week:

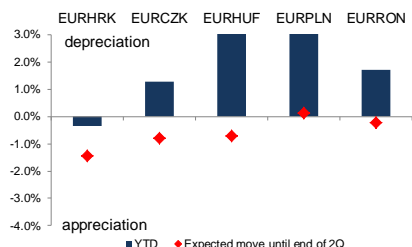
Monday	Tuesday	Wednesday	Thursday	Friday
PL: Unemployment HR: Unemployment, Wages	HU: Target Rate SK: PPI, Current Account	HR: GDP HU: Unemployment	HR: Retail	CZ, PL: GDP HU: GDP; Trade Balance SI: GDP, CPI HR: Industry RS: GDP, Industry, Retail, Trade Balance

We will see final GDP data from many countries that have already released 1Q19 figures, and also from Croatia and Slovenia, which have not yet released their data. All countries will reveal details that are likely to show a strong contribution from private consumption, and in many cases, a substantial contribution from investments, too. It remains to be seen how net exports developed, but against the backdrop of the relatively good flash releases, we think the export performance was likely better than had been expected a few months ago. Already before the release of the detailed figures, we perceive upside risk to our real GDP call for Poland (currently at 4.2%) for 2019, while we will likely revise our growth outlook for Romania from 3.1% to around 4% this week. We have already increased our real GDP forecast for Hungary to 4.5%, from 4.3% for this year. Tuesday's rate decision in Hungary could be in focus of investors, too. Although rates are not expected to change, it could still be interesting to see if the central bank's statement contained any reflection on the recent HUF weakening. The results of the EU elections over last weekend are unlikely to affect CEE macro and markets too much.

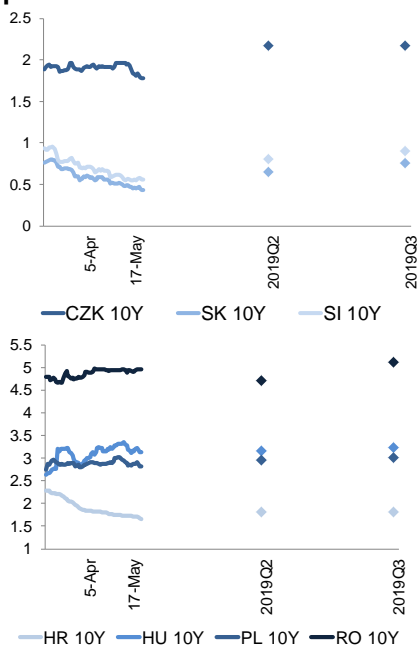
In case you missed it last week...

- CEE: Our report on possible impact of US tariffs on region (titled '[Delay in US import tariffs on cars from EU](#)')
- PL: [Industry better than expected in April](#) at 9.2% y/y; retail sales at 13.6% y/y, [7-year high](#)
- RO: We will likely revise GDP growth outlook to 4% area from 3.1% for this year
- HU: We revised real GDP growth outlook for this year from 4.3% to 4.5%
- SK: Fitch [confirmed](#) rating at A+ with stable outlook

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

GDP data for 1Q will be released this week for both Eurozone countries and the US. As flash estimates have already been issued, the potential for surprises is small, and therefore the impact on the EURUSD likely limited. Markets will still be digesting the resignation of the British prime minister and its consequences.

CEE currencies:

Currency markets were strongly influenced by international developments last week, as minutes of the last FOMC meeting reassured investors that it will be patient and no imminent rate tightening should be expected. The subsequent weakening of the US dollar gave a lift to the zloty and the so-far ailing forint, too. The Czech currency was still somewhat weaker last week, however. This had to do with the still negative trade war and Brexit prospects, as well as the increased expectation that Czech rates will not be increased further this week. The overbought koruna (courtesy of the exchange rate regime held between 2013 and 2017) still prevents the CZK from benefitting from the large interest rate differential. If global growth uncertainties tied to Brexit and trade disputes do not improve, then the CZK could remain weak going forward. Elsewhere, currencies are roughly in line with our forecasts.

CEE rates and yields:

Yields mostly fell last week in CEE, amid the ongoing decline in German Bunds. As far as short-term rates are concerned, they showed little changes apart from the Czech Republic, where FRAs started to fall, especially on longer tenors (i.e. the 9X12 fell about 10bp last week, and almost 20bp in two weeks). Czech growth prospects could be especially negatively influenced by German industrial woes (as evidenced by last week's still poor sentiment data), and thus investors likely started to price in a lower rate trajectory. We continue to expect no further rate tightening from the current 2% repo rate. Elsewhere, rate markets were relatively calm. This week's Hungarian rate setting meeting has a bit of potential to move rate markets, but inflation releases (throughout the region) have more potential to affect markets. This is due to the fact that, currently, CEE central banks are facing a dilemma between the very strong growth stemming from domestic demand and weak sentiment indicators on important export markets and the still low external inflation environment.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
27-May							
10:00	PL	Unemployment Rate	Apr	5.6%	5.7%	5.9%	Unemployment to remain around recently observed rate.
11:00	HR	Unemployment Rate	Apr			8.6%	
11:00	HR	Wages (y/y)	Mar			2.8%	
28-May							
9:00	SK	PPI (y/y)	Apr		4.5%	4.4%	Rather steady development of producer price is expected for April.
14:00	HU	Target Rate	May 28	0.9%	0.9%	0.9%	May meeting should be 'non event'; more details on normalization of monetary policy could be revealed at June rate setting meeting.
14:30	SK	Current Account Balance	Mar			-157.99	
29-May							
9:00	HU	Unemployment Rate	Apr	3.6%	3.5%	3.6%	Figures might continue to reflect tight labor market conditions.
11:00	HR	GDP (y/y)	1Q p		3.1%	2.26%	GDP growth seen accelerating slightly above 3% mark in 1Q19.
30-May							
11:00	HR	Retail Sales (y/y)	Apr		5.0%	5.7%	Retail trade expected to show vivid growth dynamics going into 2Q19.
31-May							
9:00	CZ	GDP (q/q)	1Q P	0.5%	0.5%	0.5%	Within second estimate, Czech Statistical Office will release figures of GDP components. We expect both domestic as well as foreign demand to remain solid.
9:00	CZ	GDP (y/y)	1Q P	2.50%	2.5%	2.5%	GDP growth is driven mainly by labor market, positive sentiment of households and high investment expenditures of firms into robotization. Contribution of net exports was probably negative in 1Q. Although foreign
9:00	HU	Trade Balance	Mar F			677	
9:00	HU	GDP (y/y)	1Q F	5.3%	5.3%	5.3%	CSO is expected to confirm preliminary GDP figures.
10:00	PL	GDP (y/y)	1Q F		4.6%	4.6%	Domestic demand is expected to remain main growth driver.
10:30	SI	CPI (y/y)	May		1.6%	1.7%	Inflation movements expected to remain stable.
10:30	SI	GDP (y/y)	1Q		3.6%	4.1%	Growth dynamics expected to somewhat decelerate compared to 2018, but remain above 3.5% mark.
11:00	HR	Industrial Production (y/y)	Apr		2.9%	3%	Industrial production seen maintaining mild recovery footprint seen from beginning of year.
12:00	RS	Industrial Production (y/y)	Apr		2.0%	-2.8%	Continuation of relatively weak growth, as negative FCA production outlook weighs on overall headline figure.
12:00	RS	Retail Sales (y/y)	Apr		10.5%	9.5%	We expect another strong figure, notwithstanding high base, due to strong wage numbers and vivid labor market developments. Also, Easter effect should additionally boost April figure.
12:00	RS	Trade Balance	Apr			-507	
12:00	RS	GDP (y/y)	1Q F		2.3%	2.3%	We expect confirmation of flash figure with private consumption being revealed as key factor of growth.

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia 10Y	1.66	1.80	1.80	1.80	1.90
spread (bps)	178	165	158	152	154
Czech Rep. 10Y	1.78	2.17	2.17	2.33	2.44
spread (bps)	190	202	195	205	208
Hungary 10Y	3.14	3.14	3.23	3.40	3.46
spread (bps)	325	299	301	312	310
Poland 10Y	2.83	2.95	3.00	3.05	3.10
spread (bps)	294	280	278	277	274
Romania10Y	4.95	4.70	5.10	5.20	5.40
spread (bps)	506	455	488	492	504
Slovakia 10Y	0.43	0.65	0.75	0.75	0.85
spread (bps)	54	50	53	47	49
Slovenia 10Y	0.56	0.80	0.90	0.90	1.00
spread (bps)	67	65	68	62	64
Serbia 5Y	3.90	3.96	3.90	3.93	3.95
DE10Y (BBG)*	-0.11	0.15	0.22	0.28	0.36

3M Money Market Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.47	0.50	0.50	0.50	0.50
Czech Republic	2.19	2.18	2.18	2.18	2.24
Hungary	0.20	0.22	0.30	0.45	0.60
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.28	3.20	3.70	3.60	3.50
Serbia	2.97	2.96	2.98	2.98	2.99
Eurozone	-0.31	-0.30	-0.30	-0.30	-

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
EURHRK	7.43	7.32	7.42	7.45	7.42
forwards		7.43	7.43	7.43	7.43
EURCZK	25.83	25.65	25.51	25.31	25.03
forwards		25.86	25.86	25.86	25.86
EURHUF	326.1	324.0	324.0	324.0	325.0
forwards		329.3	329.3	329.3	329.4
EURPLN	4.30	4.31	4.32	4.29	4.29
forwards		4.30	4.30	4.30	4.30
EURRON	4.76	4.75	4.75	4.77	4.79
forwards		4.76	4.76	4.76	4.76
EURRSD	118.0	117.9	118.0	118.3	118.1
forwards		-	-	-	-
EURUSD	1.12	1.15	1.18	1.18	-

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

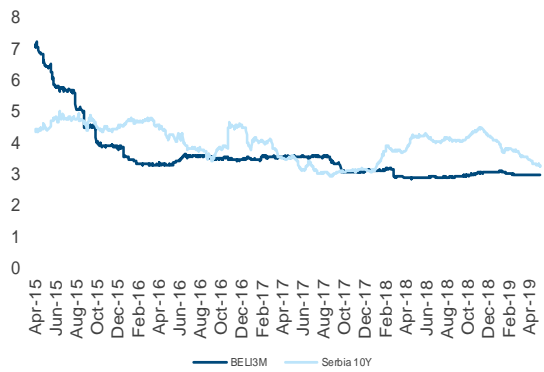
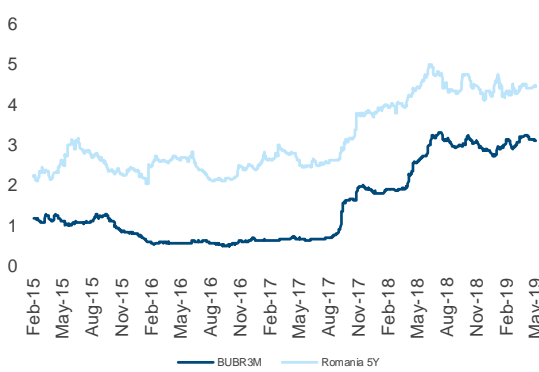
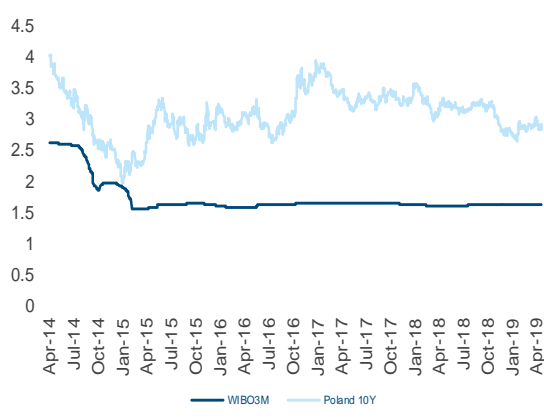
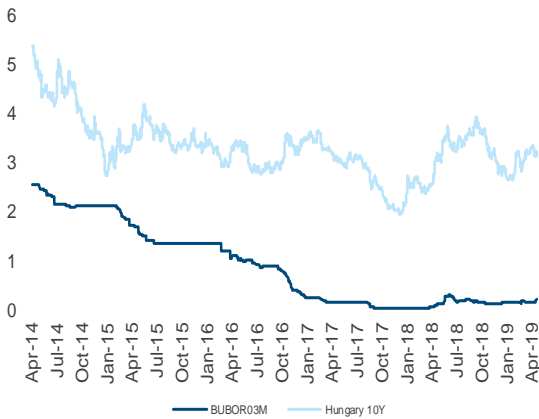
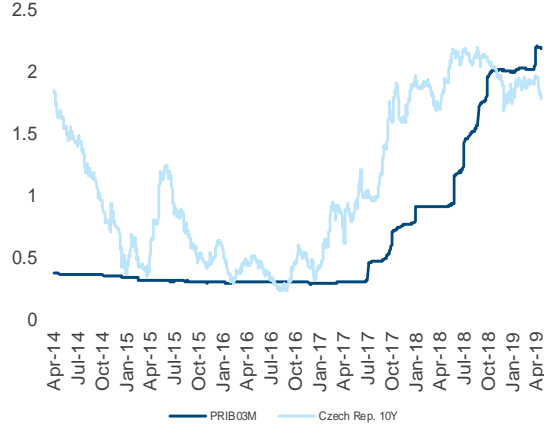
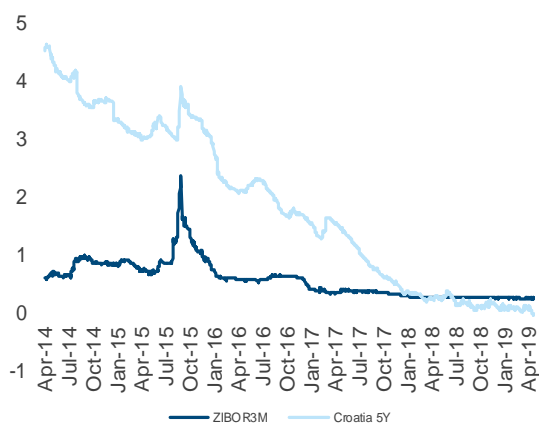
Macro forecasts

Real GDP growth (%)					Average inflation (%)					Unemployment (%)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	2.9	2.6	2.3	2.3	Croatia	1.1	1.5	1.0	1.2	Croatia	11.3	8.4	7.4	6.4
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	4.5	3.2	Hungary	2.4	2.8	3.2	3.0	Hungary	4.2	3.7	3.6	3.5
Poland	4.8	5.1	4.2	3.4	Poland	2.0	1.6	2.4	2.7	Poland	7.3	6.1	6.0	6.4
Romania	7.0	4.1	3.1	3.7	Romania	1.3	4.6	3.6	3.1	Romania	4.9	4.2	3.8	4.0
Serbia	2.0	4.3	3.0	3.3	Serbia	3.0	2.0	2.5	1.8	Serbia	13.5	12.7	12.2	11.7
Slovakia	3.2	4.1	3.4	3.6	Slovakia	1.3	2.5	2.5	2.5	Slovakia	8.1	6.5	6.3	5.8
Slovenia	4.9	4.5	3.2	3.1	Slovenia	1.4	1.7	1.3	1.5	Slovenia	6.6	5.1	4.2	3.7
CEE8 average	4.7	4.4	3.6	3.3	CEE8 average	1.9	2.4	2.6	2.5	CEE8 average	6.2	5.3	5.1	5.2

Public debt (% of GDP)					C/A (%GDP)					Budget Balance (%GDP)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	77.8	74.1	71.4	69.3	Croatia	3.7	2.6	1.4	0.5	Croatia	0.9	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	73.4	70.8	68.4	66.6	Hungary	2.8	0.5	-0.1	0.7	Hungary	-2.2	-2.2	-1.8	-1.8
Poland	50.6	48.9	50.1	49.3	Poland	0.2	-0.7	-0.5	-0.7	Poland	-1.5	-0.4	-1.9	-2.6
Romania	35.2	35.0	35.1	35.3	Romania	-3.2	-4.5	-4.9	-5.3	Romania	-2.7	-3.0	-3.0	-2.5
Serbia	63.3	53.8	51.4	49.4	Serbia	-5.2	-5.2	-5.5	-5.2	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	48.9	47.7	46.1	Slovakia	-2.0	-2.5	-2.4	-1.2	Slovakia	-0.8	-0.7	-0.7	-0.4
Slovenia	72.4	67.0	63.8	60.8	Slovenia	7.2	7.3	6.5	5.8	Slovenia	0.0	0.0	0.50	0.3
CEE8 average	50.4	48.3	47.9	46.9	CEE8 average	0.1	-0.8	-1.0	-1.0	CEE8 average	-1.0	-0.6	-1.3	-1.5

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

Appendix



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Contacts

Group Research

Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research

Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
 Zoltan Arokszállasi, CFA (Fixed income) +43 (0)5 0100 18781
 Katarzyna Rzentarzewska (Fixed income, Poland) +43 (0)5 0100 17356
 Malgorzata Krzywicka (Fixed income) +43 (0)5 0100 17338

Croatia/Serbia

Alen Kovac (Head) +385 72 37 1383
 Mate Jelić +385 72 37 1443
 Ivana Rogic +385 72 37 2419

Czech Republic

David Navratil (Head) +420 956 765 439
 Jiri Polansky +420 956 765 192
 Michal Skorepa +420 956 765 172

Hungary

Orsolya Nyeste +361 268 4428
 Zsombor Varga +361 373 2830

Romania

Horia Braun-Erdei (Head) +40 3735 10424
 Eugen Sinca +40 3735 10435
 Dorina Ilasco +40 3735 10436

Slovakia

Maria Valachyova (Head) +421 2 4862 4185
 Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research

Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
 Ralf Burchert, CEFA (Agencies) +43 (0)5 0100 16314
 Hans Engel (Global Equities) +43 (0)5 0100 19835
 Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
 Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
 Heiko Langer (Covered Bonds/Financials) +43 (0)5 0100 85509
 Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
 Carmen Rieffler-Kowarsch (Covered Bonds/Financials) +43 (0)5 0100 19632
 Rainer Singer (Euro, US) +43 (0)5 0100 17331
 Bernadett Povaszai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
 Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
 Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research

Head: Henning Eßkuchen +43 (0)5 0100 19634
 Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
 Michael Marschallinger, CFA +43 (0)5 0100 17906
 Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
 Vera Sutedja, CFA, MBA (Telecom, Steel) +43 (0)5 0100 11905
 Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
 Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
 Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia

Mladen Dodig (Head) +381 11 22 09178
 Anto Augustinovic +385 72 37 2833
 Magdalena Dolenc +385 72 37 1407
 Davor Spoljar, CFA +385 72 37 2825

Czech Republic

Petr Bartek (Head) +420 956 765 227
 Marek Dongres +420 956 765 218
 Jan Safranek +420 956 765 218

Hungary

József Miró (Head) +361 235 5131
 András Nagy +361 235 5132
 Tamás Pletser, CFA +361 235 5135

Poland

Tomasz Duda (Head) +48 22 330 6253
 Cezary Bernatek +48 22 538 6256
 Konrad Grygo +48 22 330 6254
 Mateusz Krupa, CFA +48 22 330 6251
 Michal Pilch +48 22 330 6255
 Emil Poplawski +48 22 330 6252

Romania

Caius Rapanu +40 3735 10441

Turkey

Umut Cebir +90 2129120445
 Lina Barokas +90 2129120445

Treasury – Erste Bank Vienna

Group Markets Retail Sales

Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT

Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution

Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales

Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT

Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Institutional Distribution non CEE

Head: Jaromir Malak +43 (0)5 0100 84254
 Karin Rattay +43 (0)5 0100 84118
 Christian Kiennesberger +43 (0)5 0100 84323
 Bernd Bollhof +49 (0)30 8105800 5525
 Rene Klasen +49 (0)30 8105800 5521
 Christopher Lampe-Traupe +49 (0)30 8105800-5507
 Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
 Bernd Thaler +43 (0)5 0100 84119

Bank Distribution

Head: Marc Friebertshäuser +49 (0)711 810400 5540
 Sven Kienzle +49 (0)711 810400 5541
 Michael Schmotz +43 (0)5 0100 85542
 Ulrich Inhofner +43 (0)5 0100 85544
 Klaus Vosseler +49 (0)711 810400 5560
 Andreas Goll +49 (0)711 810400 5561
 Mathias Gindele +49 (0)711 810400 5562

Institutional Distribution CEE

Head: Jaromir Malak +43 (0)5 0100 84254

Institutional Distribution PL and CIS

Pawel Kielek +48 22 538 6223
 Michal Jarmakowicz +43 50100 85611

Institutional Distribution Slovakia

Head: Sariota Sipulova +421 2 4862 5619
 Monika Smelikova +421 2 4862 5629

Institutional Distribution Czech Republic

Head: Ondrej Cech +420 2 2499 5577
 Milan Bartos +420 2 2499 5562
 Barbara Suvadova +420 2 2499 5590

Institutional Asset Management Czech Republic

Head: Petr Holecek +420 956 765 453
 Martin Perina +420 956 765 106
 Petr Valenta +420 956 765 140
 David Petracek +420 956 765 809
 Blanca Weinerova +420 956 765 317

Institutional Distribution Croatia

Head: Antun Buric +385 (0)7237 2439
 Zvonimir Tukač +385 (0)7237 1787
 Natalija Zujic +385 (0)7237 1638

Institutional Distribution Hungary

Head: Peter Csizmadia +36 1 237 8211
 Attila Hollo +36 1 237 8209
 Gabor Balint +36 1 237 8205

Institutional Distribution Romania and Bulgaria

Head: Ciprian Mitu +43 (0)50100 85612
 Crisitan Adascalita +40 373 516 531

Group Institutional Equity Sales

Head: Brigitte Zeitlberger-Schmid +43 (0)50100 83123
 Werner Fürst +43 (0)50100 83121
 Josef Kerekes +43 (0)50100 83125
 Cormac Lyden +43 (0)50100 83120

Business Support

Bettina Mahoric +43 (0)50100 86441

Erste Group Research

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27 May 2019

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

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