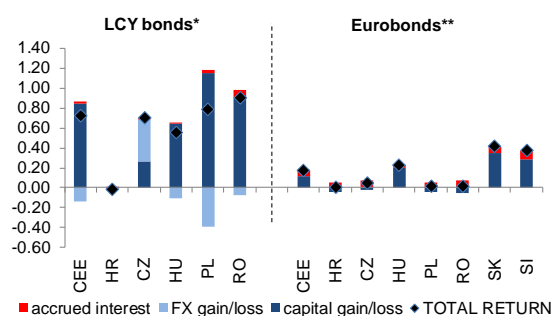
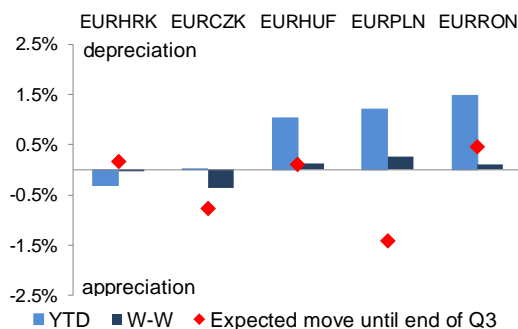


CEE Market Insights

Market outlook

Global trade disputes are pulling local currencies onto a roller-coaster ride, with some of them seeing separate moves in their own right. Volatility could remain high while domestic macro news is somewhat off the table this week. The koruna was somewhat strong, as Governor Rusnok calmed down any expectations for easing. For the time being, we also keep our forecast of unchanged rates intact, which could help the koruna. The zloty already weakened a lot recently, also likely due to illiquidity last week. This has already started to reverse, and we think this appreciation could continue. The Hungarian forint could be relatively weak, however, as the central bank poured in a lot of extra liquidity with FX swaps last week.

Spreads continued to tighten in Poland and in Hungary last week, more than just following the plummeting of global yields. While yield declines were aggressive recently, creating some room for a possible increase, we have still cut our yield forecasts for Hungary and the Czech Republic. Only a mild increase is expected in the absence of more reassuring global economic news. For Poland, we also perceive some risk to the downside, but we have just recently cut our yield outlook there, and thus, a forecast change seems a bit premature.



Looking ahead this week:

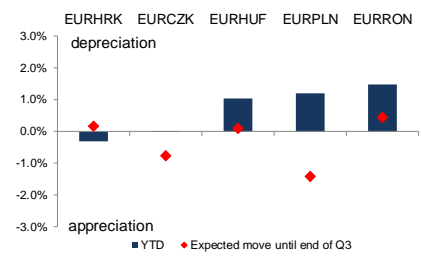
Monday	Tuesday	Wednesday	Thursday	Friday
SK: Unemployment HR: Unemployment, Wages	PL: Wages	PL: Industry, PPI SI: PPI	PL: Retail	

Shortly after last week's 2Q19 GDP releases confirmed a more or less pronounced economic slowdown in the region, Poland will publish data on industry and retail sales performance in July. This is important to watch, as it may give some indication of how extensive the slowdown might be. Especially as to whether economic activity in June was particularly weak not only in Poland, but also across the whole region. In the Czech Republic, market sentiment indicators may also shed more light on whether June's rather poor economic activity was a one-off or not. Labor market data is also due next week. In Slovakia and Croatia, the unemployment rate has been on a downward trend, while in Poland, the market expects employment to grow further and wage growth to sustain close to 7% y/y dynamics.

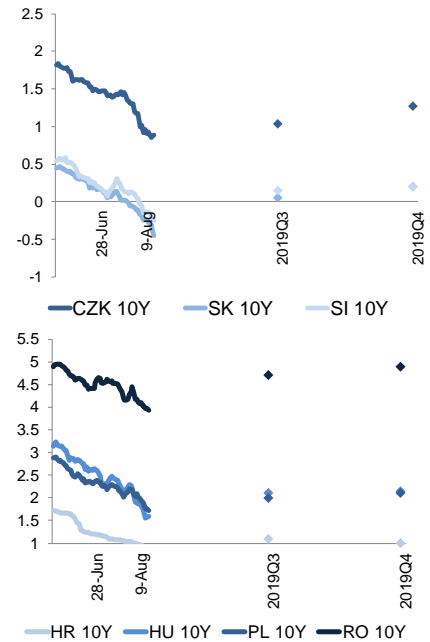
In case you missed it last week...

- CZ: [Favorable economic development in 2Q](#), while [inflation moved closer to 3% y/y](#) in July
- HU: [Marginal slowdown](#) of Hungarian economy in 2Q19
- HU: Fitch affirmed Hungary's rating at BBB
- PL: [GDP growth in 2Q sustained solid dynamics](#) despite worsening external environment.
- SK: [Disappointing GDP data](#) implies downward revision of this year's growth while [inflation went notch up](#)
- RO: [Economic growth](#) marked some slowdown amid rising [inflation above 4% y/y](#) in July
- HR: [July's inflation overshoot expectations](#) (1.0% y/y vs. 0.6% y/y forecast)
- RS: [Inflation](#) remained subdued in July

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

The most important macro indicators will be released this week from the Eurozone. Purchasing Managers' Indices will give the first indication as to how the economy as a whole, and in large member countries, fared in July. From the US, the most important determinant for the EURUSD will be Fed Chairman Powell's speech on the challenges for monetary policy at the Jackson Hole Symposium at the end of the week.

CEE currencies:

Currencies in the region continued their relative divergent moves last week as local factors also played a role in addition to turbulent news surrounding tariffs in the US-China trade war. Now it was the Czech koruna that fared relatively well vs. the Polish zloty and the Hungarian forint: this has to do a lot with rate moves, as rates fell the least in the Czech Republic while they continued their large decline in Hungary and in Poland. As for the zloty, it jumped on a roller-coaster ride last week, but on Friday, after hefty weakening earlier in the week, the currency got a boost amid (this time) positive sentiment on global markets. As we do not think there will be a rate change at least until the end of next year, while the market is now starting to believe in such a scenario, we see the zloty firming in the upcoming weeks. The forint may remain volatile or even weaken further, in our view, as the central bank poured HUF liquidity in on Friday by increasing the total stock of FX-swaps by HUF 150bn to HUF 2,003bn, a record high. Even if we know from the MNB that it is the liquidity surplus that we should be watching, this seems a large increase to make any appreciation of the HUF on the short run rather counterintuitive. Investors also have to bear in mind that there are bank holidays in Hungary on August 19-20, likely rendering the FX market rather illiquid, where it is easier to move prices. Other currencies remained relatively stable, with the Romanian leu showing slight weakening vs the euro.

CEE rates and yields:

Following the continued decline in German Bund yields, CEE bonds continued to rally, with Hungarian and Polish spreads narrowing further over German Bunds. Czech bond yields showed only a small decline, however, as did interest rate swaps: the latter only fell 10-15bp over the curve, which looks mild vs. the decreases on the zloty and forint swaps curves (15-25bp). This may have something to do with Czech central bank governor Rusnok's words that he thinks there is a very low chance of monetary easing in the upcoming quarters, and that the policy rate may be kept at 2%. Against the backdrop of a strong ongoing decrease of global rate expectations, this comment could sound somewhat hawkish. In Hungary, before the four-day holiday, the central bank poured in a substantial amount of additional liquidity with FX swaps, which is likely to cut short-term rates this week. As for our longer-dated yield forecasts, we have cut them in both the Czech Republic and Hungary, indicating only a mild increase in the upcoming months. While current moves on global government bond markets seem very aggressive and could cause some rebound in yields soon, a more lasting increase in yields could only come if reassuring comments appeared on global markets (i.e. a significant improvement in US-China or some follow-up on rumors about a possible German fiscal easing). In addition, it also could not be ruled out that the speculation on stronger ECB easing intensifies further. We also see some downward risks to our Polish yield forecasts.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
19-Aug							
	SK	Unemployment Rate	Jul			4.97%	
11:00	HR	Unemployment Rate	Jul			7.20%	
11:00	HR	Wages (y/y)	Jun			1.20%	
20-Aug							
10:00	PL	Wages (y/y)	Jul	7.0%	6.7%	5.30%	After weaker figure in June, we expect wage growth dynamics to move back towards 7%.
21-Aug							
10:00	PL	Industrial Production (y/y)	Jul	6.9%	6.5%	-2.70%	Positive calendar effect (+1WD) to support industrial performance.
10:00	PL	PPI (y/y)	Jul		0.4%	0.60%	Price pressure to remain sluggish due to low oil prices.
10:30	SI	PPI (y/y)	Jul			0.50%	
22-Aug							
10:00	PL	Retail Sales (y/y)	Jul	9.3%	7.0%	5.30%	We might observe first improvement of retail sales growth due to introduction of adjusted 500+ program as of July.

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia 10Y	0.92	1.10	1.00	1.00	1.00
spread (bps)	160	170	140	130	130
Czech Rep. 10Y	0.88	1.04	1.27	1.41	1.51
spread (bps)	157	164	167	171	181
Hungary 10Y	1.63	1.80	1.85	2.00	2.10
spread (bps)	231	240	225	230	240
Poland 10Y	1.72	2.00	2.10	2.15	2.20
spread (bps)	241	260	250	245	250
Romania10Y	3.92	4.70	4.90	5.10	5.20
spread (bps)	461	530	530	540	550
Slovakia 10Y	-0.46	-0.30	-0.15	0.00	0.05
spread (bps)	23	30	25	30	35
Slovenia 10Y	-0.24	0.15	0.20	0.20	0.20
spread (bps)	45	75	60	50	50
Serbia 5Y	2.71	2.80	3.00	2.90	2.70
DE10Y	-0.69	-0.60	-0.40	-0.30	-0.30

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	25.73	25.55	25.30	25.14	24.88
forwards		25.80	25.92	26.04	26.16
EURHUF	324.6	325.0	325.0	325.0	325.0
forwards		324.8	325.3	325.7	326.4
EURPLN	4.34	4.28	4.30	4.31	4.30
forwards		4.35	4.37	4.39	4.42
EURRON	4.73	4.75	4.77	4.79	4.82
forwards		4.75	4.78	4.82	4.86
EURRSD	117.8	117.7	118.0	118.0	117.8
forwards		-	-	-	-
EURUSD	1.11	1.10	1.10	1.12	1.15

3M Money Market Rate						Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2		current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.43	0.50	0.50	0.50	0.50	Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	2.14	2.16	2.16	2.22	2.36	Czech Republic	2.00	2.00	2.00	2.00	2.25
Hungary	0.26	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	3.09	3.40	3.40	3.30	3.30	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.05	2.45	2.48	2.47	2.48	Serbia	2.50	2.50	2.50	2.50	2.50
Eurozone	-0.42	-0.40	-0.50	-0.50	-0.50	Eurozone	0.00	0.00	0.00	0.00	0.00

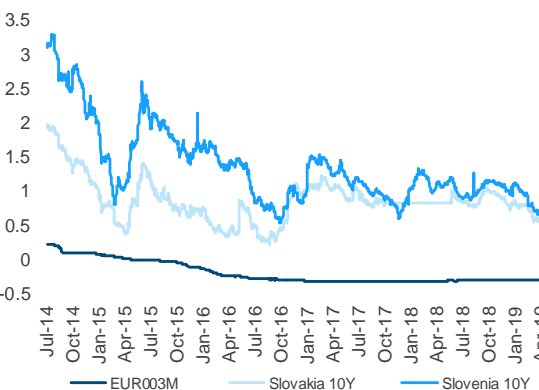
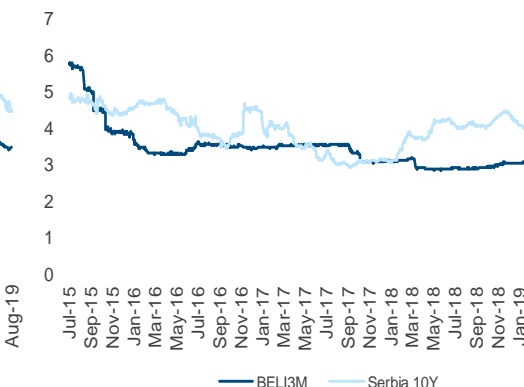
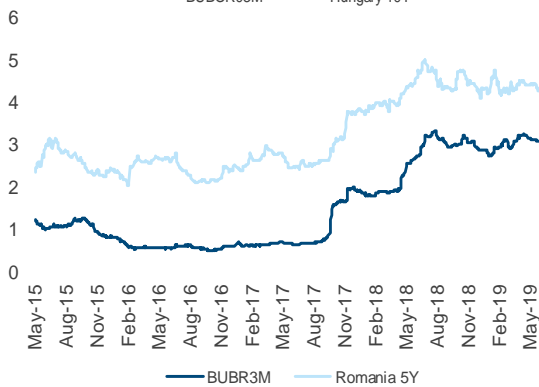
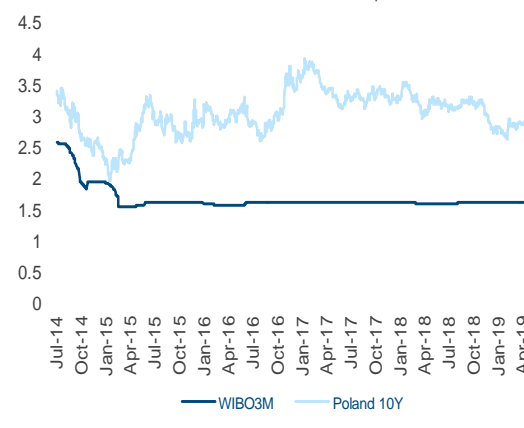
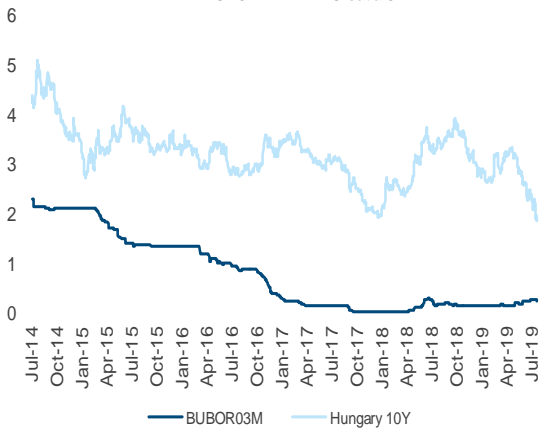
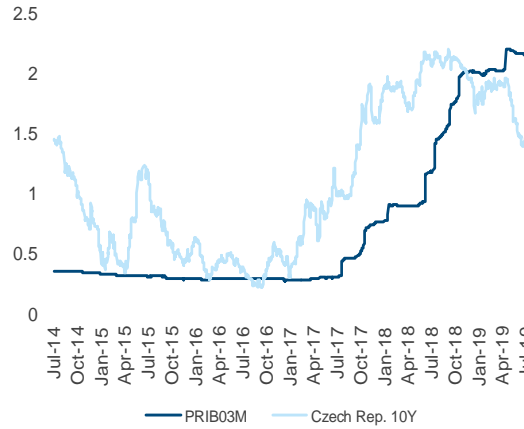
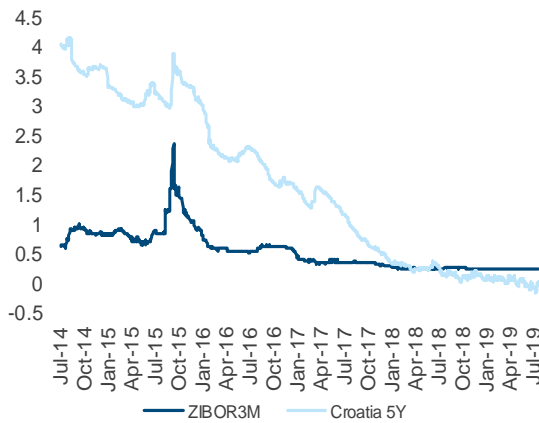
Macro forecasts

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	3.5	3.5
Poland	4.8	5.1	4.3	3.6	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	2.1	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	3.9	3.4	CEE8 average	1.9	2.4	2.7	2.7	CEE8 average	6.3	5.2	5.0	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	51.3	49.2	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.

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 Riefler-Kowarsch (Covered Bonds/Financials) +43 (0)5 0100 19632
 Rainer Singer (Euro, US) +43 (0)5 0100 17331
 Bernadett Povazsai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
 Elena Stalov, 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
 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
 Berke Gümüs +90 2129120445

Treasury – Erste Bank Vienna

Corporate Treasury Product Distribution AT

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 Kienesberger +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 Frieberthshäuser +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: Sarlota 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 Zeitberger-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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19 August 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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