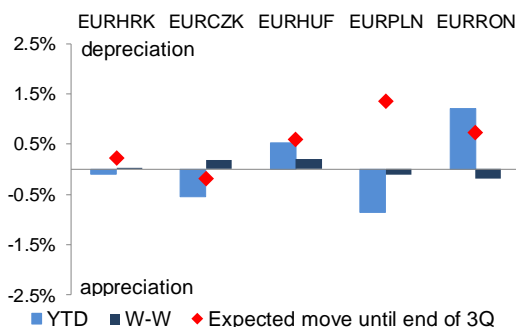




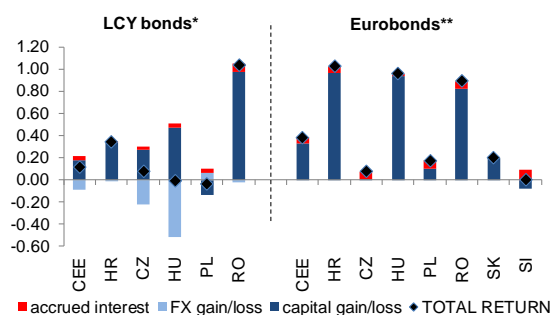
CEE Market Insights

Market outlook

The mood turned more dovish on global markets, but CEE currencies mostly could not benefit from this. The Croatian kuna, one of the exceptions, could remain strong going forward, due to the seasonal effect. The Hungarian forint weakened, but we do not expect it to firm much, given the dovish central bank. The Czech economy might be in the same boat as the euro area in case of a major growth slowdown, which could keep the koruna from appreciating.



Yield spreads again mostly fell against German Bunds in CEE. Romanian yields fell the most, likely due to the relatively high nominal yield level, but as the fiscal and political issues are far from being solved, further declines might be difficult to achieve. Hungarian yields also fell substantially, but here, the central bank is tolerating higher inflation vs. CEE peers, which could also limit further yield drops. Short-term rates could go down after the bump last week, however, after the central bank's liquidity injection and a maturing HUF bond today (the 2019/A).



Looking ahead this week:

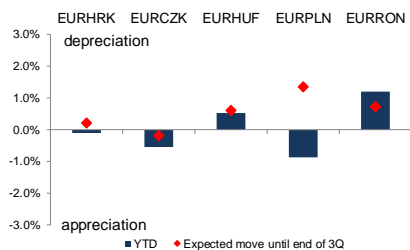
Monday	Tuesday	Wednesday	Thursday	Friday
PL: Retail	HU: Target Rate RS: Wages HR: Public holidays	CZ: Target Rate PL: Unemployment	HU: Unemployment HR: Unemployment, Wages	HR: Current Account, Industry, Retail RS: Industry, Retail, Trade Balance CZ: GDP HU: PPI PL, SI: CPI SK: PPI, Current Account

There will be two central bank meetings held in CEE this week. Although inflation (both headline and core) is going up in Hungary, we do not expect any tightening move from the Hungarian central bank this Tuesday. The central bank will likely emphasize that global central banks turned more dovish recently and the external environment poses economic and deflationary risks to the Hungarian economy, justifying the continuation of its ultra-loose monetary policy. The Czech national bank's MPC will meet on Wednesday, but hardly anybody expects a hike, given that May core inflation was in line with expectation and the external outlook has worsened. FRAs even declined in the last couple of weeks. The Romanian political crisis still has not been fully resolved, as some coalition members call for personal changes in the government. There are also attempts to undo the pension law, which promised a 15% hike in state pensions this autumn and another 40% hike next year. Given its already stretched public finances, Romania would need to compromise to hike in order to avoid the EDP. A few countries will publish their Industrial Output (HR,RS) and Retail Sales (PL, HR, RS) data this week. Poland is to disclose its flash estimate of inflation for June on Friday. We expect inflation to increase to 2.7% from May's 2.4%.

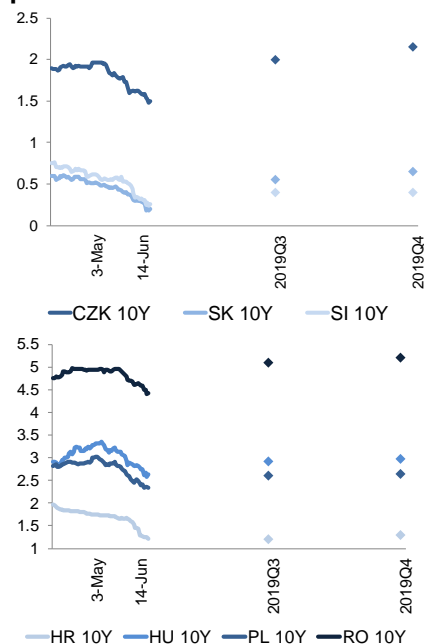
In case you missed it last week...

- RO: Government survived no-confidence vote, but government reshuffle still being discussed
- SK: Social package worth EUR 500-550mn adopted by government
- PL: [Industrial output accelerated](#), hinting at GDP growth above 5% in 2Q19
- CZ: over 250 thousand people took part in protests in Prague against Prime Minister Andrej Babis

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

This week, the EURUSD and markets in general will focus on the summit meeting of President Trump and Chinese President Xi. It will be crucial to see what progress is made in resolving the trade dispute. This will be important for the economic outlook and thus for monetary policy in the US and the Eurozone and for determining the probability of monetary easing.

CEE currencies:

While dovish sentiment was overwhelming last week on global markets, CEE currencies mostly failed to jump on the bandwagon and they weakened on average. Starting with the ones that appreciated, the Croatian kuna is likely benefiting from the seasonal effect, which could continue for the upcoming few weeks. As for the Romanian leu, the relatively high nominal interest rate level could have been attractive to foreign investors, as the leu slightly firmed, despite ongoing political and fiscal issues. Still, it was mostly the bond market, and not the currency market, that benefited from the dovish external environment. As for the Hungarian forint, that fell the most in the region last week, and we think that the currency is around the levels where it should be hovering. A big influence here is the central bank, which could maintain its dovish bias at this week's meeting, and this would not support any big gains in the forint. The Czech koruna also weakened slightly. Against the backdrop of dovish messages from the ECB and fears of an ongoing European economic weakness, most investors could, for the time being at least, think that the Czech economy will be in the same boat as the Eurozone. We thus do not expect the koruna to appreciate much, despite the notable interest rate differential.

CEE rates and yields:

Yields again went further down last week amid the dovish external environment, and spreads over German Bund yields again mostly decreased. The biggest yield drop was on the Romanian bond market, where relatively high nominal rates likely played a key role in market moves. Hungary also saw a substantial drop in yields last week. On the short end of the curve, however, a substantial increase took place, as liquidity was drained due to the bombastic success of the sale of new retail bonds. As the central bank already reacted with additional FX swaps to increase liquidity, and the debt management agency is also said to have been actively using its repos and buybacks to improve drained liquidity, while the 2019/A bond is also to mature today, we expect that rates on the short end could go down after the bump last week. That said, the large amounts sold in the new retail bond showed that very short-term rates might be subject to higher volatility in Hungary in the upcoming time period.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
24-Jun							
10:00	PL	Retail Sales (y/y)	May	8.50%	8.60%	13.6%	Retail sales to sustain solid growth momentum.
25-Jun							
12:00	RS	Wages (y/y)	Apr			6.5%	
14:00	HU	Target Rate	Jun	0.9%	0.9%	0.9%	We expect MNB to pause its normalization process, given mainly changed rate outlook of the ECB.
26-Jun							
10:00	PL	Unemployment Rate	May	5.4%	5.5%	5.6%	Unemployment to marginally drop.
13:00	CZ	Target Rate	Jun	2.0%	2.0%	2.0%	After May hike, we see policy as adequate in Czech economy. Moreover, CNB will be more cautious in coming quarters, due to Brexit and US-China (and later US-EU) talks and keep policy unchanged, in our view.
27-Jun							
9:00	HU	Unemployment Rate	May	3.5%	3.5%	3.5%	Latest figures expected to reinforce tight labor market conditions in economy.
11:00	HR	Unemployment Rate	May			8.6%	
11:00	HR	Wages (y/y)	Apr			2.8%	
28-Jun							
	HR	Current Account Balance	1Q			-872.9	
9:00	CZ	GDP (q/q)	1Q F	0.6%	0.6%	0.6%	We expect no change in main figure in third estimate; however, some minor changes among components could be published.
9:00	CZ	GDP (y/y)	1Q F	2.6%	2.6%	2.6%	GDP growth driven mainly by labor market and positive sentiment of households and high investment expenditures of firms into robotization. Contribution of net exports was zero in 1Q. Although foreign demand was
9:00	HU	PPI (y/y)	May			4.1%	
9:00	SK	PPI (y/y)	May		4.0%	3.9%	Steady increase of producer prices expected for May.
10:00	PL	CPI (y/y)	Jun P	2.5%	2.4%	2.4%	Inflation expected to remain stable, as food prices growth should marginally ease.
10:30	SI	CPI (y/y)	Jun		1.5%	1.4%	Inflation seen as remaining in tight band around 1.5% mark.
11:00	HR	Industrial Production (y/y)	May		2.7%	3%	Modest recovery trend from beginning of year expected to persist.
11:00	HR	Retail Sales (y/y)	May		5.1%	4.8%	Retail trade seen as extending robust growth pace in May.
12:00	RS	Industrial Production (y/y)	May		2.0%	-0.8%	We expect positive print in May, mostly due to low base effect, while overall trend remains weak this year.
12:00	RS	Retail Sales (y/y)	May		6.5%	6.7%	We see retail trade maintaining positive footprint amid ongoing wage growth and strong credit activity.
12:00	RS	Trade Balance	May			-500	
14:30	SK	Current Account Balance	Apr			-43.71	

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia 10Y	1.22	1.20	1.30	1.30	-
spread (bps)	151	150	140	120	-
Czech Rep. 10Y	1.49	2.00	2.15	2.25	2.36
spread (bps)	179	230	225	215	226
Hungary 10Y	2.64	2.93	2.98	3.06	3.12
spread (bps)	293	323	308	296	302
Poland 10Y	2.35	2.60	2.65	2.70	2.70
spread (bps)	264	290	275	260	260
Romania10Y	4.42	5.10	5.20	5.40	5.40
spread (bps)	472	540	530	530	530
Slovakia 10Y	0.20	0.55	0.65	0.80	-
spread (bps)	50	85	75	70	-
Slovenia 10Y	0.26	0.40	0.40	0.50	0.60
spread (bps)	55	70	50	40	50
Serbia 5Y	3.42	3.65	3.80	3.80	3.70
DE10Y*	-0.29	-0.30	-0.10	0.10	0.10

FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2
EURHRK	7.40	7.42	7.42	7.42	-
forwards		7.40	7.40	7.40	-
EURCZK	25.62	25.55	25.30	25.14	24.88
forwards		25.78	25.92	26.04	26.17
EURHUF	324.1	325.0	325.0	325.0	325.0
forwards		324.6	325.1	325.8	326.5
EURPLN	4.26	4.31	4.32	4.31	4.30
forwards		4.28	4.31	4.33	4.36
EURRON	4.73	4.75	4.77	4.79	4.82
forwards		4.77	4.82	4.87	4.92
EURRSD	117.9	118.0	118.3	118.0	117.9
forwards		-	-	-	-
EURUSD	1.13	1.10	1.13	1.15	-

3M Money Market Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.50	0.50	0.50	0.50	-
Czech Republic	2.17	2.16	2.16	2.22	2.36
Hungary	0.24	0.22	0.25	0.35	0.45
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.23	3.70	3.60	3.50	3.50
Serbia	2.97	2.95	2.98	2.97	2.98
Eurozone	-0.34	-0.30	-0.30	-0.30	-

Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.30	0.30	0.30	0.30	-
Czech Republic	2.00	2.00	2.00	2.00	2.25
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	-

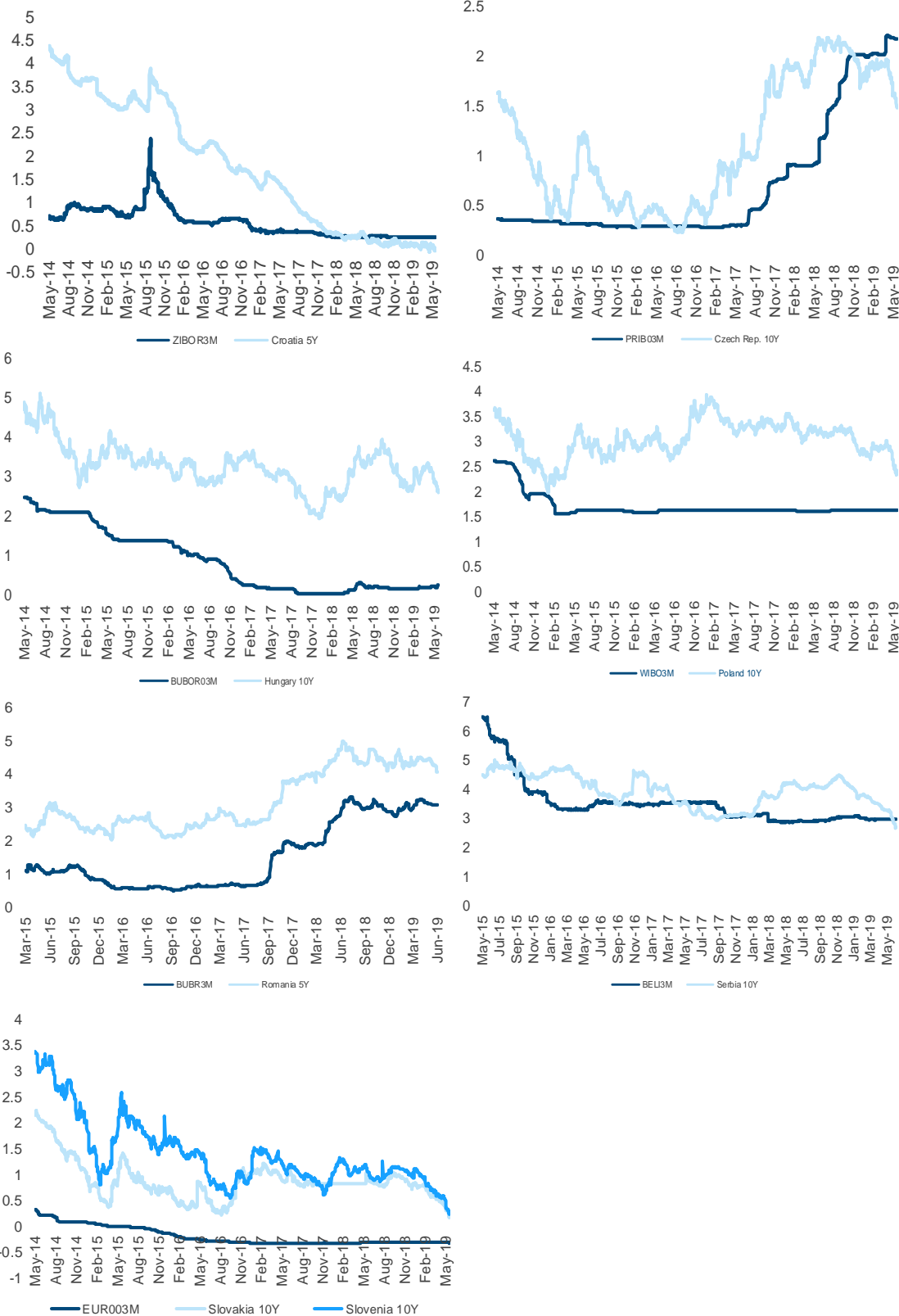
Macro forecasts

Real GDP growth (%)					Average inflation (%)					Unemployment (%)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	2.9	2.6	2.7	2.4	Croatia	1.1	1.5	1.0	1.2	Croatia	11.3	8.4	7.4	6.4
Czech Republic	4.5	2.9	2.6	2.8	Czech Republic	2.5	2.1	2.6	2.2	Czech Republic	2.9	2.3	3.0	3.3
Hungary	4.1	4.9	4.5	3.2	Hungary	2.4	2.8	3.3	3.0	Hungary	4.2	3.7	3.6	3.5
Poland	4.8	5.1	4.8	4.0	Poland	2.0	1.6	2.4	2.7	Poland	7.3	6.1	6.0	6.4
Romania	7.0	4.1	4.5	3.5	Romania	1.3	4.6	4.0	3.2	Romania	4.9	4.2	3.8	4.0
Serbia	2.0	4.3	3.3	3.5	Serbia	3.2	2.0	2.5	1.8	Serbia	13.5	12.7	10.6	9.8
Slovakia	3.2	4.1	3.4	3.3	Slovakia	1.3	2.5	2.5	2.5	Slovakia	8.1	6.5	5.8	5.7
Slovenia	4.9	4.5	3.2	3.1	Slovenia	1.4	1.7	1.5	1.9	Slovenia	6.6	5.1	4.2	3.7
CEE8 average	4.7	4.4	4.1	3.5	CEE8 average	1.9	2.4	2.7	2.6	CEE8 average	6.3	5.2	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	74.6	71.6	69.4	Croatia	3.7	2.6	1.5	0.6	Croatia	0.8	0.2	0.0	-0.5
Czech Republic	34.6	32.7	31.0	30.1	Czech Republic	1.7	0.3	0.4	0.5	Czech Republic	1.6	0.9	0.6	0.3
Hungary	73.4	70.8	68.2	66.4	Hungary	2.8	0.5	-0.1	0.7	Hungary	-2.2	-2.2	-1.8	-1.5
Poland	50.6	48.9	48.0	46.5	Poland	0.2	-0.7	-0.5	-0.7	Poland	-1.5	-0.4	-1.5	-0.8
Romania	35.2	35.0	35.1	35.3	Romania	-3.2	-4.5	-4.8	-5.2	Romania	-2.7	-3.0	-3.0	-2.5
Serbia	59.3	53.6	51.1	49.0	Serbia	-5.2	-5.2	-6.3	-6.0	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	48.9	47.7	46.2	Slovakia	-2.0	-2.5	-2.2	-1.5	Slovakia	-0.8	-0.7	-0.7	-0.4
Slovenia	74.1	70.1	66.5	63.0	Slovenia	7.2	7.0	6.4	5.7	Slovenia	0.0	0.0	0.50	0.5
CEE8 average	50.3	48.4	47.0	45.6	CEE8 average	0.2	-0.9	-1.0	-1.0	CEE8 average	-1.0	-0.7	-1.2	-0.9

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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