

CEE Market Insights

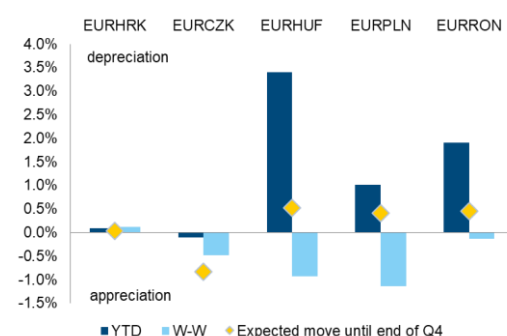
Mixed inflation expectations and another rate cut in Serbia

Week ahead

Many important macro releases and events are scheduled this week. In Romania, the parliament will hold a no-confidence vote against the government on Thursday. We see a possibility that the motion will be passed, but the vote could easily go either way. After a somewhat softer inflation print for September in Poland, other CEE countries will publish CPI figures this week. In Hungary and Romania, we expect inflation to land marginally below recent figures, while in Serbia and Czechia it is expected to accelerate. The Serbian central bank is holding a rate-setting meeting. We suspect that the NBS may cut again. Amid low inflation, foreign flows intensified after the Fitch upgrade, putting pressure on the FX rate and restating the need for intervention. Last but not least, we will get to see industrial output growth in Czechia, Hungary, Slovakia and Slovenia.

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

FX market performance

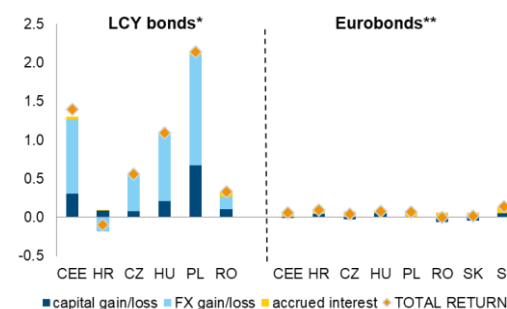


Source: Bloomberg, Erste Group Research

FX market developments

Regional currencies advanced throughout the week, with the zloty and forint outperforming peers. The zloty appreciated more visibly after the ECJ ruling. Apart from global factors, the koruna was supported by slightly hawkish CNB communication. The Serbian central bank continues with the interventions (EUR 40mn on a daily basis). We suspect that the NBS will cut the policy rate again, as foreign flows intensified after Fitch upgraded Serbia's outlook, putting pressure on the FX rate. The upgrade of the Czech rating Moody's by one notch to Aa3 could be perceived as a slight surprise to markets, and therefore could support the CZK in the upcoming days. This could be limited, however, given that external woes could weigh on the koruna.

Performance of 5Y bonds



Source: Bloomberg, Erste Group Research

Bond market developments

The long end of the curve began to move down again following the drop in 10Y UST after the weak ISM manufacturing index hit the lowest level in a decade. In Hungary, the 10Y yield is already 15bp lower than a week ago, while in Poland long-term rates dropped 11bp. Other countries, apart from Romania, also experienced a 10Y rate decrease. Romania successfully issued a 2026 bond, facing strong demand after three failed auctions in the previous month. Weak data releases in US ask for further monetary easing that may push yields in the region further down. Czechs may also get some slight support from the rating upgrade over the weekend, but this could be limited, as yields already fell to levels consistent with the upgraded rating.

In case you missed

CEE: Solid retail sales print in [RS](#), [HR](#), [RO](#) and [HU](#), while [SK](#) remains outlier
 CEE: Mixed picture from industry. In [Serbia](#), it recovered moderately, while in [Croatia](#) we saw contraction.
 CZ: [Moody's upgraded Czech sovereign rating](#) to Aa3 with stable outlook.
 PL: [ECJ decided on FX mortgages](#). Abusive indexation clauses to be removed from contracts.
 PL: [Inflationary pressure somewhat eased](#) in September, supporting [dovish MPC](#).
 RO: [Flat policy rate](#). We expect rates to remain stable despite inflation staying above target.
 SI: [Milder inflation](#). Headline figure came in at 1.7% y/y in September.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
07. Oct		CZ	Trade Balance	Aug			34.18	
	9:00	CZ	Industrial Production (y/y)	Aug	-2.9%		0.1%	
	9:00	HU	Industrial Production (y/y)	Aug	4.9%	4.2%	8.72%	Moderating PMI figures and possible summer stoppages suggest slowdown after outstanding July figures. Huge volatility of monthly indexes should, however, remain intact.
	12:00	RS	PPI (y/y)	Sep				
08. Oct	8:00	RO	Wages (y/y)	Aug		15.6%	15.2%	Strong wage growth in both public and private sector.
	9:00	CZ	Retail Sales (y/y)	Aug	3.0%		6.2%	
	9:00	HU	CPI (y/y)	Sep	3.0%	2.8%	3.1%	Base effect and moderating price pressure of industrial products imply further slowdown of headline CPI rate.
09. Oct	9:00	HU	Trade Balance	Aug P	-50	-50	203.8	
	9:00	SK	Trade Balance	Aug		102	-110.62	After drop in July, linked to summer breaks, we expect trade balance to have returned to surplus in August.
	11:00	HR	PPI (y/y)	Sep			-0.3%	
	11:00	HR	Trade Balance	Jul			-5274.5	
10. Oct		SK	Industrial Production (y/y)	Aug		3.6%	3.3%	Mild acceleration in industrial production expected, following summer breaks in July.
	8:00	RO	Trade Balance	Aug		-1.7	-1755.5	Trade deficit probably deteriorated due to rising imports and weak exports.
	8:00	RO	GDP (q/q)	2Q F		1.0%	1.02%	
	8:00	RO	GDP (y/y)	2Q F	4.4%	4.4%	4.43%	Investments strengthened in 2Q19, but short-term outlook not very positive due to pressure on budget deficit.
	9:00	CZ	CPI (y/y)	Sep	2.8%		2.9%	
	10:30	SI	Industrial Production (y/y)	Aug		4.9%	5%	Industrial production expected to maintain stable growth pace in August.
	10:30	SI	Trade Balance	Aug		-35	0.94	Rising import pressures weighing on trade balance.
	12:00	RS	Target Rate	Oct 10		2.3%	2.5%	Foreign interest in Serbian assets intensified after Fitch upgraded outlook; hence heavy interventions from CB in last 10 days. As inflation still low and close to lower bound of target range, we pencil in cut of 25bp to 2.25%.
11. Oct	8:00	RO	CPI (y/y)	Sep	3.7%	3.7%	3.89%	Inflation still above NBR's target, with pressure also on core inflation.
	9:00	SK	Wages (y/y)	Aug			7.5%	
	12:00	RS	CPI (y/y)	Sep		1.8%	1.3%	We see only moderate acceleration of inflation pattern, with FY19 CPI average likely landing around 2.1% y/y.

Source: Erste Group Research

Forecasts

Government bond yields

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia 10Y	0.5	0.4	0.4	0.4	0.4
spread (bps)	110	80	80	80	70
Czechia 10Y	1.2	1.5	1.6	1.7	1.7
spread (bps)	183	188	200	208	204
Hungary 10Y	1.8	2.1	2.2	2.2	2.2
spread (bps)	242	249	255	261	255
Poland 10Y	1.9	2.1	2.2	2.2	2.2
spread (bps)	248	250	255	260	250
Romania10Y	4.1	4.4	4.5	4.5	4.6
spread (bps)	469	480	490	490	490
Slovakia 10Y	-0.3	-0.1	0.1	0.1	0.2
spread (bps)	29	35	45	50	50
Slovenia 10Y	-0.05	0.00	0.00	0.00	0.00
spread (bps)	55	40	40	40	30
Serbia 5Y	2.7	3.0	2.9	2.7	2.5
spread (bps)	329	340	330	310	280
DE10Y	-0.6	-0.4	-0.4	-0.4	-0.3

3M Money Market Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.45	0.50	0.50	0.50	0.50
Czechia	2.17	2.13	2.12	2.12	2.12
Hungary	0.21	0.21	0.22	0.25	0.25
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.07	3.00	2.90	2.90	3.20
Serbia	1.99	2.00	1.90	1.80	1.70
Eurozone	-0.42	-0.50	-0.50	-0.50	-0.50

Real GDP growth (%)

	2017	2018	2019f	2020f
Croatia	2.9	2.6	3.2	2.5
Czechia	4.5	2.9	2.6	2.7
Hungary	4.1	4.9	4.6	3.3
Poland	4.8	5.1	4.2	3.4
Romania	7.0	4.1	4.5	3.8
Serbia	2.0	4.3	3.3	3.5
Slovakia	3.2	4.1	2.5	2.3
Slovenia	4.8	4.1	3.0	2.7
CEE8 avg	4.7	4.3	3.8	3.2

Public debt (% of GDP)

	2017	2018	2019f	2020f
Croatia	77.8	74.6	71.3	69.3
Czechia	34.6	32.7	31.0	30.1
Hungary	73.4	70.8	68.2	66.2
Poland	50.6	48.9	48.0	46.5
Romania	35.2	35.0	34.5	36.0
Serbia	59.3	53.6	50.4	47.9
Slovakia	50.9	48.9	48.2	47.4
Slovenia	74.1	70.4	66.2	62.8
CEE8 avg	50.3	48.4	46.9	45.8

FX

	current	2019Q4	2020Q1	2020Q2	2020Q3
EURHRK	7.42	7.42	7.42	7.38	7.40
forwards		7.42	7.42	7.42	7.42
EURCZK	25.71	25.50	25.34	25.04	24.86
forwards		25.83	25.98	26.12	26.27
EURHUF	332.61	334.00	335.00	335.00	335.00
forwards		333.04	333.40	333.90	334.47
EURPLN	4.33	4.35	4.35	4.35	4.34
forwards		4.35	4.38	4.40	4.42
EURRON	4.75	4.77	4.79	4.82	4.85
forwards		4.79	4.83	4.87	4.92
EURRSD	117.47	118.00	118.00	117.70	117.70
forwards		-	-	-	-
EURUSD	1.10	1.10	1.12	1.15	1.15

Key Interest Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.3	0.3	0.3	0.3	0.3
Czechia	2.0	2.0	2.0	2.0	2.0
Hungary	0.9	0.9	0.9	0.9	0.9
Poland	1.5	1.5	1.5	1.5	1.5
Romania	2.5	2.5	2.5	2.5	2.5
Serbia	2.5	2.5	2.5	2.5	2.5
Eurozone	0.0	0.0	0.0	0.0	0.0

Average inflation (%)

	2017	2018	2019f	2020f
Croatia	1.1	1.5	1.0	1.0
Czechia	2.5	2.1	2.6	2.2
Hungary	2.4	2.8	3.3	3.3
Poland	2.0	1.6	2.2	2.7
Romania	1.3	4.6	3.9	3.3
Serbia	3.2	2.0	2.1	1.9
Slovakia	1.3	2.5	2.6	2.3
Slovenia	1.4	1.7	1.8	2.1
CEE8 avg	1.9	2.4	2.6	2.6

C/A (%GDP)

	2017	2018	2019f	2020f
Croatia	3.7	2.6	1.5	0.1
Czechia	1.7	0.3	0.4	0.5
Hungary	2.3	-0.5	-0.9	-0.1
Poland	0.2	-0.7	-0.5	-0.7
Romania	-3.2	-4.5	-4.8	-5.2
Serbia	-5.2	-5.2	-6.9	-6.6
Slovakia	-2.0	-2.5	-2.8	-1.6
Slovenia	6.1	5.7	5.0	4.1
CEE8 avg	0.1	-1.0	-1.2	-1.2

Unemployment (%)

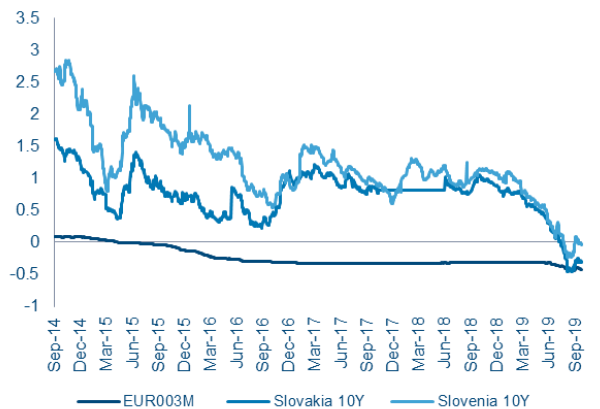
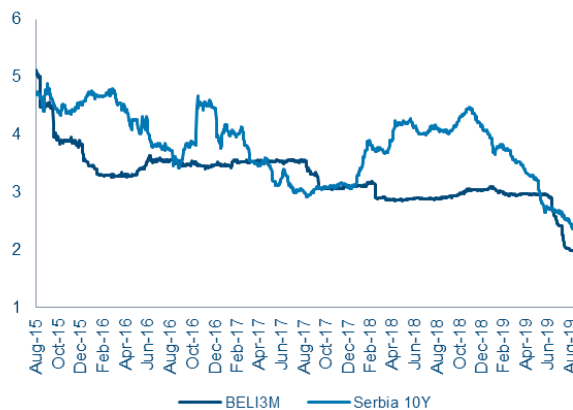
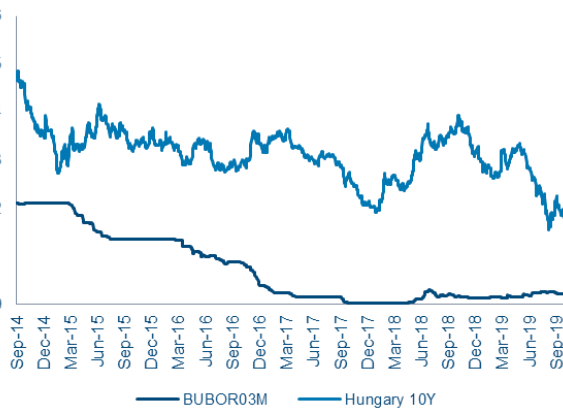
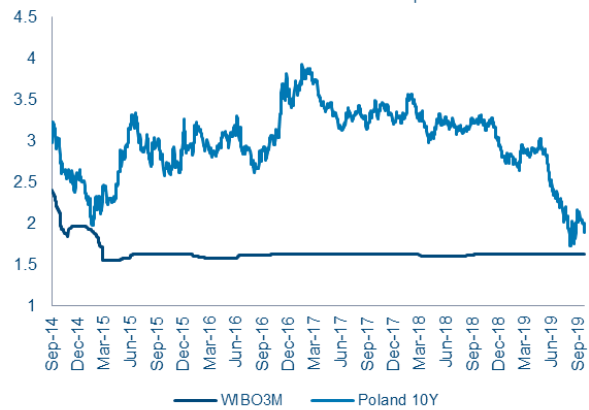
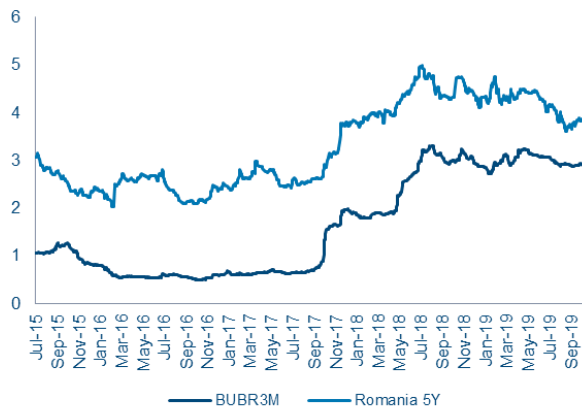
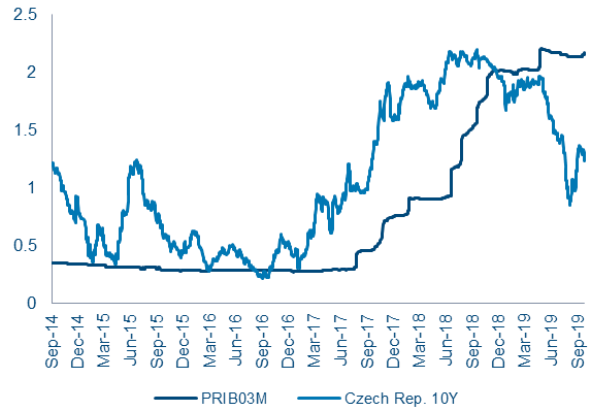
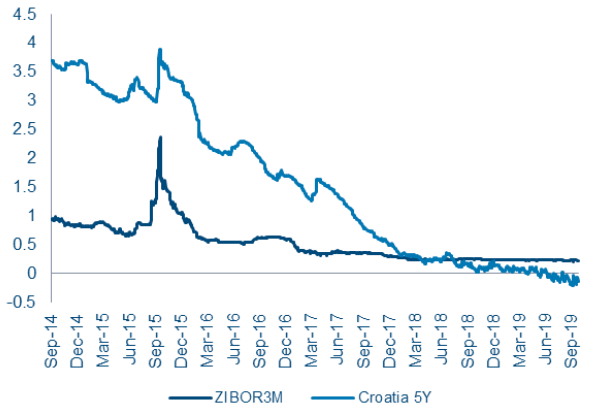
	2017	2018	2019f	2020f
Croatia	11.3	8.4	6.8	5.8
Czechia	2.9	2.3	2.1	2.4
Hungary	4.2	3.7	3.4	3.4
Poland	7.3	6.1	5.6	5.8
Romania	4.9	4.2	3.8	4.0
Serbia	13.5	12.7	10.7	9.8
Slovakia	8.1	6.6	5.8	5.9
Slovenia	6.6	5.2	4.0	3.6
CEE8 avg	6.3	5.2	4.7	4.8

Budget Balance (%GDP)

	2017	2018	2019f	2020f
Croatia	0.8	0.2	0.0	-0.5
Czechia	1.6	0.9	0.6	0.3
Hungary	-2.2	-2.2	-1.8	-1.4
Poland	-1.5	-0.4	-0.7	-0.5
Romania	-2.7	-3.0	-3.0	-4.0
Serbia	1.1	0.6	0.3	0.0
Slovakia	-0.8	-0.7	-0.8	-0.7
Slovenia	0.0	0.0	0.7	0.8
CEE8 avg	-1.0	-0.7	-0.9	-1.0

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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