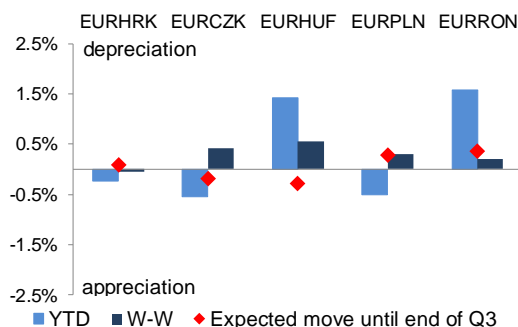


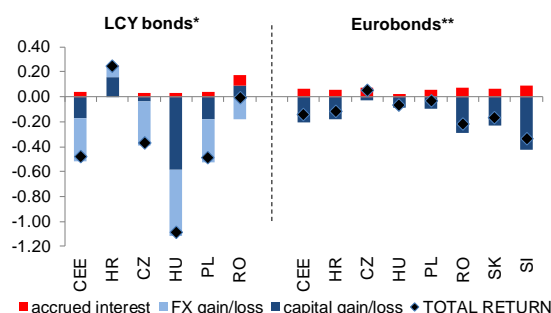
CEE Market Insights

Market outlook

Dovish Fed minutes did not support the CEE FX market, as most of the currencies weakened last week. The strongest decline was observed in the Hungarian forint, which depreciated by 0.6% last week. Apart from global factors that affected HUF, lower than expected inflation for June, posed additional pressure on the currency. Due to easing price pressure, we do not expect any tightening step to be announced by the central bank this year. The PLN and CZK followed the HUF and also depreciated, although to a lesser extent.



Last week's behavior of the global and local FI market is somewhat surprising to us. Over the course of the week, 10Y German Bunds went up by more than 15bp and closed the week at around -0.2%. Such development is contradictory to the dovish testimony of Fed Chairman Powell and market certainty about a rate cut in the US at the July rate-setting meeting. The CEE bond market followed core developments and the long end of the curve mostly shifted upwards. The most visible move north was observed in Hungary, Poland and Slovakia. As an aftermath to the decision on a rate cut in Serbia, the short end of the local curve plummeted by roughly 20bp.



Looking ahead this week:

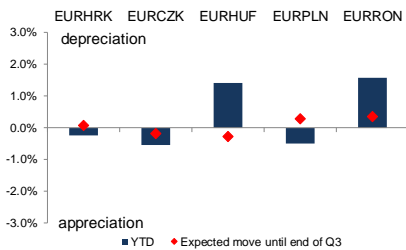
Monday	Tuesday	Wednesday	Thursday	Friday
RO: Current Account SK: CPI PL: CPI, Trade Balance	HR: CPI	CZ: PPI PL: Wages	PL: Industry, PPI	RS: Current Account SK: Unemployment PL: Retail SI: PPI HR: Unemployment, Wages

Summer will be hot in Romania, as it seems that officials have realized that fiscal expansion has reached its limits and they need to act in order to keep the deficit below 3% of GDP. The Romanian Ministry of Finance is preparing a package of fiscal measures worth 0.4% of GDP that should be officially presented by the end of this month. So far, cuts in special pensions and some social spending have been discussed in the media. In the Czech Republic, Social Democrats are getting closer to quitting the government of PM Babis, who will need to seek support for his minority government (and new ministers) in the parliament. This week, Poland will be the first country in CEE to publish industrial output and retail sales data for June. That means we will have a complete set of indicators for the final run of our GDP now-cast model for 2Q. At the moment, our now-cast indicates above 5% GDP growth of the Polish economy in 2Q19. On Friday, Fitch Ratings may upgrade Slovenia's sovereign rating by one notch, or at least change the outlook to positive.

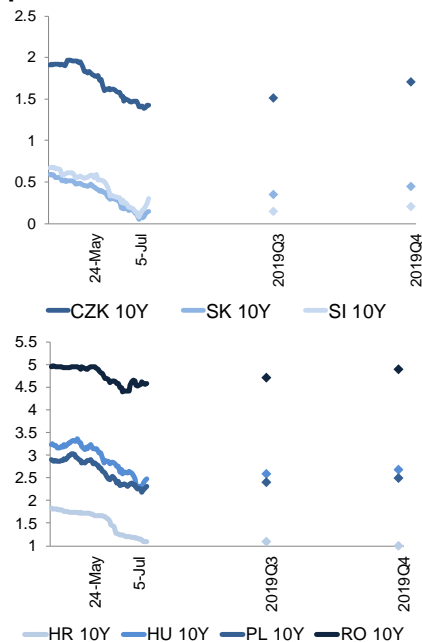
In case you missed it last week...

- CEE: We issued our new [Bond Market Report for 3Q19](#)
- HU: [Price pressure eased in June](#), no further monetary tightening step to be announced this year
- CZ: [Slightly lower inflation in June](#) (2.7% from 2.9% in May)
- RO: [Inflation eased in June](#) (3.8% from 4.1% in May)
- RO: [Weak industrial production in May](#) (-1.7% y/y)
- SK: [Industrial production affected by oil supply outage in May](#) (4.7% y/y vs. 7% y/y in April)
- RS: [Serbian central bank cut key rate by 25bp](#) (to 2.75%); we expect another 25bp rate cut before year-end

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

As the Fed has recently raised concerns about a possible deterioration in the economic outlook as a result of increased uncertainty, the markets will now closely monitor the economic data due for release. Next week, U.S. retail sales for June will provide further indications of the economy in Q2, and Chairman Powell will speak at the G7 summit. The Dollar has weakened slightly against the Euro during the chairman's testimony before Congress and now appears to have taken a more neutral stance.

CEE currencies:

Dovish Fed minutes did not support the CEE FX market, as most of the currencies weakened last week, while local macro releases were neutral for the FX market. The strongest decline was observed in the Hungarian forint, which depreciated by 0.6% last week. Apart from global factors that affected HUF, lower than expected inflation for June, posed additional pressure on the currency. Due to easing price pressure, we do not expect any tightening step to be announced by the central bank this year. In our view, a possible Fed rate cut could, in the short term, support the appreciation of the forint; however, in the long run it will tend to weaken. The PLN and CZK followed the HUF and also depreciated, although to a lesser extent (by 0.4% last week). All CEE currencies are currently holding close to our 3Q19 forecasts.

CEE rates and yields:

Last week's behavior of the global and local FI market is somewhat surprising to us. Over the course of the week, 10Y German Bunds went up by more than 15bp and closed the week at around -0.2%. Such development is contradictory to the dovish testimony of Fed Chairman Powell and market certainty about a rate cut in the US at the July rate-setting meeting. Stronger than expected industrial performance in France and the Eurozone in May could have supported the performance of the 10Y Bund and could have been seen as a more positive signal in an overall strongly pessimistic environment. The CEE bond market followed core developments and the long end of the curve mostly shifted upwards. The most visible move north was observed in Hungary, Poland and Slovakia, where 10Y yields went up by 10-15bp last week. As an aftermath to the decision on a rate cut in Serbia, the short end of the local curve plummeted by roughly 20bp. We expect one more rate cut in Serbia by 25bp before year-end. Over the course of the week, we observed strong compression of spreads vs. the 10Y German Bund across all CEE countries. Spreads are currently holding well below their one-year average across the CEE region except for Romania. Rates were stable last week.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
15-Jul							
	RO	Current Account Balance	May			-2306	
9:00	SK	CPI (y/y)	Jun		2.7%	2.7%	Compared to May, y/y pace of inflation likely to have remained constant.
9:00	SK	CPI (m/m)	Jun		0.1%	0.3%	Minor monthly uptick in consumer prices expected.
10:00	PL	CPI (y/y)	Jun F			2.6%	
10:00	PL	CPI (m/m)	Jun F			0.3%	
14:00	PL	Trade Balance	May	-12		279	
16-Jul							
11:00	HR	CPI (y/y)	Jun		0.8%	0.9%	Inflation movements expected to remain in tight band around 1% mark.
11:00	HR	CPI (m/m)	Jun			0.6%	
17-Jul							
9:00	CZ	PPI (y/y)	Jun	3.2%		3.8%	
10:00	PL	Wages (y/y)	Jun	7.0%	8.3%	7.7%	Wage growth to accelerate further.
18-Jul							
10:00	PL	Industrial Production (y/y)	Jun	2.0%	4.2%	7.7%	Industrial production to drop due to negative calendar effect (-2 working days).
10:00	PL	PPI (y/y)	Jun	0.7%	0.7%	1.4%	Price pressure to remain low.
19-Jul							
	RS	Current Account Balance (nr	May			-194.3	
	SK	Unemployment Rate	Jun		4.9%	4.88%	Favorable labor market development expected to also have prevailed in June.
10:00	PL	Retail Sales (y/y)	Jun	5.7%	7.9%	7.3%	Retail sales to sustain strong momentum due to record-high consumer sentiment.
10:30	SI	PPI (y/y)	Jun			1%	
11:00	HR	Unemployment Rate	Jun			7.5%	
11:00	HR	Wages (y/y)	May			3%	

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia 10Y	1.10	1.10	1.00	1.00	1.00
spread (bps)	130	140	110	90	90
Czech Rep. 10Y	1.43	1.51	1.71	1.87	1.99
spread (bps)	164	181	181	177	189
Hungary 10Y	2.49	2.59	2.68	2.81	2.90
spread (bps)	269	289	278	271	280
Poland 10Y	2.31	2.40	2.50	2.55	2.65
spread (bps)	252	270	260	245	255
Romania10Y	4.57	4.70	4.90	5.10	5.20
spread (bps)	478	500	500	500	510
Slovakia 10Y	0.14	0.35	0.40	0.55	0.55
spread (bps)	35	65	50	45	45
Slovenia 10Y	0.31	0.15	0.20	0.20	0.20
spread (bps)	51	45	30	10	10
Serbia 5Y	3.23	2.80	3.00	2.90	2.70
DE10Y*	-0.21	-0.30	-0.10	0.10	0.10

FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2
EURHRK	7.39	7.40	7.42	7.42	7.38
forwards		7.39	7.39	7.39	7.39
EURCZK	25.61	25.55	25.30	25.14	24.88
forwards		25.74	25.86	26.00	26.14
EURHUF	325.8	325.0	325.0	325.0	325.0
forwards		326.3	327.0	327.6	328.3
EURPLN	4.27	4.28	4.30	4.31	4.30
forwards		4.29	4.31	4.34	4.36
EURRON	4.73	4.75	4.77	4.79	4.82
forwards		4.77	4.81	4.85	4.90
EURRSD	117.8	117.7	118.0	118.0	117.8
forwards		-	-	-	-
EURUSD	1.13	1.10	1.13	1.15	1.18

3M Money Market Rate						Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2		current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.47	0.50	0.50	0.50	0.50	Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	2.17	2.16	2.16	2.22	2.36	Czech Republic	2.00	2.00	2.00	2.00	2.25
Hungary	0.25	0.25	0.25	0.35	0.45	Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.72	1.72	1.72	1.72	1.72	Poland	1.50	1.50	1.50	1.50	1.50
Romania	3.16	3.40	3.40	3.30	3.30	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.68	2.45	2.48	2.47	2.48	Serbia	2.75	2.50	2.50	2.50	2.50
Eurozone	-0.36	-0.30	-0.30	-0.30	-0.30	Eurozone	0.00	0.00	0.00	0.00	0.00

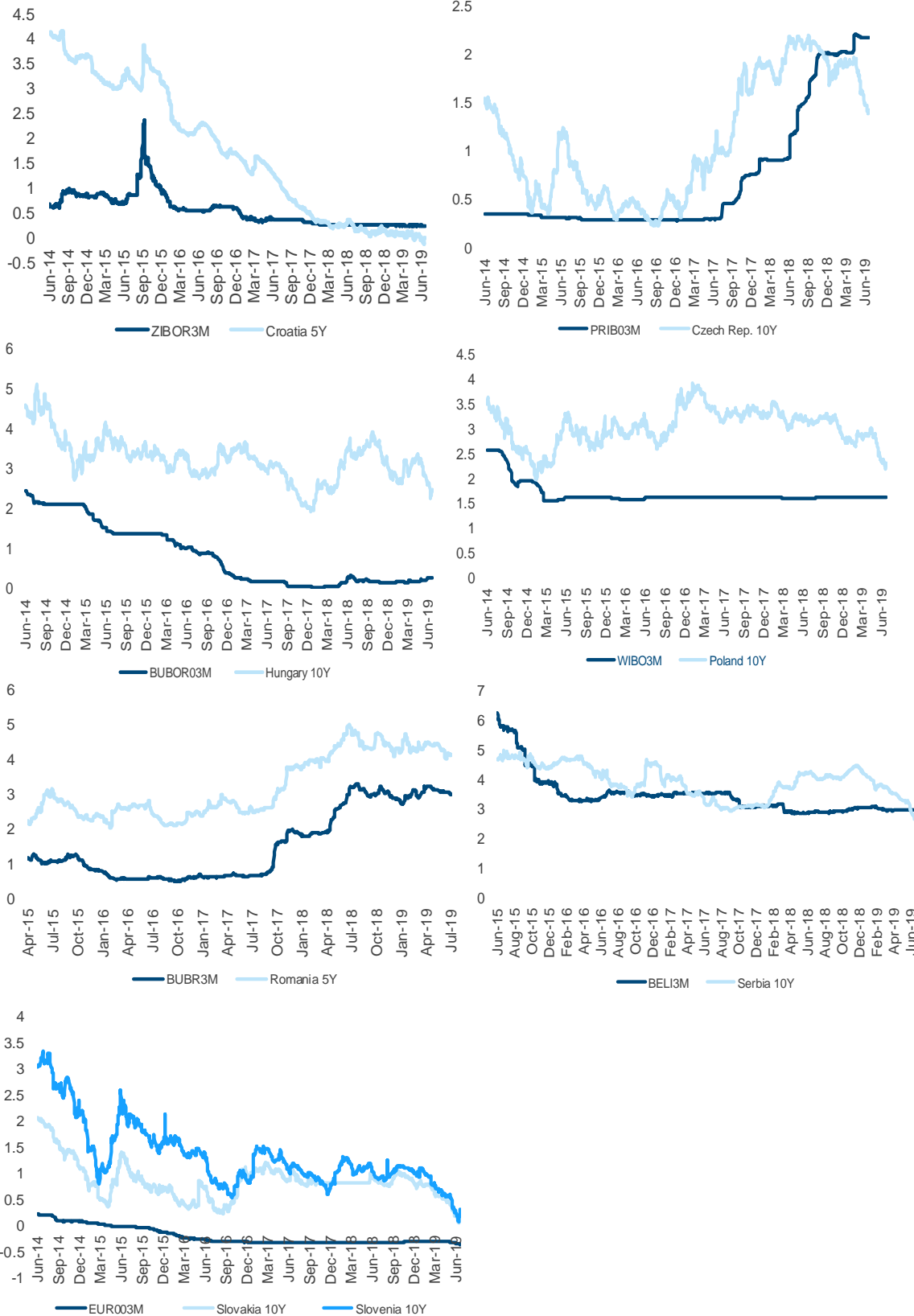
Macro forecasts

Real GDP growth (%)					Average inflation (%)					Unemployment (%)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	2.9	2.6	3.2	2.5	Croatia	1.1	1.5	1.0	1.3	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	3.3	Hungary	2.4	2.8	3.3	3.3	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	3.8	Romania	1.3	4.6	4.0	3.3	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	2.7	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	71.2	68.9	Croatia	3.7	2.6	1.4	-0.1	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	34.5	36.0	Romania	-3.2	-4.5	-4.8	-5.2	Romania	-2.7	-3.0	-3.0	-4.0
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	0.70	0.8
CEE8 average	50.3	48.4	46.9	45.7	CEE8 average	0.2	-0.9	-1.0	-1.1	CEE8 average	-1.0	-0.7	-1.2	-1.1

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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