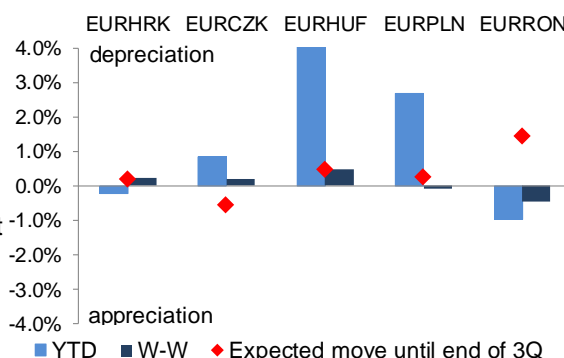


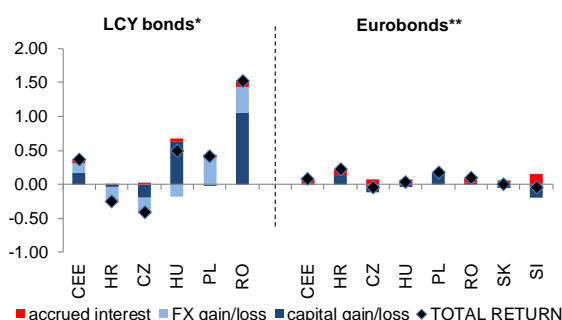
CEE Market Insights

Market outlook

Among CEE currencies, the Polish zloty and the Romanian leu performed the best, while the forint and the Czech koruna fell to some extent last week. The zloty's relative strength could be underpinned by strong monthly indicators for July (which prompted from us an upside revision of the GDP forecast to 4.9% for this year), while the budget deficit is also seen as below initial plans by Polish authorities for this year. While US President Donald Trump again said that he wants a 25% tariff to be imposed on cars imported from the EU, our previous research shows that the impact of this would not be unmanageable for those CEE countries that are important car exporters (the Czech Republic, Slovakia, and Hungary).



10Y yields fell the most in Hungary, after the central bank expectedly flagged that loose monetary conditions are needed to get inflation to the 3% target in a sustainable manner. In the Czech Republic, however, short-term rates went further up as additional hike(s) might come in the remainder of the year, against the backdrop of a still relatively weak koruna.



Looking ahead this week:

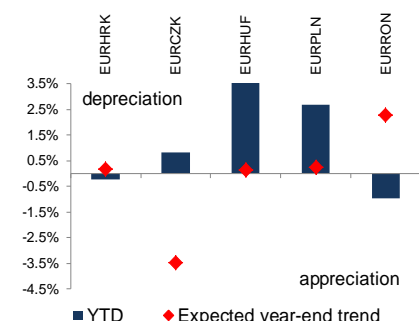
Monday	Tuesday	Wednesday	Thursday	Friday
				CZ, PL, SI, RS: GDP
				RO: Unemployment Rate
	SK: PPI	HU: Unemployment Rate		HU: PPI, Trade Balance
		HR: GDP		PL, SI: CPI
				RS: Industry, Retail Sales, Trade Balance

This week, the first group of CEE countries will start to publish their detailed GDP data for 2Q. In the Czech Republic, Poland and Serbia – countries which have already published their flash estimates – only the breakdown will be in focus (unless there is revision of growth). We have already incorporated the strong flash estimate of Polish GDP growth and July's monthly indicators into our model, which led to the upward revision of our full-year 2018 GDP growth forecast for Poland to 4.9% y/y from 4.6% y/y. After the confirmation of Serbia's strong GDP growth in 2Q (4.4% y/y) and the disclosure of the breakdown, we will likely also revise our full-year growth forecast for Serbia, closer to 4% y/y (or above) from the current 3.5% y/y. In Croatia, we expect acceleration of GDP growth to 3.2% y/y from the 2.5% y/y reported in 1Q18. In Slovenia, the economy could expand 5.3% y/y in 2Q18. If strong growth is confirmed, we will revise our full-year GDP growth forecast of 4.5% closer to 5%. Hungary will disclose 2Q18 GDP details only next week, but data on investment growth will already be available this Thursday. On Friday, Fitch is scheduled to release its statement on Hungary's rating, which is currently at BBB- with a positive outlook. An upgrade cannot be excluded. In Poland, the flash estimate of August inflation is due on Friday; the inflation rate is to remain flat at 2% y/y.

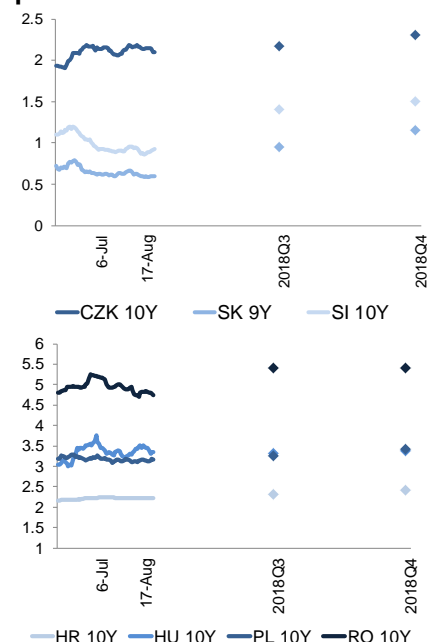
In case you missed it last week...

- Moody's left Romania's credit rating at Baa3 with stable outlook on Friday
- We have revised our FY18 GDP growth forecast for Poland from 4.6% y/y to 4.9% y/y
- Hungarian central bank left monetary policy unchanged last week

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

FX and bond market stable in CEE

On global markets:

The most important releases this week will be the flash estimate of inflation for the Eurozone in August and July PCE inflation for the US. Due to the slightly declining dynamics of energy prices, we expect a minor drop in headline inflation in the Eurozone to roughly 2.0% y/y from July's 2.1% y/y. However, for the EURUSD these are, in the current environment, second-tier data, so the pair is more likely to be affected by political events.

CEE currencies:

The Turkish situation to some extent abated last week, and therefore its influence on regional markets also decreased. Among CEE currencies, the Polish zloty and the Romanian leu performed the best the last week, while the forint and the Czech koruna fell to some extent. As for the zloty, the reason for such performance could be underpinned by the fact that retail sales and construction figures came in at rather strong levels for July (which prompted from us an upside revision of the GDP forecast to 4.9% for this year), while the budget deficit is also seen as below initial plans by Polish authorities for this year. The relative weakness of the koruna and the forint could also be underpinned by US President Donald Trump's comments that he would like to impose the 25% tariffs on cars imported from the EU that he had flagged earlier. The Czech and Hungarian economies might be viewed as vulnerable by investors in such a case, albeit research published earlier this summer by Ceska Sporitelna shows that a 10% increase in tariffs on products shipped to the United States would chop off roughly 0.2-0.3pp from annual real GDP growth in the Czech Republic. The extent (given the similar share of exports as a percent of GDP and a similar composition) would not be much different for Slovakia and Hungary. This means that such an increase in tariffs by the US, although negative, would not be unmanageable for these countries.

CEE rates and yields:

CEE10Y yields mostly remained flat or declined last week. The strongest decline was seen in Hungary, where the 10Y yield fell by roughly 10bp last week. The Hungarian central bank delivered no surprises at its monetary meeting last week, keeping rates unchanged and reiterating that they see loose monetary conditions as required in order for inflation to reach the 3% goal in a sustainable manner. After some increase in previous weeks, short-term rates also started to somewhat decline in Hungary. In contrast, in the Czech Republic, short-term rates continued to increase last week. As the Czech koruna remains relatively weak, it is becoming increasingly likely that another hike will come at around the end of September. The CNB seems to be looking at koruna development very closely and, therefore, if the koruna does not show appreciation later this year, then an additional hike by the end of the year would also not be surprising. The 3X6 FRA increased to above 1.8% last week, while the policy (repo) rate is at 1.25% at the moment.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
27-Aug							
No releases scheduled							
28-Aug							
9:00	SK	PPI (y/y)	Jul		5.5%	5.5%	Producer price growth expected to have maintained fairly constant pace (y/y) in July.
29-Aug							
9:00	HU	Unemployment Rate	Jul		3.6%	3.6%	Figure expected to reflect tight labor market conditions.
11:00	HR	GDP (y/y)	2Q P		3.2%	2.5%	Stronger domestic demand footprint and more favorable net exports contribution point to some acceleration vs. 1Q
30-Aug							
No releases scheduled							
31-Aug							
	RO	Unemployment Rate	Jul			4.5%	
9:00	CZ	GDP (q/q)	2Q P	0.6%		0.5%	
9:00	CZ	GDP (y/y)	2Q P	2.3%		2.3%	
9:00	HU	PPI (y/y)	Jul			7.5%	
9:00	HU	Trade Balance	Jun F			1070	
10:00	PL	CPI (y/y)	Aug P	2%	2%	2%	We expect inflation to remain stable, given lower food price dynamics.
10:00	PL	CPI (m/m)	Aug P	-0.2%	-0.2%	-0.2%	
10:00	PL	GDP (y/y)	2Q F			5.1%	
10:30	SI	CPI (y/y)	Aug		1.8%	1.9%	Stable development on monthly level, and CPI remaining close to 2% on annual level.
10:30	SI	CPI (m/m)	Aug		0.1%	-0.9%	
10:30	SI	GDP (y/y)	2Q		5.3%	4.6%	Ongoing robust economic momentum driven by sound domestic demand and supportive external demand profile.
12:00	RS	Industrial Production (y/y)	Jul		5%	3.9%	Industrial production shaped by seasonal factors and stronger domestic demand.
12:00	RS	Retail Sales (y/y)	Jul		4.5%	1.3%	We expect figure to preserve solid footprint, supported by rising wages, stable inflation and strong consumer sentiment.
12:00	RS	Trade Balance	Jul			-390	
12:00	RS	GDP (y/y)	2Q F		4.4%	4.4%	We expect SORS to confirm flash estimate figure.

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2018Q3	2018Q4	2019Q1	2019Q2
Croatia 10Y	2.23	2.30	2.40	2.50	2.50
spread (bps)	188	179	180	169	158
Czech Rep. 10Y	2.09	2.17	2.30	2.32	2.37
spread (bps)	175	166	170	151	145
Hungary 10Y	3.35	3.31	3.36	3.40	3.49
spread (bps)	300	280	276	259	257
Poland 10Y	3.17	3.25	3.40	3.50	3.50
spread (bps)	283	274	280	269	258
Romania 10Y	4.74	5.40	5.40	5.40	5.80
spread (bps)	440	489	480	459	488
Slovakia 9Y	0.59	0.95	1.15	1.30	n.a.
spread (bps)	25	44	55	49	n.a.
Slovenia 10Y	0.92	1.40	1.50	1.60	1.70
spread (bps)	58	89	90	79	78
Serbia 5Y	3.74	3.80	3.80	3.85	3.85
DE10Y (BBG)*	0.34	0.51	0.60	0.81	0.92

3M Money Market Rate					
	current	2018Q3	2018Q4	2019Q1	2019Q2
Croatia	0.50	0.50	0.50	0.60	0.70
Czech Republic	1.48	1.34	1.36	1.44	1.59
Hungary	0.18	0.30	0.35	0.45	0.55
Poland	1.71	1.73	1.73	1.73	1.73
Romania	3.30	3.25	3.00	3.10	3.40
Serbia	2.88	3.00	3.00	3.00	3.25
Eurozone	-0.32	-0.30	-0.30	-0.30	-0.30

FX					
	current	2018Q3	2018Q4	2019Q1	2019Q2
EURHRK	7.44	7.45	7.50	7.45	7.30
forwards		7.44	7.44	7.44	7.44
EURCZK	25.76	25.60	25.20	24.85	24.70
forwards		25.79	25.79	25.79	25.79
EURHUF	324.3	326.0	325.0	325.0	325.0
forwards		327.5	327.5	327.5	327.5
EURPLN	4.28	4.30	4.30	4.30	4.30
forwards		4.28	4.28	4.28	4.28
EURRON	4.64	4.70	4.73	4.74	4.75
forwards		4.64	4.64	4.64	4.64
EURRSD	118.1	118.0	118.0	118.5	118.5
forwards		-	-	-	-
EURUSD	1.16	1.14	1.13	1.15	1.16

Key Interest Rate					
	current	2018Q3	2018Q4	2019Q1	2019Q2
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.25	1.25	1.50	1.50	1.75
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	2.75	3.00
Serbia	3.00	3.00	3.00	3.00	3.25
Eurozone	0.00	0.00	0.00	0.00	0.00

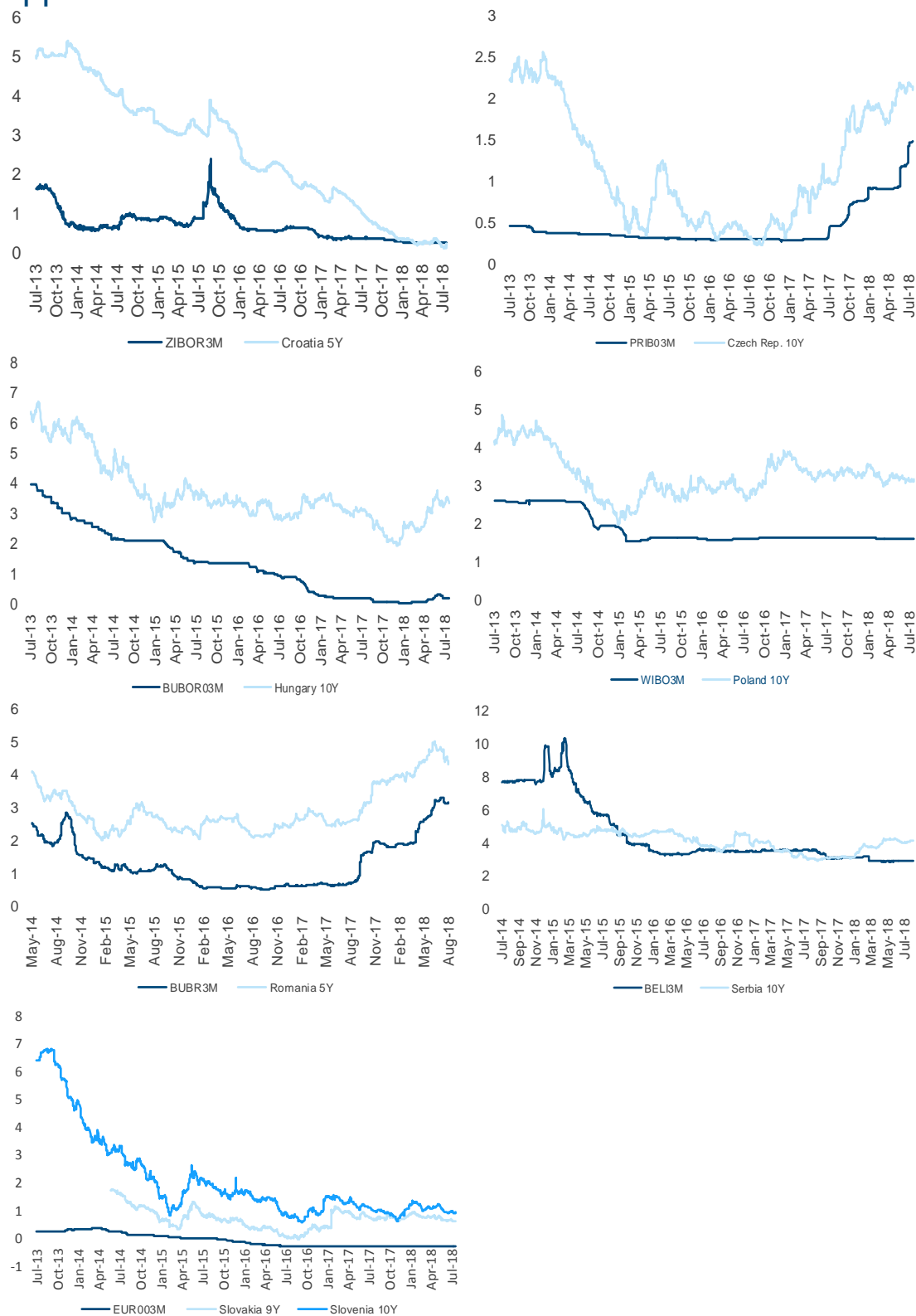
Macro forecasts

Real GDP growth (%)	2016	2017	2018f	2019f	Average inflation (%)	2016	2017	2018f	2019f	Unemployment (%)	2016	2017	2018f	2019f
Croatia	3.5	2.9	2.8	2.7	Croatia	-1.1	1.1	1.7	1.8	Croatia	13.1	11.3	9.6	8.7
Czech Republic	2.5	4.6	3.6	3.1	Czech Republic	0.7	2.5	2.1	2.0	Czech Republic	3.6	2.9	2.3	2.5
Hungary	2.2	4.0	4.0	3.3	Hungary	0.4	2.4	2.7	3.5	Hungary	5.1	4.2	3.8	3.8
Poland	2.9	4.6	4.9	3.3	Poland	-0.6	2.0	1.7	2.2	Poland	8.9	7.2	6.5	6.7
Romania	4.8	6.9	4.1	3.4	Romania	-1.5	1.3	4.7	3.3	Romania	5.9	4.9	4.6	4.8
Serbia	2.8	1.9	3.5	3.2	Serbia	1.6	3.0	2.1	3.4	Serbia	15.3	13.2	11.6	11.1
Slovakia	3.3	3.4	3.9	4.2	Slovakia	-0.5	1.3	2.5	2.5	Slovakia	9.6	8.1	6.9	6.4
Slovenia	3.1	5.0	4.5	3.7	Slovenia	-0.1	1.4	2.0	2.0	Slovenia	8.0	6.6	5.9	5.4
CEE8 average	3.1	4.7	4.3	3.3	CEE8 average	-0.4	1.9	2.4	2.5	CEE8 average	7.6	6.2	5.5	5.5

Public debt (% of GDP)	2016	2017	2018f	2019f	C/A (%GDP)	2016	2017	2018f	2019f	Budget Balance (%GDP)	2016	2017	2018f	2019f
Croatia	80.6	78.0	74.4	71.4	Croatia	2.6	3.9	2.5	1.8	Croatia	-0.9	0.8	0.0	-0.5
Czech Republic	36.8	33.9	31.9	30.4	Czech Republic	1.1	1.3	0.6	0.5	Czech Republic	0.7	0.6	0.2	0.2
Hungary	76.0	73.6	72.5	70.9	Hungary	6.0	2.9	2.2	1.8	Hungary	-1.7	-2.0	-2.2	-2.3
Poland	54.2	50.6	50.2	49.7	Poland	-0.3	0.3	-0.3	-0.9	Poland	-2.4	-1.7	-2.2	-2.0
Romania	37.1	35.0	35.2	35.8	Romania	-2.1	-3.3	-3.8	-4.1	Romania	-3.0	-2.9	-3.4	-2.9
Serbia	71.9	61.3	58.0	54.8	Serbia	-4.2	-4.7	-5.3	-6.6	Serbia	-1.3	1.2	0.0	-0.5
Slovakia	51.8	50.9	49.6	47.9	Slovakia	-1.5	-2.1	-1.2	-0.5	Slovakia	-2.2	-1.0	-1.0	-1.3
Slovenia	78.3	71.9	69.3	65.7	Slovenia	5.2	6.4	6.4	5.7	Slovenia	-1.8	0.0	0.2	0.5
CEE8 average	53.5	50.2	49.1	47.9	CEE8 average	0.4	0.2	-0.3	-0.7	CEE8 average	-1.8	-1.2	-1.7	-1.6

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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