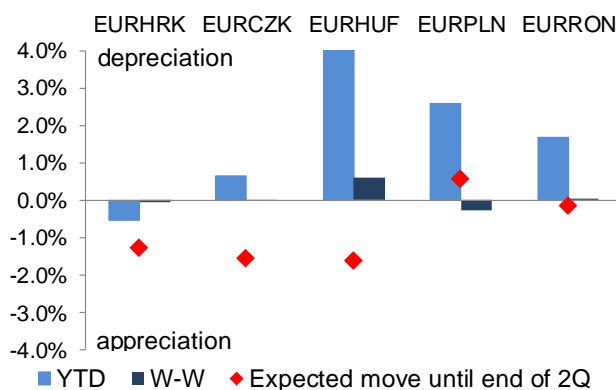




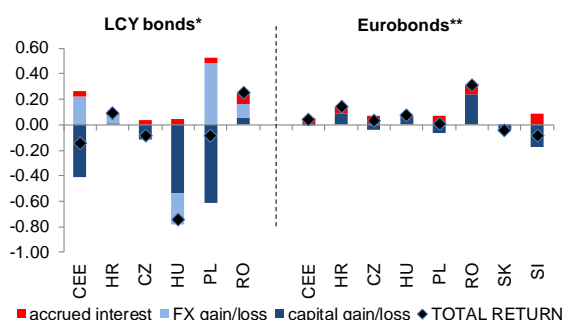
CEE Market Insights

Market outlook

The forint still seems to be the most sensitive to swings in market mood in the region, as evidenced by the relative underperformance of the HUF last week. Inflation also started to bare its teeth in Poland, but as the central bank may not react with tightening yet, this could limit the strength of the zloty, too. The Czech koruna could appreciate less than we envisaged earlier, and we thus put our EURCZK forecast under review. This is not just due to that the recent hike is unlikely to be followed by another one anytime soon, but also that Brexit problems, although temporarily delayed, are not gone and could undermine the currency later this year.



Yield increases last week could be partially explained by Bund yield movements, but for Poland and Hungary, 10Y yields went up more than their German counterpart. Polish yields are close to our year-end forecast. As for Hungary, while the spread over the Bund is around the highs seen in the last few years, this could be explained by central bank inaction, despite relatively high inflation. After last week's hike, Czech short-term rates are not expected to move up too much further in the coming months. The swap curve is still inverted in Czechia.



Looking ahead this week:

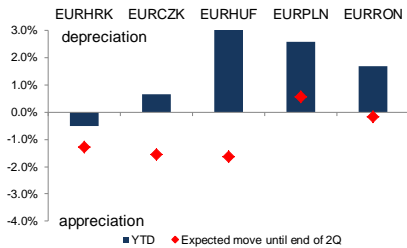
Monday	Tuesday	Wednesday	Thursday	Friday
HU, SK, RO: Retail Sales	CZ: Retail Sales RS: PPI	HU: Industry HR: PPI	CZ, HU, SK, HR: Trade CZ: Industry HU: CPI RS: Target Rate	RO, SI: Trade Balance, CZ: Unemployment SK, SI: Industry

This week, many CEE countries will release their retail sales and industrial output data for March, which will be the last set of monthly indicators published before next week's 1Q19 GDP flash estimates. This will allow us to refresh our GDP now-casts and provide them alongside our official forecasts in the next Insights. On Tuesday, the European Commission will publish their Spring Forecasts, which, besides an updated macroeconomic outlook, will provide the first assessment of the fiscal situation in EU member countries. The most interesting will be to compare the deficits forecasted by the EC for 2019 with those presented by governments in their Stability Programs or Convergence Reports in April. Give that structural deficits will be disclosed as well, we will see whether countries are seen to converge with their medium-term objective targets (MTOs). On Wednesday, Hungary will release April inflation, which is going to climb to 4% (the upper bound of the tolerance band), according to our estimate. On Thursday, the Serbian central bank is going to hold its MPC meeting. We expect rates to remain on hold (3%).

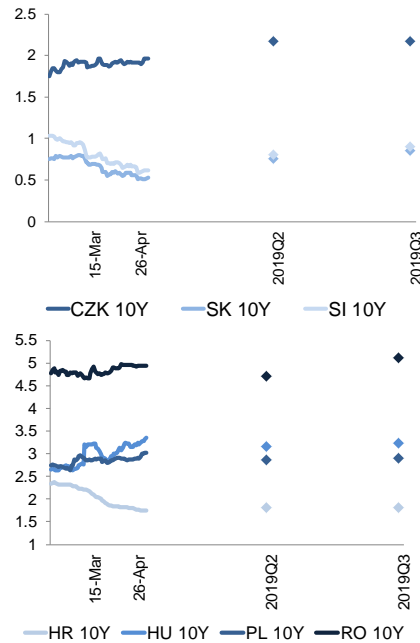
In case you missed it last week...

- CZ: CNB hiked rates by 25bp, policy rate stands at 2%; we have put our EURCZK forecast under review
- HU: MPC left policy rate flat at 0.9%
- PL: Flash CPI surprised visibly to upside, arriving at 2% y/y in April
- RS: 1Q19 GDP moderated to 2.3% y/y; industry contracted 2.8% y/y; retail trade was up 9.5% y/y in March
- HR: Industry grew 3.0% y/y in March and real retail trade arrived at 5.7% y/y

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

This week, the EURUSD will likely focus on two events. Firstly, the European Commission will issue its macroeconomic spring forecasts. Eurozone 1Q GDP growth surprised on the upside and markets will be looking for confirmation of the improved assessment. In the US, CPI figures will be released. Here, the crucial issue will be if and in which direction core inflation moves.

CEE currencies:

Incoming news on hefty wage pressure (gross average wages went up 12.1% y/y in February) and continued central bank inaction left their marks on the Hungarian forint, which fell against the euro last week overall, while other regional currencies fared much better. The central bank could remain on hold with any further step until the next inflation report (due in June), and thus the forint may remain one of the most sensitive in the region. Poland also saw an unexpectedly high inflation reading (2.2% y/y vs. our 1.7% call for April), but the central bank is still not expected to react this year with tightening. This could also limit the strength of the Polish zloty; we maintain our forecast for the EURPLN at slightly above 4.30 for the second half of 2019. With the central bank having carried out another hike last week, the Czech koruna could still appreciate less than we envisaged earlier, and thus we put our EURCZK forecast under review. This is not just due to the fact that the hike is unlikely to be followed by another one anytime soon (perhaps not even this year), but also that Brexit problems, although temporarily delayed, are not gone and could undermine the currency later this year. The CNB is also expected to introduce a new forecasting framework, which could move their EURCZK forecast towards weaker koruna levels.

CEE rates and yields:

Rates and yields generally went up last week in the region. This is partially explained by Bund yield movements, but for Poland and Hungary, 10Y yields went up more than their German counterpart. Polish developments could be explained by higher inflation; current yield levels are still close to our year-end forecast. As for Hungary, growth was very impressive in yields thus far in 2Q19 (more than 40bp). Looking at spreads over German Bunds, the difference is close to 330bp, which is around the highs seen since the beginning of 2017. While this level may sound large at first, central bank inaction against the backdrop of high inflation (we see CPI growing to 4.0% y/y in this week's release) may underpin such a high spread for the longer end of the curve. As for Czech rates, markets seem to concur with our view that there may not be quick rate increases after last week's 25bp move; the 6X9 and 9X12 FRAs are just 2-3 basis points above that of the 3X6 FRA, while the difference was still 35-45bp in November last year. The swap curve is still inverted in Czechia, which speaks somewhat against further strong tightening, even if labor markets are super-tight and wages are soaring.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
6-May							
8:00	RO	Retail Sales (y/y)	Mar		8.9%	9.5%	Retail sales gained speed in recent months, after hesitant path in 2H18.
9:00	HU	Retail Sales (y/y)	Mar		6.5%	8.4%	Robust real wage growth indicates no major decrease in internal demand; however, slight downward correction might have happened in retail sales figures, hand in hand with negative Easter effect.
9:00	SK	Retail Sales (y/y)	Mar		0.3%		After disappointing February, retail sales should have marked small improvement in March, supported by still favorable labor market development.
7-May							
9:00	CZ	Retail Sales (y/y)	Mar		3.2%	3.8%	Growth of retail sales remains sound, mainly due to tight labor market and positive sentiment of households. March figure was negatively effected by calendar effects (Easter).
12:00	RS	PPI (y/y)	Apr			1.3%	
8-May							
9:00	HU	Industrial Production (y/y)	Mar	6.3%	6.2%	5.9%	Despite weakening industrial prospects in Europe, sector's performance in Hungary has so far proved resilient. Internal manufacturing processes might not be independent of negative
11:00	HR	PPI (y/y)	Apr			2.23%	
9-May							
9:00	CZ	Trade Balance	Mar		14.50	40.72	Despite relatively unfavorable economic figures coming from Germany, trade balance stays in surplus. However, part of March development was caused by positive seasonal effect.
9:00	CZ	Industrial Production (y/y)	Mar	0.9%	0.9%	1.5%	Besides lack of new available employees and high utilization of capacities, industrial output growth has been negatively influenced by slowdown in Eurozone.
9:00	HU	CPI (y/y)	Apr	4.0%	4.0%	3.7%	Fuel prices skyrocketed in April and this fact, coupled with strong seasonal effects in case of foods, services and clothes, could have led to continued acceleration of headline inflation.
9:00	HU	Trade Balance	Mar P			816	
9:00	SK	Trade Balance	Mar		325.00	283.6	Despite external headwinds, foreign trade surplus should remain solid, aided by contribution of Jaguar Land Rover's new car plant.
11:00	HR	Trade Balance	Feb		-5549.00	-5451	February trade balance reveals strong growth on both export and import sides.
12:00	RS	Target Rate	May 9		3.0%	3%	We see CB on hold throughout 2019.
10-May							
8:00	RO	Trade Balance	Mar		-1.30	-1152	Imports of goods are rising faster than exports.
9:00	SK	Industrial Production (y/y)	Mar		5.8%	5.6%	Industrial production is expected to have grown at good pace, mostly driven by car manufacturing (boost from new JLR plant).
9:00	SK	Wages (y/y)	Mar			5.4%	
9:00	CZ	Unemployment rate	Mar	2.8%		3.0%	
10:30	SI	Industrial Production (y/y)	Mar		4.1%	4.3%	Vivid growth pace on industrial production side seen extending into March.
10:30	SI	Trade Balance	Mar		150.00	0.1	Favorable trade balance trends continue.

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia 10Y	1.74	1.80	1.80	1.80	1.90
spread (bps)	171	163	154	145	151
Czech Rep. 10Y	1.96	2.17	2.17	2.33	2.44
spread (bps)	193	200	191	198	205
Hungary 10Y	3.35	3.14	3.23	3.40	3.46
spread (bps)	332	297	297	305	307
Poland 10Y	3.02	2.85	2.90	3.00	3.10
spread (bps)	299	268	264	265	271
Romania10Y	4.95	4.70	5.10	5.20	5.40
spread (bps)	491	453	484	485	501
Slovakia 10Y	0.53	0.75	0.85	0.85	0.95
spread (bps)	49	58	59	50	56
Slovenia 10Y	0.62	0.80	0.90	0.90	1.00
spread (bps)	58	63	64	55	61
Serbia 5Y	3.90	3.96	3.90	3.93	3.95
DE10Y (BBG)*	0.04	0.17	0.26	0.35	0.39

3M Money Market Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.49	0.50	0.50	0.50	0.50
Czech Republic	2.20	2.18	2.18	2.18	2.24
Hungary	0.16	0.22	0.30	0.45	0.60
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.31	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	7.41	7.32	7.42	7.45	7.42
forwards		7.41	7.41	7.41	7.41
EURCZK	25.71	25.30	25.10	24.80	24.65
forwards		25.74	25.74	25.74	25.74
EURHUF	323.5	319.0	320.0	322.0	322.0
forwards		326.8	326.8	326.8	326.8
EURPLN	4.29	4.31	4.32	4.29	4.29
forwards		4.29	4.29	4.29	4.29
EURRON	4.76	4.75	4.75	4.77	4.79
forwards		4.76	4.76	4.76	4.76
EURRSD	117.9	117.5	117.9	118.2	118.0
forwards		-	-	-	-
EURUSD	1.11	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	-

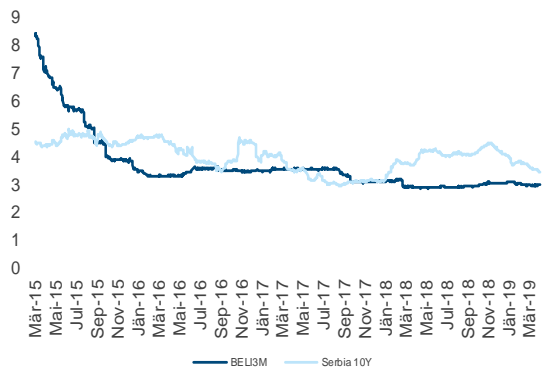
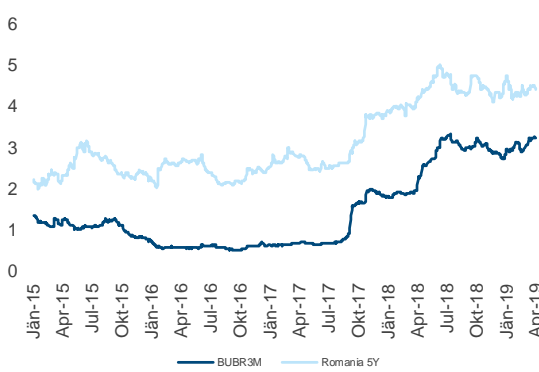
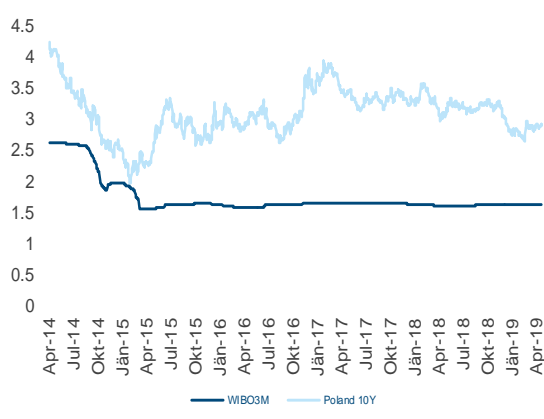
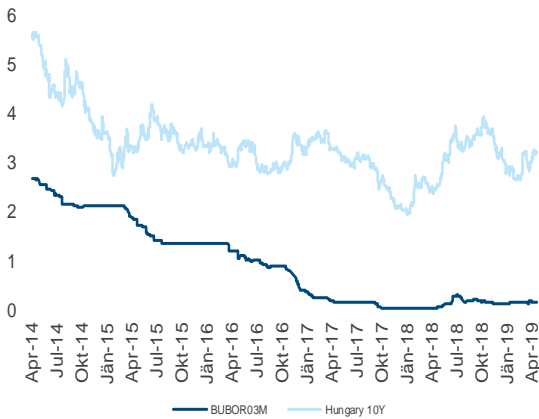
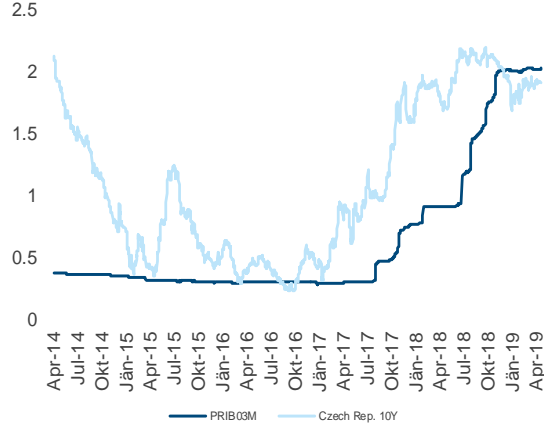
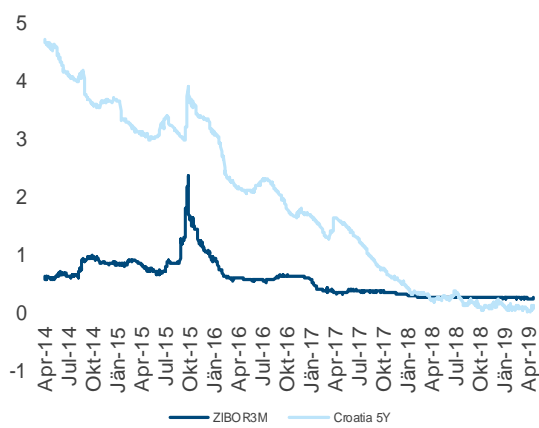
Macro forecasts

Real GDP growth (%)	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	8.4	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	3.8	2.9	Hungary	2.4	2.8	3.1	2.9	Hungary	4.2	3.7	3.6	3.5
Poland	4.8	5.1	4.2	3.4	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	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	3.2	2.0	2.3	2.4	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	3.5	3.3	CEE8 average	1.9	2.4	2.3	2.4	CEE8 average	6.2	5.3	5.2	5.2

Public debt (% of GDP)	2017	2018f	2019f	2020f	C/A (%GDP)	2017	2018f	2019f	2020f	Budget Balance (%GDP)	2017	2018f	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	-0.4	-0.5	-0.7	Poland	-1.4	-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	57.9	53.8	51.5	49.2	Serbia	-5.2	-5.2	-5.5	-5.2	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	48.9	47.8	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	50.2	48.3	47.9	46.9	CEE8 average	0.1	-0.7	-1.0	-1.0	CEE8 average	-0.9	-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



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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06 May 2019

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