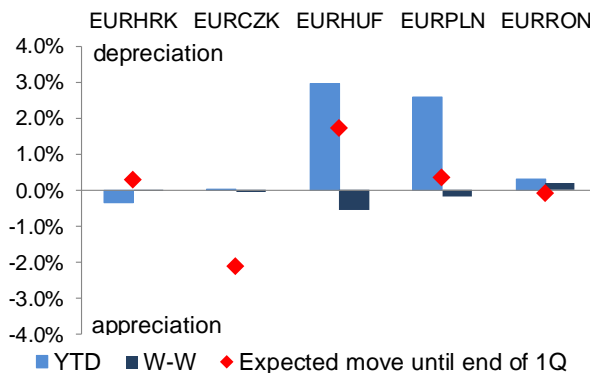




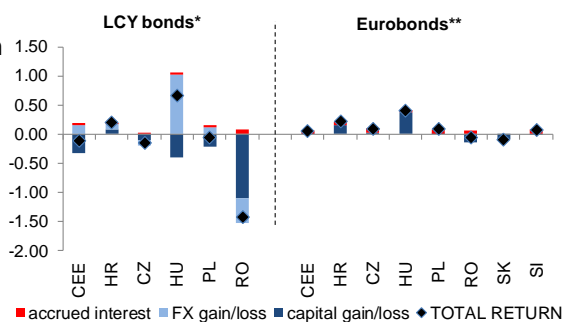
# CEE Market Insights

## Market outlook

The Romanian leu continued to depreciate in the aftermath of the unconventional government measures and remains at an all-time low (EURRON at 4.69-70). The Hungarian forint appreciated, backed by the central bank's comments expressing the commitment to normalize its monetary policy very slowly. The EURHUF went below 320 and is at the lowest level in half a year. The strengthening of the Polish zloty was marginal, as the EURPLN is locked at the 4.29 level. Furthermore, the Czech koruna has slowly approached its 4-month high (EURCZK 25.525), but this has regularly been offset by investors who have found the strong level to be a good opportunity to sell CZK.



Romanian bonds faced another increase of yields, as local financial institutions will be penalized for any assets held on their balance sheet with a charge of 120bp (unless something changes). This reduces the appetite of local financial institutions to purchase any government securities unless a substantial shift in pricing takes place. The RON has also depreciated, which has made Romanian assets the worst performers in CEE for the second week in row.



## Looking ahead this week:

Monday	Tuesday	Wednesday	Thursday	Friday
SI: PPI	PL: Retail sales		PL: Unemployment	HR: Unemployment, Wages RS: Wages

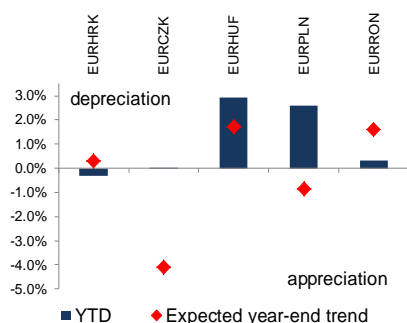
The release calendar will be rather empty this week, so markets will be driven by the ongoing discussion on Brexit in Britain and Thursday's ECB meeting. After the string of events last week in the UK, time will be running fast for Theresa May. Although the risk of a hard Brexit has increased (given the very fragile and indecisive situation in UK politics), such a hard Brexit has not been substantially priced in yet in government bond yields and exchange rates (with a risk-off mode supporting German Bunds and the Swiss franc). On the local market, it will be interesting to closely monitor the situation on the Romanian fixed income market, which has been strongly hit by the recently adopted unorthodox fiscal measures. In Poland, retail sales for December will be published on Tuesday; thus, we will have the complete set of indicators for 4Q18 that we use in our nowcast model for Poland. At the moment, our nowcast model predicts full-year growth for Poland at 5.1% y/y in 2018.

## In case you missed it last week...

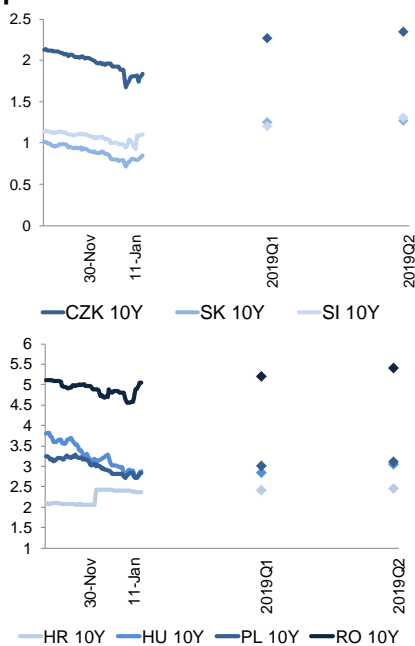
- CEE: We issued new [CEE Bond market report 1Q19](#) describing outlook for rates, yields and issuance
- CEE: We issued special reports [Challenges for CEE with new decade ahead](#) and [EURO-Slovak lessons](#)
- CEE: European Parliament supported legal solution of tying EU funds to rule of law
- HR: Governor Vujcic hinted that Croatia might send request to enter ERM2 in 2020
- RO: EURRON hit 4.70 last week and 10Y yields went up almost 40bp w/w

## FX and bond market stable in CEE

### YTD change on FX market



### 10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

### On global markets:

Theresa May is scheduled to present her amended Brexit plans to the British Parliament this week. Decisive progress is unlikely, so the release of flash estimates of Eurozone PMIs will likely be the more important event for the EURUSD. The markets will be looking for indications of how the economy started the year and whether the continuous decline of the indices has finally come to a halt.

### CEE currencies:

The performance of the currencies in the region throughout the week was mixed. The Romanian leu continued to depreciate in the aftermath of the unconventional government measures and remains at an all-time low (EURRON at 4.69-70). The Hungarian forint appreciated, backed by the central bank's comments expressing the commitment to normalize its monetary policy very slowly. The EURHUF went below 320 and is at the lowest level in half a year. The strengthening of the Polish zloty was marginal, as the EURPLN is locked at the 4.29 level. Furthermore, the Czech koruna appreciation lost some of its strength. This week, we expect global events to remain in focus, as the Brexit saga continues, with Theresa May expected to present Plan B on Monday.

### CEE rates and yields:

In Romania, the recently adopted unconventional fiscal measures and regulations keep echoing on the bond market. It seems that local financial institutions have lost the appetite to buy government securities under current conditions (if nothing changes, government securities are subject to a bank levy worth 120bp). Bids in the recent 1Y T-bill auction fell short of the offered amount. As a consequence of the high requested yield (due to the banking levy), no T-bills were issued. The Romanian government managed to issue 10Y bonds, however, at a cost of a 10bp premium over the secondary market. On other markets, the correction on yields continued, as the long end of the curve moved up in all CEE countries. Slovakia's ARDAL should issue two long-term bonds on Monday maturing in 2028 and 2047.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>21-Jan</b>							
10:30	SI	PPI (y/y)	Dec			1.60%	
<b>22-Jan</b>							
10:00	PL	Retail Sales (y/y)	Dec	8.4%	<b>7.9%</b>	8.20%	<i>Strong growth in wages supports high level of household spending.</i>
<b>24-Jan</b>							
10:00	PL	Unemployment Rate	Dec	5.8%	<b>5.9%</b>	5.70%	<i>Unemployment to marginally increase.</i>
<b>25-Jan</b>							
11:00	HR	Unemployment Rate	Dec			9.40%	
11:00	HR	Wages (y/y)	Nov			3.40%	
12:00	RS	Wages (y/y)	Dec			5.20%	

Sources: Bloomberg, Reuters

## Capital market forecasts

Government bond yields					
	current	2019Q1	2019Q2	2019Q3	2019Q4
<b>Croatia 10Y</b>	2.36	2.40	2.45	2.50	2.60
spread (bps)	210	198	186	182	180
<b>Czech Rep. 10Y</b>	1.83	2.26	2.34	2.43	2.51
spread (bps)	158	184	175	175	171
<b>Hungary 10Y</b>	2.88	2.84	3.03	3.28	3.32
spread (bps)	262	242	244	260	252
<b>Poland 10Y</b>	2.84	3.00	3.10	3.15	3.20
spread (bps)	258	258	251	247	240
<b>Romania10Y</b>	5.04	5.20	5.40	5.40	5.40
spread (bps)	479	478	481	472	460
<b>Slovakia 10Y</b>	0.85	1.25	1.27	1.30	1.55
spread (bps)	59	83	68	62	75
<b>Slovenia 10Y</b>	1.10	1.20	1.30	1.40	1.50
spread (bps)	84	78	71	72	70
<b>Serbia 5Y</b>	3.38	3.60	3.60	3.65	3.70
<b>DE10Y (BBG)*</b>	<b>0.26</b>	<b>0.42</b>	<b>0.59</b>	<b>0.68</b>	<b>0.80</b>

3M Money Market Rate					
	current	2019Q1	2019Q2	2019Q3	2019Q4
<b>Croatia</b>	0.49	0.50	0.55	0.55	0.60
<b>Czech Republic</b>	2.01	1.92	1.97	2.11	2.19
<b>Hungary</b>	0.14	0.19	0.40	0.70	0.85
<b>Poland</b>	1.72	1.73	1.73	1.73	1.73
<b>Romania</b>	2.93	3.30	3.30	3.30	3.30
<b>Serbia</b>	3.06	3.07	3.07	3.07	3.32
<b>Eurozone</b>	-0.31	-0.30	-0.30	-0.10	-

FX					
	current	2019Q1	2019Q2	2019Q3	2019Q4
<b>EURHRK</b>	7.43	7.45	7.30	7.42	7.45
forwards		7.43	7.43	7.43	7.43
<b>EURCZK</b>	25.58	25.00	24.70	24.60	24.50
forwards		25.61	25.61	25.61	25.61
<b>EURHUF</b>	318.2	325.0	325.0	325.0	325.0
forwards		321.4	321.4	321.4	321.4
<b>EURPLN</b>	4.29	4.30	4.28	4.26	4.25
forwards		4.29	4.29	4.29	4.29
<b>EURRON</b>	4.70	4.69	4.70	4.75	4.77
forwards		4.70	4.70	4.70	4.70
<b>EURRSD</b>	118.3	118.5	118.5	118.5	119.0
forwards		-	-	-	-
<b>EURUSD</b>	1.14	1.11	1.12	1.14	-

Key Interest Rate					
	current	2019Q1	2019Q2	2019Q3	2019Q4
<b>Croatia</b>	0.30	0.30	0.30	0.30	0.30
<b>Czech Republic</b>	1.75	1.75	1.75	2.00	2.00
<b>Hungary</b>	0.90	0.90	0.90	0.90	0.90
<b>Poland</b>	1.50	1.50	1.50	1.50	1.50
<b>Romania</b>	2.50	2.50	2.50	2.50	2.50
<b>Serbia</b>	3.00	3.00	3.00	3.00	3.25
<b>Eurozone</b>	0.00	0.00	0.00	0.00	-

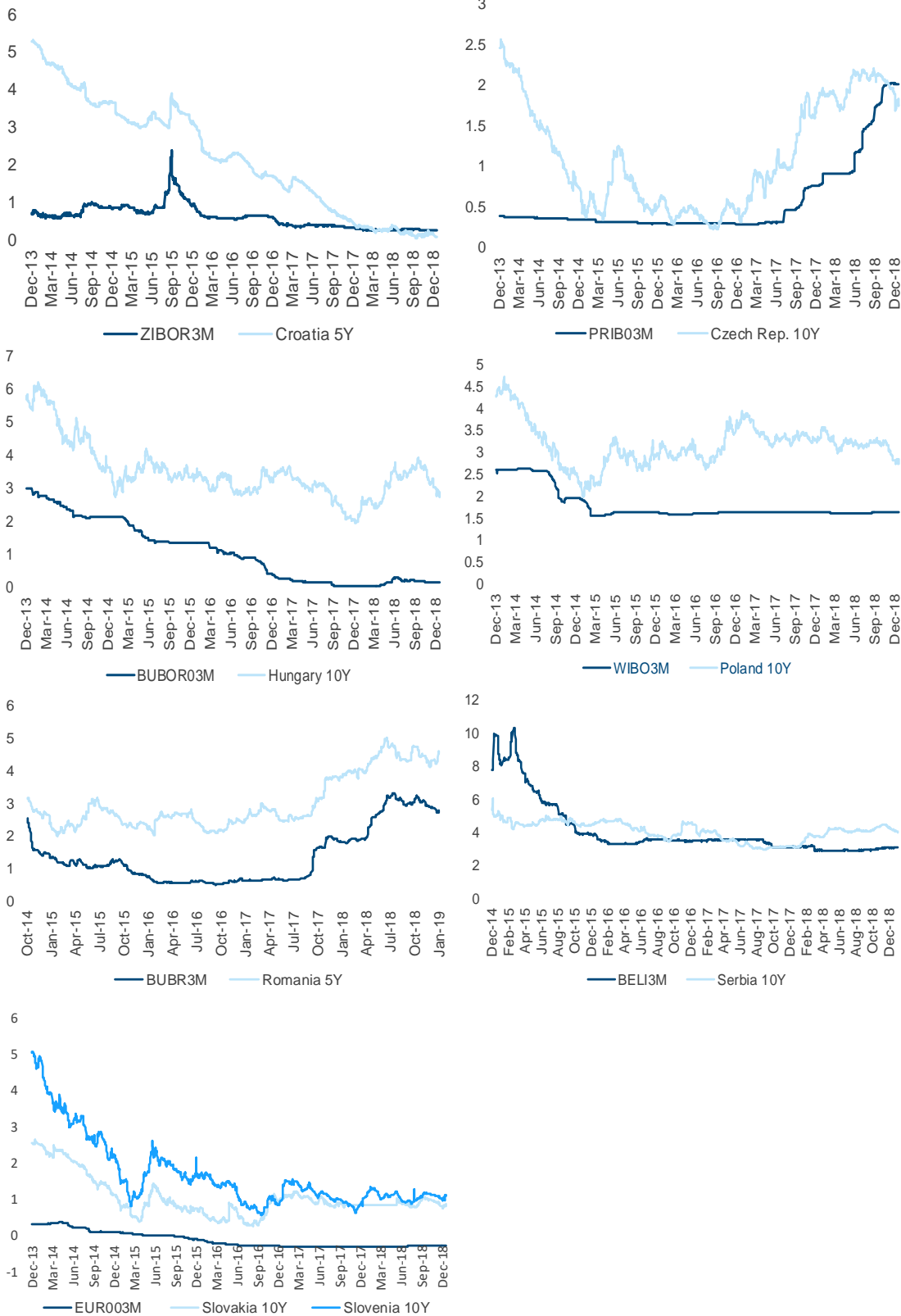
## Macro forecasts

Real GDP growth (%)	2017	2018f	2019f	2020f	Average inflation (%)	2017	2018f	2019f	2020f	Unemployment (%)	2017	2018f	2019f	2020f
Croatia	2.9	2.8	2.6	2.5	Croatia	1.1	1.6	1.4	1.6	Croatia	11.3	8.8	7.8	7.3
Czech Republic	4.5	3.0	3.0	2.9	Czech Republic	2.4	2.2	2.1	1.9	Czech Republic	2.4	2.3	2.6	3.1
Hungary	4.1	4.6	3.6	2.8	Hungary	2.4	2.9	3.0	3.1	Hungary	4.2	3.7	3.9	3.9
Poland	4.8	5.1	3.8	3.3	Poland	2.0	1.6	1.9	2.5	Poland	7.2	6.2	6.2	6.3
Romania	7.0	4.3	3.4	3.9	Romania	1.3	4.6	3.2	3.1	Romania	4.9	4.6	4.8	5.0
Serbia	2.0	4.3	3.5	3.1	Serbia	3.1	2.0	2.4	2.8	Serbia	14.1	13.0	12.0	10.4
Slovakia	3.2	4.3	4.3	3.6	Slovakia	1.3	2.6	2.5	2.5	Slovakia	8.1	6.7	6.2	5.7
Slovenia	4.9	4.4	3.6	3.3	Slovenia	1.4	1.8	2.1	2.2	Slovenia	6.6	5.5	4.9	4.7
<b>CEE8 average</b>	<b>4.7</b>	<b>4.4</b>	<b>3.6</b>	<b>3.3</b>	<b>CEE8 average</b>	<b>1.9</b>	<b>2.4</b>	<b>2.3</b>	<b>2.5</b>	<b>CEE8 average</b>	<b>6.2</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>

Public debt (% of GDP)	2017	2018f	2019f	2020f	C/A (%GDP)	2017	2018f	2019f	2020f	Budget Balance (%GDP)	2017	2018f	2019f	2020f
Croatia	77.5	73.9	70.7	68.2	Croatia	4.0	2.8	2.2	1.1	Croatia	0.8	0.2	0.0	-0.5
Czech Republic	34.6	32.6	30.8	28.9	Czech Republic	1.1	0.7	0.6	0.4	Czech Republic	1.5	0.3	0.4	0.3
Hungary	73.3	72.4	69.9	67.4	Hungary	3.2	1.4	0.8	1.8	Hungary	-2.2	-2.3	-2.0	-2.0
Poland	50.6	49.9	49.8	48.7	Poland	0.2	-0.4	-0.5	-0.7	Poland	-1.7	-0.4	-1.4	-1.5
Romania	35.0	35.2	35.8	35.8	Romania	-3.2	-3.8	-4.1	-4.0	Romania	-2.9	-3.3	-3.0	-2.5
Serbia	57.9	53.7	51.1	48.7	Serbia	-5.2	-6.5	-5.7	-4.5	Serbia	1.1	0.9	-0.5	-0.5
Slovakia	50.9	48.9	47.6	45.9	Slovakia	-2.0	-1.3	-0.7	0.4	Slovakia	-0.8	-0.8	-0.7	-0.4
Slovenia	72.4	67.8	65.5	61.9	Slovenia	7.2	7.6	7.4	6.8	Slovenia	0.0	0.0	0.50	0.3
<b>CEE8 average</b>	<b>50.2</b>	<b>48.8</b>	<b>47.8</b>	<b>46.3</b>	<b>CEE8 average</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.6</b>	<b>-0.5</b>	<b>CEE8 average</b>	<b>-1.1</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-1.2</b>

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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21 January 2019

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