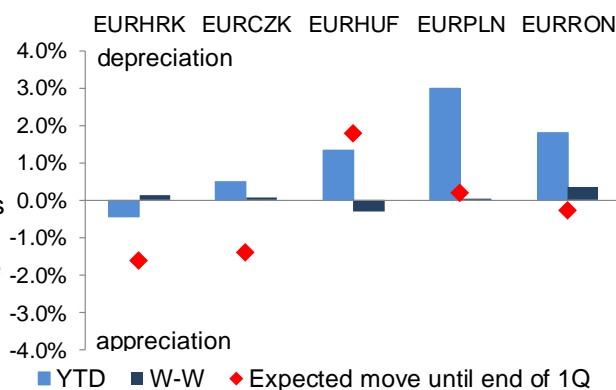


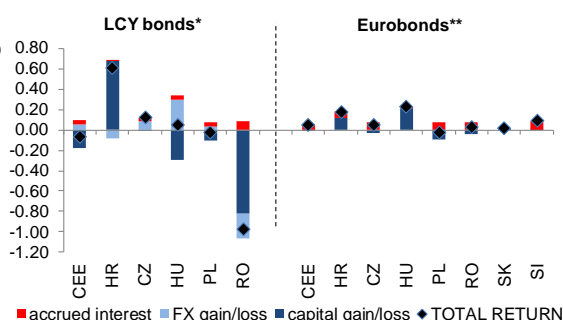
CEE Market Insights

Market outlook

The FX market was rather stable throughout the week, with all of the CEE currencies marginally weakening against the euro except the Hungarian forint. The slight appreciation of the forint is likely related to markets waiting for the rate setting event. It will be held at the end of March and the Council might start the slow and gradual normalization of its monetary policy. This week, further development around the Brexit deal and FOMC meeting should be crucial for the markets. While the Brexit extension may bring relief, the reduction of interest rate expectations by FOMC members may impact the CEE markets.



5Y government bond yields remained mostly flat in CEE last week, except in Romania, where they increased about 20bp w/w. The risk of a change of the S&P rating outlook to negative as well as uncertainty about the resolution of the controversial bank levy weighed on the Romanian government securities. Fixes in the design of the levy could provide a boost to Romanian government securities.



Looking ahead this week:

Monday	Tuesday	Wednesday	Thursday	Friday
RO: Current Account CZ: PPI PL: Trade Balance	SK: Unemployment PL: Wages	PL: Industry, PPI	PL: Retail SI: PPI	RS: Current Account

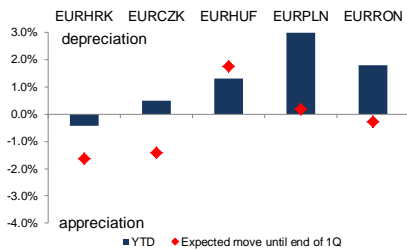
The week ahead of us is relatively empty as far as macro releases are concerned. In Poland, we expect the slowdown in industrial output to continue, but retail sales likely retained their robust performance. As for employment in Poland, it has been somewhat slowing down recently, owing to the slower growth in domestic demand. It remains to be seen what this week's data will bring. In Romania, while recent news on a moderation of controversial taxes could improve sentiment, issues with the real economy are far from solved. This week's current account balance will especially be in focus after the start of the year brought a trade deficit that is unprecedented since the financial crisis.

In case you missed it last week...

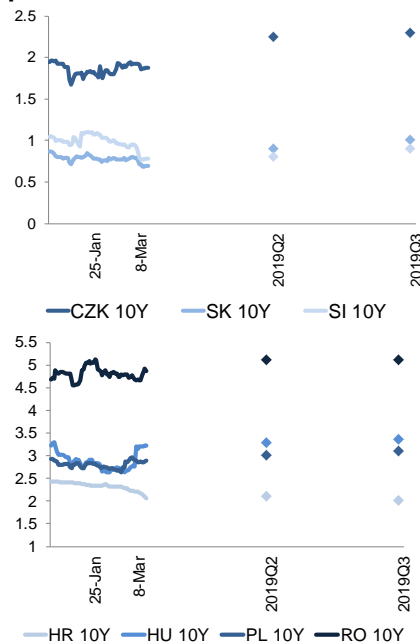
- CEE:** We issued quarterly report [What's up in CEE](#) and Macro Outlooks for [HR](#), [CZ](#), [HU](#), [RO](#), [PL](#), [SK](#), [SI](#), [RS](#)
- SK:** First round of presidential election filtered two pro-EU candidates for second round (due in two weeks)
- PL:** January inflation revised downward to 0.7%, February figure at 1.2%, just slightly above our call
- RO:** Inflation surprised on upside at 3.8%, while we had expected just 3.4%; yields increased on this news
- CZ:** Inflation came in shade higher than expected at 2.7% in February
- RO:** S&P left Romania's sovereign rating unchanged at BBB- with stable outlook

Yields mostly down, currencies little changed in CEE

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

The markets have reacted to last week's developments on the Brexit deal with some relaxation. The yield on 10Y German government bonds has risen somewhat and the euro has also gained some ground, although both starting from very low levels. The key for the markets next week will probably be how hard the EU will make it for the UK to get an agreement for a Brexit delay. We think that the EU will grant an extension without any (or only a few) conditions. Accordingly, we expect markets to become more confident, and German government yields and the euro could rise further.

This week, FOMC holds its meeting. While interest rates will be left unchanged, the most exciting will be the results of the new survey. Some members may reduce their interest rate expectations and therefore the median of expectations could drop, corresponding to one interest rate step for this year.

CEE currencies:

The FX market was rather stable throughout the week, with all CEE currencies marginally weakening against the euro except the Hungarian forint. The slight appreciation of the forint is likely related to markets waiting for the rate setting event. It will be held at the end of March and the Council might start the slow and gradual normalization of its monetary policy. On the other hand, EURCZK levels remain relatively high, in our view, even considering the upcoming dividend payments. A seasonal effect is expected to be positive in the coming months. Moreover, the risks of another rate hike in the Czech Republic are tilted toward May. This week, if the extension of Brexit is granted without any (or only a few) conditions, the markets should become more confident, supporting stability on the FX market. On the other hand, the FOMC meeting may bring a reduction of interest rate expectations by FOMC members, which is a potentially market-moving development. Otherwise, we expected limited volatility of other currencies, driven by local factors.

CEE rates and yields:

Higher February inflation readings compared to the market consensus moved yields up in the Czech Republic and Romania last week. In the Czech Republic, the bond curve has hardly changed, but the swap curve shifted up 5bp. While our baseline call for a next rate hike remains for August, we see some chance that the rate hike might be discussed already at May's meeting. In Romania, the bond yield curve steepened, as yields in the 3Y-10Y segment increased 10-25bp, while the short end was supported by high RON liquidity. Potential fixes in the design of the levy on banks could provide a strong boost to Romanian government bonds this week. S&P said last week that government measures could "contain imminent negative effects on monetary-policy effectiveness and help recover confidence".

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
18-Mar							
	RO	Current Account Balance	Jan			-9416	
9:00	CZ	PPI (y/y)	Feb	3.7%		2.9%	
14:00	PL	Trade Balance	Jan	-346		-1340	
19-Mar							
	SK	Unemployment Rate	Feb		5.16%	5.26%	After uptick in January, unemployment rate is expected to have inched down in February
10:00	PL	Wages (y/y)	Feb	7.2%	6.8%	7.5%	We see wage growth remaining in sideways movement
20-Mar							
10:00	PL	Industrial Production (y/y)	Feb	4.8%	2.3%	6.1%	Industrial production to slow down further
10:00	PL	PPI (y/y)	Feb	2.70%	2.7%	2.2%	Price pressure to stay limited
21-Mar							
10:00	PL	Retail Sales (y/y)	Feb	7.10%	6.00%	6.6%	Retail sales are expected to hold strong, as consumer sentiment moves up
10:30	SI	PPI (y/y)	Feb			1.1%	
22-Mar							
	RS	Current Account Balance	Jan			-349.7	

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia 10Y	2.07	2.10	2.00	2.00	2.00
spread (bps)	198	162	141	129	123
Czech Rep. 10Y	1.88	2.24	2.29	2.34	2.44
spread (bps)	179	176	170	163	167
Hungary 10Y	3.22	3.28	3.35	3.41	3.45
spread (bps)	313	280	276	270	268
Poland 10Y	2.89	3.00	3.10	3.20	3.30
spread (bps)	280	252	251	249	253
Romania10Y	4.86	5.10	5.10	5.20	5.30
spread (bps)	477	462	451	449	453
Slovakia 10Y	0.69	0.90	1.00	1.00	1.10
spread (bps)	60	42	41	29	33
Slovenia 10Y	0.78	0.80	0.90	0.90	1.00
spread (bps)	69	32	31	19	23
Serbia 5Y	3.64	3.93	3.90	3.90	3.95
DE10Y (BBG)*	0.09	0.48	0.59	0.71	0.77

3M Money Market Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.49	0.50	0.50	0.50	0.50
Czech Republic	2.03	2.01	2.18	2.19	2.19
Hungary	0.14	0.35	0.70	0.85	0.90
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.09	2.80	2.80	2.80	2.60
Serbia	2.94	3.01	3.05	3.05	3.05
Eurozone	-0.31	-0.30	-0.30	-0.30	-

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
EURHRK	7.42	7.30	7.42	7.45	7.42
forwards		7.42	7.42	7.42	7.42
EURCZK	25.67	25.30	25.10	24.80	24.65
forwards		25.70	25.70	25.70	25.70
EURHUF	314.3	320.0	322.0	322.0	322.0
forwards		317.5	317.5	317.5	317.5
EURPLN	4.31	4.31	4.32	4.29	4.29
forwards		4.31	4.31	4.31	4.31
EURRON	4.76	4.75	4.75	4.77	4.78
forwards		4.76	4.76	4.76	4.76
EURRSD	118.1	117.9	117.8	118.0	118.2
forwards		-	-	-	-
EURUSD	1.13	1.12	1.14	1.16	-

Key Interest Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.75	1.75	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	-

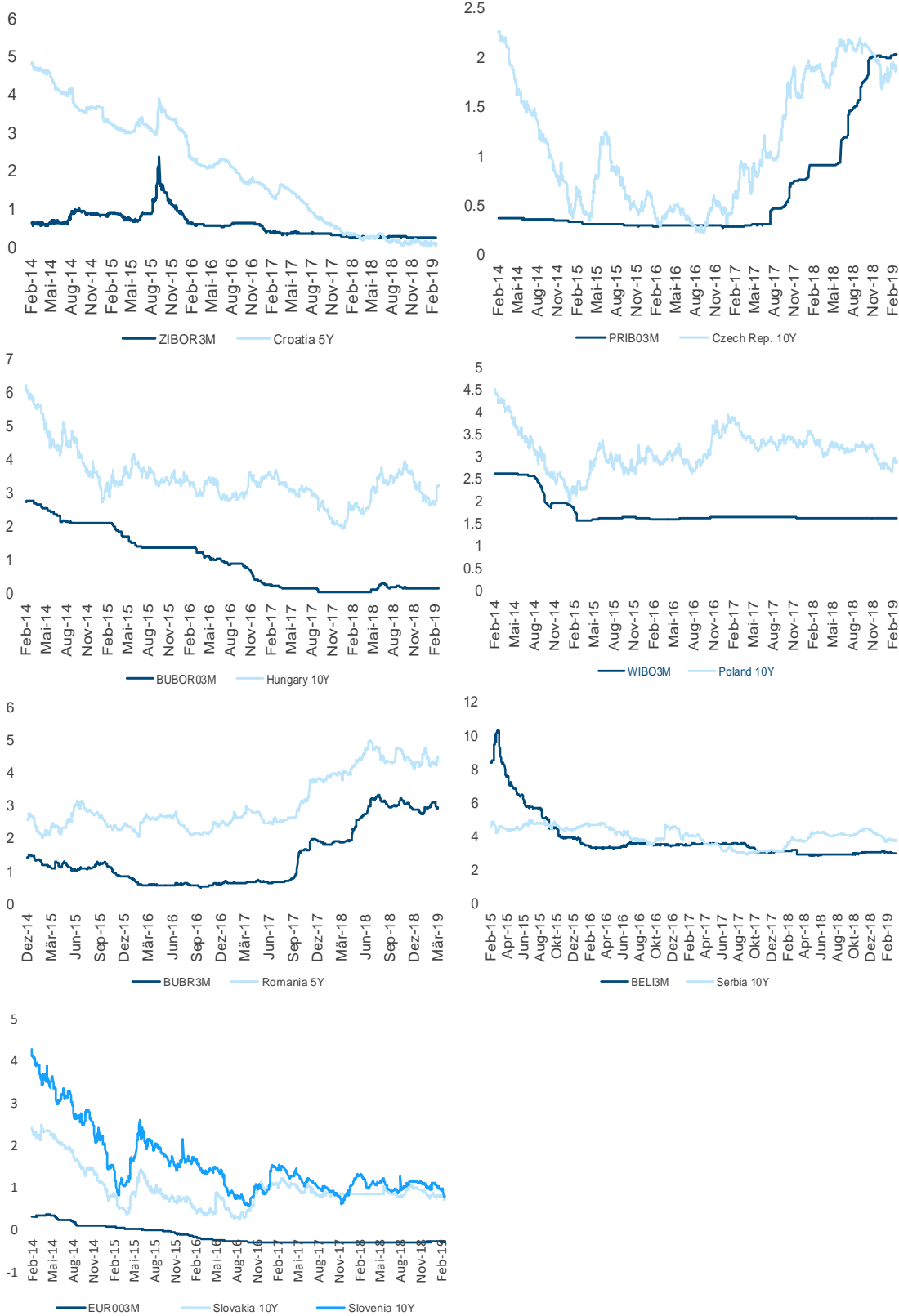
Macro forecasts

Real GDP growth (%)					Average inflation (%)					Unemployment (%)				
	2017	2018f	2019f	2020f		2017	2018f	2019f	2020f		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	8.6	7.8	7.3
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	2.8	3.1	Hungary	4.2	3.7	3.8	3.9
Poland	4.8	5.1	3.8	3.3	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	2.7	Romania	1.3	4.6	3.2	2.8	Romania	4.9	4.2	3.8	4.0
Serbia	2.0	4.3	3.3	2.9	Serbia	3.1	2.0	2.1	2.4	Serbia	14.1	13.3	12.6	12.1
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	3.3	3.0	CEE8 average	1.9	2.4	2.2	2.4	CEE8 average	6.2	5.3	5.2	5.3

Public debt (% of GDP)					C/A (%GDP)					Budget Balance (%GDP)				
	2017	2018f	2019f	2020f		2017	2018f	2019f	2020f		2017	2018f	2019f	2020f
Croatia	77.5	74.1	71.4	69.3	Croatia	4.0	2.3	1.6	0.5	Croatia	0.8	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	73.3	70.9	68.8	66.8	Hungary	3.2	1.2	0.3	0.8	Hungary	-2.2	-2.0	-1.8	-1.8
Poland	50.6	49.9	50.1	49.3	Poland	0.2	-0.4	-0.5	-0.7	Poland	-1.4	-0.4	-1.8	-2.5
Romania	35.2	35.1	35.9	36.6	Romania	-3.2	-4.7	-5.0	-4.8	Romania	-2.9	-3.0	-3.0	-2.5
Serbia	57.9	53.8	51.5	49.4	Serbia	-5.2	-5.2	-5.5	-5.2	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	49.1	48.3	46.6	Slovakia	-2.0	-1.5	-0.9	0.2	Slovakia	-0.8	-0.8	-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	48.7	48.1	47.2	CEE8 average	0.2	-0.6	-0.8	-0.8	CEE8 average	-1.0	-0.6	-1.2	-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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18 March 2019

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