

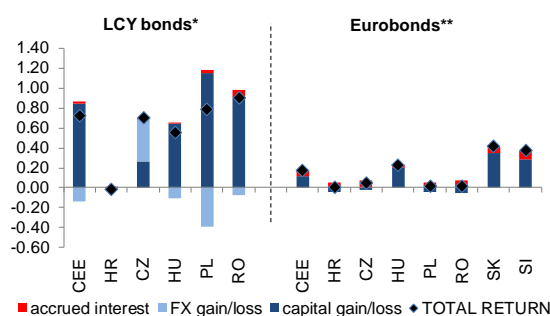
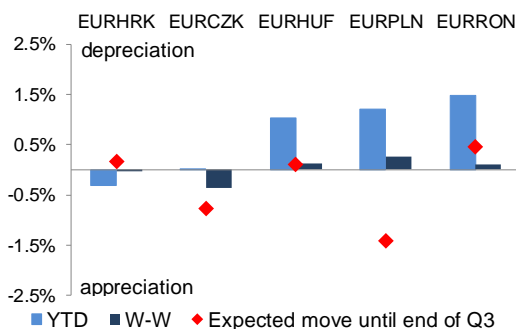


CEE Market Insights

Market outlook

Global trade disputes are pulling local currencies onto a roller-coaster ride, with some of them seeing separate moves in their own right. Volatility could remain high while domestic macro news is somewhat off the table this week. The koruna was somewhat strong, as Governor Rusnok calmed down any expectations for easing. For the time being, we also keep our forecast of unchanged rates intact, which could help the koruna. The zloty already weakened a lot recently, also likely due to illiquidity last week. This has already started to reverse, and we think this appreciation could continue. The Hungarian forint could be relatively weak, however, as the central bank poured in a lot of extra liquidity with FX swaps last week.

Spreads continued to tighten in Poland and in Hungary last week, more than just following the plummeting of global yields. While yield declines were aggressive recently, creating some room for a possible increase, we have still cut our yield forecasts for Hungary and the Czech Republic. Only a mild increase is expected in the absence of more reassuring global economic news. For Poland, we also perceive some risk to the downside, but we have just recently cut our yield outlook there, and thus, a forecast change seems a bit premature.



Looking ahead this week:

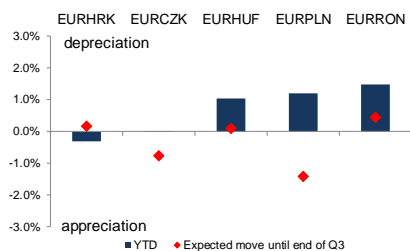
Monday	Tuesday	Wednesday	Thursday	Friday
SK: Unemployment HR: Unemployment, Wages	PL: Wages	PL: Industry, PPI SI: PPI	PL: Retail	

Shortly after last week's 2Q19 GDP releases confirmed a more or less pronounced economic slowdown in the region, Poland will publish data on industry and retail sales performance in July. This is important to watch, as it may give some indication of how extensive the slowdown might be. Especially as to whether economic activity in June was particularly weak not only in Poland, but also across the whole region. In the Czech Republic, market sentiment indicators may also shed more light on whether June's rather poor economic activity was a one-off or not. Labor market data is also due next week. In Slovakia and Croatia, the unemployment rate has been on a downward trend, while in Poland, the market expects employment to grow further and wage growth to sustain close to 7% y/y dynamics.

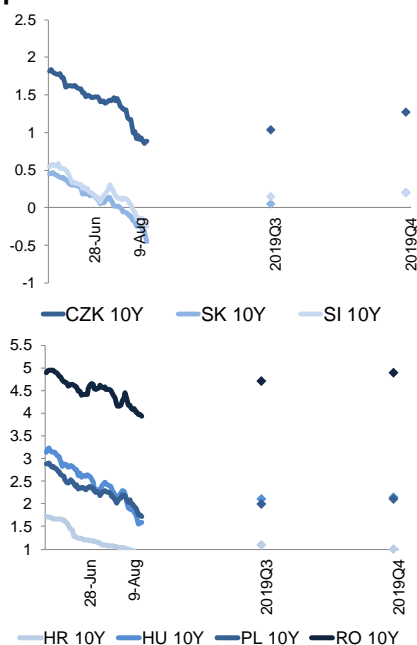
In case you missed it last week...

- CZ: [Favorable economic development in 2Q](#), while [inflation moved closer to 3% y/y](#) in July
- HU: [Marginal slowdown](#) of Hungarian economy in 2Q19
- HU: Fitch affirmed Hungary's rating at BBB
- PL: [GDP growth in 2Q sustained solid dynamics](#) despite worsening external environment.
- SK: [Disappointing GDP data](#) implies downward revision of this year's growth while [inflation went notch up](#)
- RO: [Economic growth](#) marked some slowdown amid rising [inflation above 4% y/y](#) in July
- HR: [July's inflation overshoot expectations](#) (1.0% y/y vs. 0.6% y/y forecast)
- RS: [Inflation](#) remained subdued in July

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

The most important macro indicators will be released this week from the Eurozone. Purchasing Managers' Indices will give the first indication as to how the economy as a whole, and in large member countries, fared in July. From the US, the most important determinant for the EURUSD will be Fed Chairman Powell's speech on the challenges for monetary policy at the Jackson Hole Symposium at the end of the week.

CEE currencies:

Currencies in the region continued their relative divergent moves last week as local factors also played a role in addition to turbulent news surrounding tariffs in the US-China trade war. Now it was the Czech koruna that fared relatively well vs. the Polish zloty and the Hungarian forint: this has to do a lot with rate moves, as rates fell the least in the Czech Republic while they continued their large decline in Hungary and in Poland. As for the zloty, it jumped on a roller-coaster ride last week, but on Friday, after hefty weakening earlier in the week, the currency got a boost amid (this time) positive sentiment on global markets. As we do not think there will be a rate change at least until the end of next year, while the market is now starting to believe in such a scenario, we see the zloty firming in the upcoming weeks. The forint may remain volatile or even weaken further, in our view, as the central bank poured HUF liquidity in on Friday by increasing the total stock of FX-swaps by HUF 150bn to HUF 2,003bn, a record high. Even if we know from the MNB that it is the liquidity surplus that we should be watching, this seems a large increase to make any appreciation of the HUF on the short run rather counterintuitive. Investors also have to bear in mind that there are bank holidays in Hungary on August 19-20, likely rendering the FX market rather illiquid, where it is easier to move prices. Other currencies remained relatively stable, with the Romanian leu showing slight weakening vs the euro.

CEE rates and yields:

Following the continued decline in German Bund yields, CEE bonds continued to rally, with Hungarian and Polish spreads narrowing further over German Bunds. Czech bond yields showed only a small decline, however, as did interest rate swaps: the latter only fell 10-15bp over the curve, which looks mild vs. the decreases on the zloty and forint swaps curves (15-25bp). This may have something to do with Czech central bank governor Rusnok's words that he thinks there is a very low chance of monetary easing in the upcoming quarters, and that the policy rate may be kept at 2%. Against the backdrop of a strong ongoing decrease of global rate expectations, this comment could sound somewhat hawkish. In Hungary, before the four-day holiday, the central bank poured in a substantial amount of additional liquidity with FX swaps, which is likely to cut short-term rates this week. As for our longer-dated yield forecasts, we have cut them in both the Czech Republic and Hungary, indicating only a mild increase in the upcoming months. While current moves on global government bond markets seem very aggressive and could cause some rebound in yields soon, a more lasting increase in yields could only come if reassuring comments appeared on global markets (i.e. a significant improvement in US-China or some follow-up on rumors about a possible German fiscal easing). In addition, it also could not be ruled out that the speculation on stronger ECB easing intensifies further. We also see some downward risks to our Polish yield forecasts.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
19-Aug							
	SK	Unemployment Rate	Jul			4.97%	
11:00	HR	Unemployment Rate	Jul			7.20%	
11:00	HR	Wages (y/y)	Jun			1.20%	
20-Aug							
10:00	PL	Wages (y/y)	Jul	7.0%	6.7%	5.30%	After weaker figure in June, we expect wage growth dynamics to move back towards 7%.
21-Aug							
10:00	PL	Industrial Production (y/y)	Jul	6.9%	6.5%	-2.70%	Positive calendar effect (+1WD) to support industrial performance.
10:00	PL	PPI (y/y)	Jul		0.4%	0.60%	Price pressure to remain sluggish due to low oil prices.
10:30	SI	PPI (y/y)	Jul			0.50%	
22-Aug							
10:00	PL	Retail Sales (y/y)	Jul	9.3%	7.0%	5.30%	We might observe first improvement of retail sales growth due to introduction of adjusted 500+ program as of July.

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia 10Y	0.92	1.10	1.00	1.00	1.00
spread (bps)	160	170	140	130	130
Czech Rep. 10Y	0.88	1.04	1.27	1.41	1.51
spread (bps)	157	164	167	171	181
Hungary 10Y	1.63	1.80	1.85	2.00	2.10
spread (bps)	231	240	225	230	240
Poland 10Y	1.72	2.00	2.10	2.15	2.20
spread (bps)	241	260	250	245	250
Romania10Y	3.92	4.70	4.90	5.10	5.20
spread (bps)	461	530	530	540	550
Slovakia 10Y	-0.46	-0.30	-0.15	0.00	0.05
spread (bps)	23	30	25	30	35
Slovenia 10Y	-0.24	0.15	0.20	0.20	0.20
spread (bps)	45	75	60	50	50
Serbia 5Y	2.71	2.80	3.00	2.90	2.70
DE10Y	-0.69	-0.60	-0.40	-0.30	-0.30

FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2
EURHRK	7.39	7.40	7.42	7.42	7.38
forwards		7.39	7.39	7.39	7.39
EURCZK	25.73	25.55	25.30	25.14	24.88
forwards		25.80	25.92	26.04	26.16
EURHUF	324.6	325.0	325.0	325.0	325.0
forwards		324.8	325.3	325.7	326.4
EURPLN	4.34	4.28	4.30	4.31	4.30
forwards		4.35	4.37	4.39	4.42
EURRON	4.73	4.75	4.77	4.79	4.82
forwards		4.75	4.78	4.82	4.86
EURRSD	117.8	117.7	118.0	118.0	117.8
forwards		-	-	-	-
EURUSD	1.11	1.10	1.10	1.12	1.15

3M Money Market Rate						Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2		current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.43	0.50	0.50	0.50	0.50	Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	2.14	2.16	2.16	2.22	2.36	Czech Republic	2.00	2.00	2.00	2.00	2.25
Hungary	0.26	0.25	0.25	0.35	0.45	Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.72	1.72	1.72	1.72	1.72	Poland	1.50	1.50	1.50	1.50	1.50
Romania	3.09	3.40	3.40	3.30	3.30	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.05	2.45	2.48	2.47	2.48	Serbia	2.50	2.50	2.50	2.50	2.50
Eurozone	-0.42	-0.40	-0.50	-0.50	-0.50	Eurozone	0.00	0.00	0.00	0.00	0.00

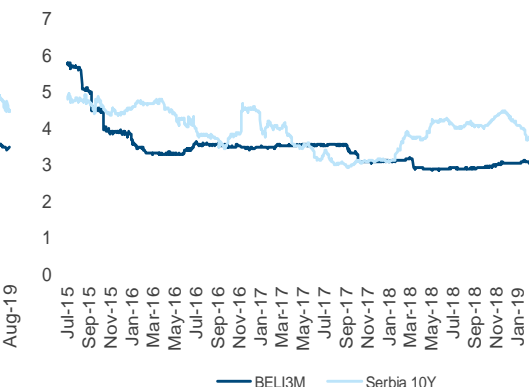
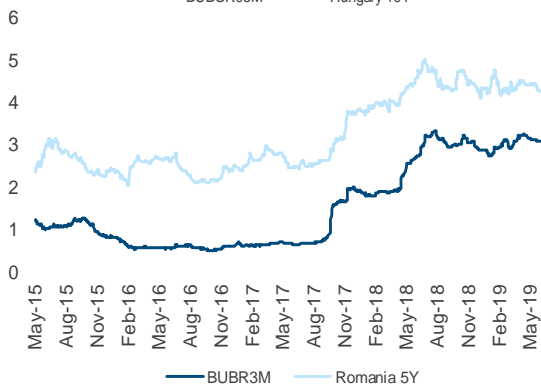
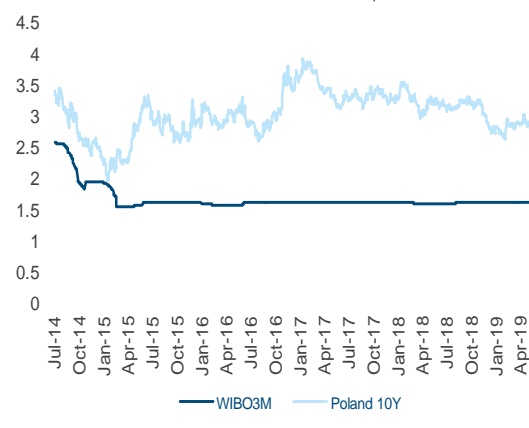
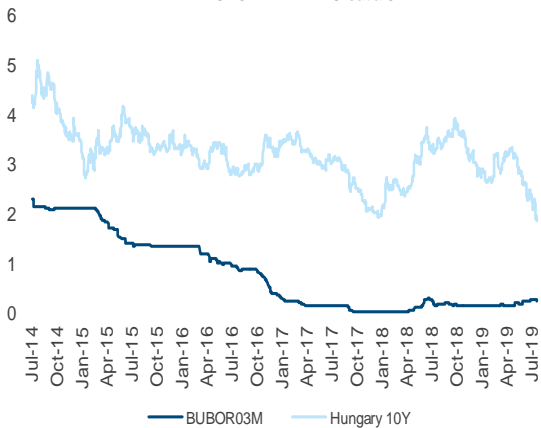
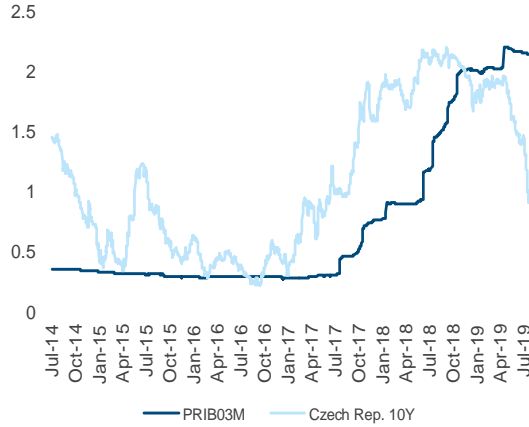
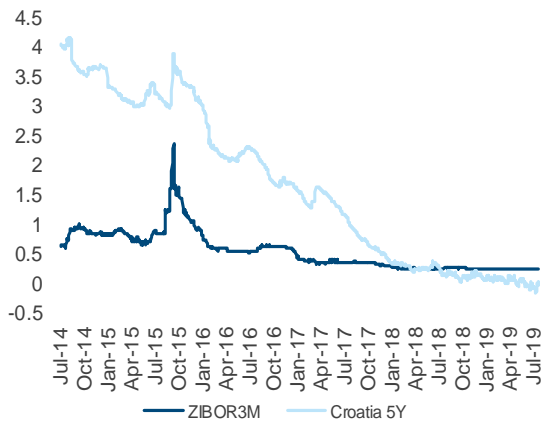
Macro forecasts

Real GDP growth (%)					Average inflation (%)					Unemployment (%)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	2.9	2.6	3.2	2.5	Croatia	1.1	1.5	1.0	1.3	Croatia	11.3	8.4	7.4	6.4
Czech Republic	4.5	2.9	2.6	2.8	Czech Republic	2.5	2.1	2.6	2.2	Czech Republic	2.9	2.3	3.0	3.3
Hungary	4.1	4.9	4.5	3.3	Hungary	2.4	2.8	3.3	3.3	Hungary	4.2	3.7	3.5	3.5
Poland	4.8	5.1	4.3	3.6	Poland	2.0	1.6	2.4	2.7	Poland	7.3	6.1	6.0	6.4
Romania	7.0	4.1	4.5	3.8	Romania	1.3	4.6	4.0	3.3	Romania	4.9	4.2	3.8	4.0
Serbia	2.0	4.3	3.3	3.5	Serbia	3.2	2.0	2.1	1.8	Serbia	13.5	12.7	10.6	9.8
Slovakia	3.2	4.1	3.4	3.3	Slovakia	1.3	2.5	2.5	2.5	Slovakia	8.1	6.5	5.8	5.7
Slovenia	4.9	4.5	3.2	3.1	Slovenia	1.4	1.7	1.5	1.9	Slovenia	6.6	5.1	4.2	3.7
CEE8 average	4.7	4.4	3.9	3.4	CEE8 average	1.9	2.4	2.7	2.7	CEE8 average	6.3	5.2	5.0	5.2

Public debt (% of GDP)					C/A (%GDP)					Budget Balance (%GDP)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	77.8	74.6	71.2	68.9	Croatia	3.7	2.6	1.4	-0.1	Croatia	0.8	0.2	0.0	-0.5
Czech Republic	34.6	32.7	31.0	30.1	Czech Republic	1.7	0.3	0.4	0.5	Czech Republic	1.6	0.9	0.6	0.3
Hungary	73.4	70.8	68.2	66.4	Hungary	2.8	0.5	-0.1	0.7	Hungary	-2.2	-2.2	-1.8	-1.5
Poland	50.6	48.9	48.0	46.5	Poland	0.2	-0.7	-0.5	-0.7	Poland	-1.5	-0.4	-1.5	-0.8
Romania	35.2	35.0	34.5	36.0	Romania	-3.2	-4.5	-4.8	-5.2	Romania	-2.7	-3.0	-3.0	-4.0
Serbia	59.3	53.6	51.3	49.2	Serbia	-5.2	-5.2	-6.3	-6.0	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	48.9	47.7	46.2	Slovakia	-2.0	-2.5	-2.2	-1.5	Slovakia	-0.8	-0.7	-0.7	-0.4
Slovenia	74.1	70.1	66.5	63.0	Slovenia	7.2	7.0	6.4	5.7	Slovenia	0.0	0.0	0.70	0.8
CEE8 average	50.3	48.4	46.9	45.7	CEE8 average	0.2	-0.9	-1.0	-1.1	CEE8 average	-1.0	-0.7	-1.2	-1.1

Note: *Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

Appendix



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