

CEE Market Insights

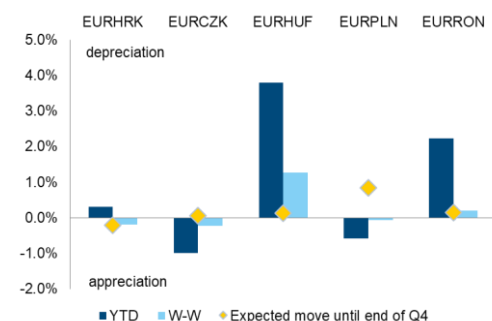
GDP growth in 3Q to remain relatively strong.

Week ahead

This week is all about Thursday and flash GDP data releases for the third quarter in most CEE countries. Despite all the odds stemming from the worsening external environment and recent weakening of market sentiment, we expect the region to remain relatively strong. In Czechia, Hungary, and Romania, growth dynamics should sustain the solid pace from the previous quarter (2.8% y/y, 4.7%, and 4.3% y/y, respectively). In Hungary, impressive growth of industry in October brings upside risks to our forecast. In Poland, growth is set to slow, but the expected dynamics of 4.0% y/y remains among the highest in the region anyway. It seems that Slovakia should settle on GDP growth close to 2% y/y. Inflation developments in October are of secondary importance. The central banks held their meetings last week and CPI is expected to ease in most countries, which should not concern the central banks in the nearest future.

Monday	Tuesday	Wednesday	Thursday	Friday
SK: Industry, Wages	RO, RS: CPI	RO: Current Account, Industry	RO, CZ, HU, PL, SK: GDP	HR: CPI
RO, HU: Trade Balance		PL: Trade Balance	SK, PL: CPI	
CZ: CPI			RS: Current Account	

FX market performance



Source: Bloomberg, Erste Group Research

FX market developments

While CEE currencies hardly moved last week, the Hungarian forint lost 1.3% w/w vs. the euro. The forint went above 333 EURHUF, as the central bank showed a strong determination to stick to its ultra-dovish monetary policy. The central bank increased the amount of HUF liquidity via FX swaps for the third consecutive week, while core inflation climbed further to 3.7% (from 3.4%). The currency development is in line with our expectation, as we forecast the EURHUF around 334-335 in the next three months.

Yields and spreads

LCY bond yields (%)		Eurobond spreads (bp)	
RO 10Y	4.34 (+17)	MO 2029	287 (-9)
RS 9Y	2.95 (-36)	RO 2030	191 (-4)
PL 10Y	2.17 (+21)	MK 2025	185 (0)
HU 10Y	2.10 (+20)	HR 2030	99 (0)
CZ 10Y	1.57 (+21)	BG 2028	62 (+2)
HR 10Y	0.49 (+2)	HU 2027	61 (-3)
BG 10Y	0.29 (0)	LT 2029	46 (-4)
		LV 2028	45 (-4)
		SK 2030	45 (-2)
		PL 2029	44 (-3)
		SI 2029	44 (-3)

Source: Bloomberg, Erste Group Research
Note: weekly changes in brackets (in bps)

Bond market developments

Given the improved sentiment on global markets, government bond yields went up almost everywhere. CEE bonds fully mirrored the increase of German bund yields with a few exceptions. In Czechia the central bank left rates unchanged at 2% last week, but two members voted for a hike. It seems that the market has started to discount the possibility of an early cut, which is why the whole curve shifted up 20bp w/w. In Hungary, the divergence of monetary policy from the inflation development resulted in further steepening of the yield curve (10Y yields went up 20bp w/w). In Serbia, 9Y yields dropped below 3% after an unexpected rate cut and successful placement of Eurobonds.

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Note: Past performance is not necessarily indicative of future results.

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In case you missed

CEE: European Commission published its [growth forecast](#)

CZ: Central bank prefers [stability of rates](#) scenario and [industry](#) keeps growing

HU: [Dynamic retail sales](#) and [industry](#) growth, with [inflation](#) going up slightly

PL: NBP keeps [policy rate](#) flat amid lower growth and higher inflation expectations

RO: Romania has [new government](#); central bank kept policy rate unchanged. Iohannis won the first round of presidential election. Fitch kept outlook and rating (BBB-) unchanged but flagged downside risks.

SK: [Retail sales](#) remained in red in October. Fitch affirmed Slovak rating (A+) and outlook.

RS: NBS cut [key rate](#) to 2.25%-

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
11. Nov	8:00	RO	Trade Balance	Sep			-1365.4	
	9:00	CZ	CPI (y/y)	Oct	2.7%	2.6%	2.7%	We expect headline inflation to ease further. Although price level probably went up in October, overall y/y figure to be affected by base effect. as significant increase in prices from October 2018
	9:00	HU	Trade Balance	Sep P		220.00	60.17	
	9:00	SK	Wages (y/y)	Sep			-0.6%	
	9:00	SK	Industrial Production (y/y)	Sep		0%	-8.1%	After disappointing summer, industrial production expected to have marked correction and stabilized in September.
12. Nov	8:00	RO	CPI (y/y)	Oct	3.4%	3.4%	3.49%	Temporary decline in inflation in October due to base effect.
	12:00	RS	CPI (y/y)	Oct		1.6%	1.1%	Benign inflation movement close to lower band of targeted range.
13. Nov		RO	Current Account Balance (monthly)	Sep			-7080	
	8:00	RO	Industrial Production (y/y)	Sep		-5.9%	-6.7%	Weak external demand and eroded price competitiveness of low value-added industries after strong increases in minimum wage in recent years.
14. Nov		RS	Current Account Balance (monthly)	Sep			-137.9	
	8:00	RO	GDP (y/y)	3Q A		4.30%	4.35%	Retail sales and services probably remained top economic growth drivers in 3Q19.
	9:00	CZ	GDP (y/y)	3Q A	2.6%	2.8%	2.8%	GDP growth driven mainly by households and government consumption. Despite slowdown in Germany, dynamics of exports also remained relatively favorable: however, contribution
	9:00	HU	GDP (y/y)	3Q P		4.8%	4.9%	Strong consumer demand (consumption, investments) could have remained main driver of GDP growth.
	9:00	SK	CPI (y/y)	Oct		2.7%	2.9%	Slower pace of inflation anticipated for October.
	9:00	SK	GDP (y/y)	3Q P		2.1%	2%	We expect growth at 2.1% y/y, driven by domestic demand as external environment remains overcast.
	10:00	PL	CPI (y/y)	Oct F			2.5%	
	10:00	PL	GDP (y/y)	3Q P	4.1%	4.0%	4.5%	Weaker performance of industry to weigh on GDP growth dynamics. Private consumption to remain pillar of growth.
15. Nov	11:00	HR	CPI (y/y)	Oct		0.7%	0.8%	CPI to remain below 1% monthly increase, mostly reflecting seasonal patterns.

Source: Bloomberg, 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)	76	80	70	60	60
Czechia 10Y	1.6	1.5	1.6	1.7	1.7
spread (bps)	184	188	190	188	194
Hungary 10Y	2.1	2.1	2.2	2.2	2.2
spread (bps)	237	249	245	241	245
Poland 10Y	2.2	2.0	2.0	2.1	2.1
spread (bps)	244	235	230	225	225
Romania 10Y	4.3	4.4	4.5	4.5	4.6
spread (bps)	461	480	480	470	480
Slovakia 10Y	0.2	-0.1	0.1	0.1	0.2
spread (bps)	42	35	35	30	40
Slovenia 10Y	0.17	0.00	0.00	0.00	0.00
spread (bps)	45	40	30	20	20
Serbia 5Y	2.6	3.0	2.9	2.7	2.5
spread (bps)	283	340	320	290	270
DE10Y	-0.3	-0.4	-0.3	-0.2	-0.2

3M Money Market Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.41	0.50	0.50	0.50	0.50
Czechia	2.19	2.13	2.12	2.12	2.12
Hungary	0.19	0.21	0.22	0.25	0.25
Poland	1.71	1.72	1.72	1.72	1.72
Romania	2.97	3.00	2.90	2.90	3.20
Serbia	1.79	1.90	1.90	1.80	1.70
Eurozone	-0.40	-0.40	-0.40	-0.40	-0.40

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	4.3	5.1	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	3.0	4.0	2.5	2.3
Slovenia	4.8	4.1	3.0	2.7
CEE8 avg	4.8	4.4	3.8	3.2

Public debt (% of GDP)

	2017	2018	2019f	2020f
Croatia	78.2	74.9	71.6	69.3
Czechia	34.7	32.6	31.0	30.1
Hungary	72.9	70.2	68.0	66.2
Poland	50.6	48.9	46.5	45.0
Romania	35.1	35.0	34.7	36.2
Serbia	59.3	53.5	50.5	47.9
Slovakia	51.3	49.4	48.8	48.4
Slovenia	74.1	70.4	66.2	62.8
CEE8 avg	50.4	48.4	46.4	45.3

FX

	current	2019Q4	2020Q1	2020Q2	2020Q3
EURHRK	7.43	7.42	7.42	7.38	7.40
forwards		7.44	7.44	7.44	7.44
EURCZK	25.49	25.50	25.34	25.04	24.86
forwards		25.55	25.69	25.84	25.98
EURHUF	333.78	334.00	335.00	335.00	335.00
forwards		334.03	334.39	334.85	335.34
EURPLN	4.27	4.30	4.31	4.31	4.32
forwards		4.28	4.30	4.33	4.35
EURRON	4.76	4.77	4.79	4.82	4.85
forwards		4.79	4.83	4.87	4.91
EURRSD	117.16	118.00	118.00	117.70	117.70
forwards		-	-	-	-
EURUSD	1.10	1.13	1.15	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	2.3	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	1.2	1.5	0.8	1.2
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	3.4	1.9	0.1	-0.9
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	-1.1	-1.2	-1.3

Unemployment (%)

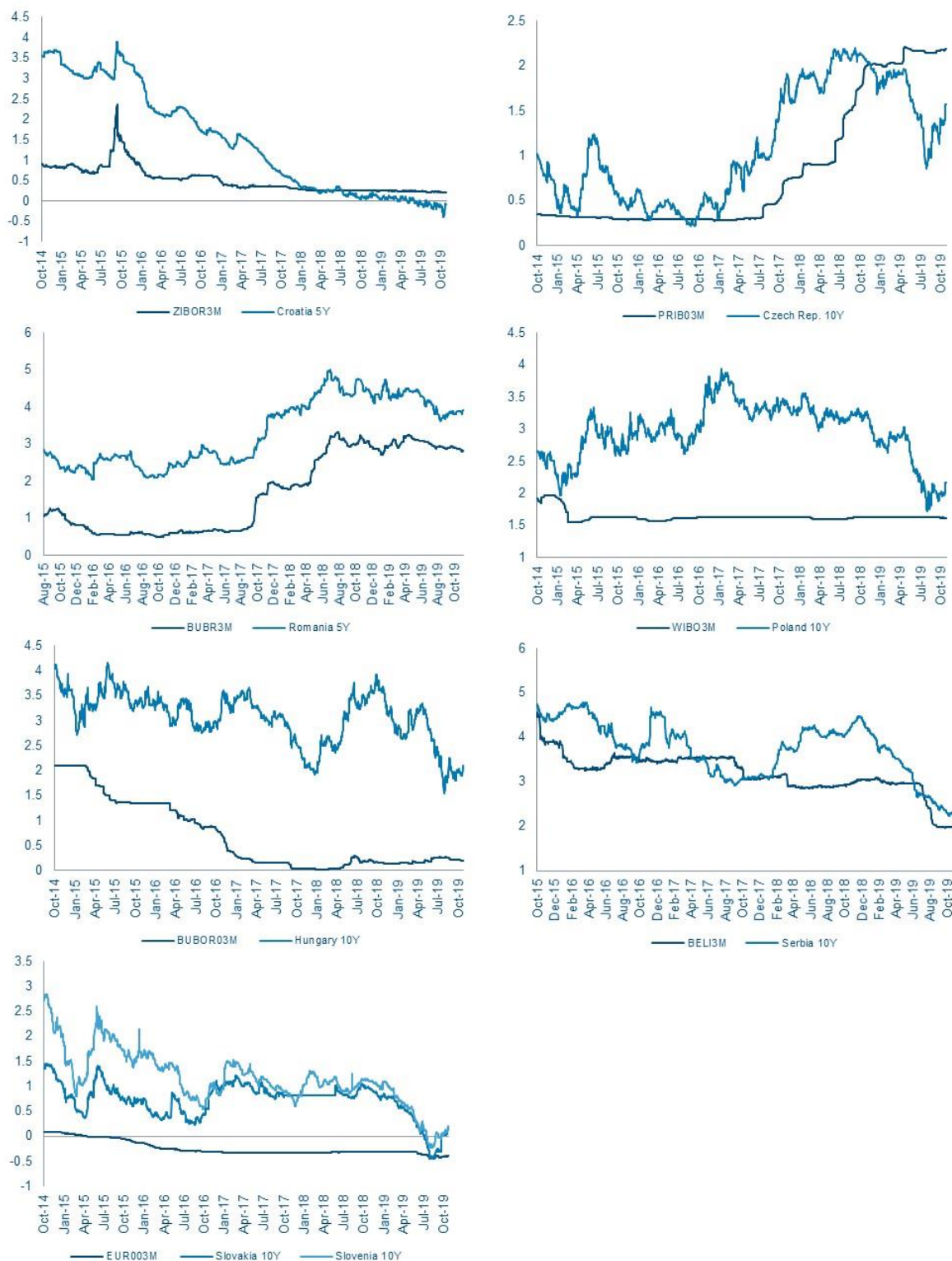
	2017	2018	2019f	2020f
Croatia	11.3	8.4	6.8	5.8
Czechia	2.9	2.3	2.1	2.4
Hungary	4.2	3.7	3.4	3.4
Poland	7.3	6.1	5.6	5.8
Romania	4.9	4.2	3.8	4.0
Serbia	13.5	12.7	10.7	9.8
Slovakia	8.1	6.6	5.8	5.9
Slovenia	6.6	5.2	4.0	3.6
CEE8 avg	6.3	5.2	4.7	4.8

Budget Balance (%GDP)

	2017	2018	2019f	2020f
Croatia	0.8	0.3	0.0	-0.5
Czechia	1.6	1.1	0.6	0.3
Hungary	-2.4	-2.3	-1.8	-1.4
Poland	-1.5	-0.2	-0.7	-0.5
Romania	-2.6	-3.0	-3.0	-4.0
Serbia	1.1	0.6	0.3	0.0
Slovakia	-1.0	-1.1	-1.0	-1.0
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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