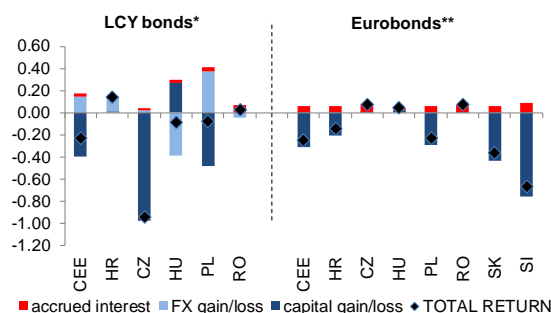
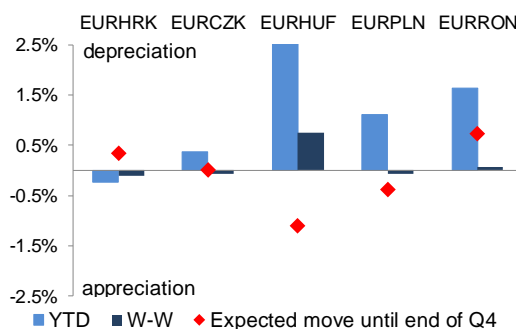


CEE Market Insights

Market outlook

While markets are trying to digest what the ECB's new measures may mean in the longer run, CEE will see first monthly indicators from the real economy from August, as Poland will release important figures that could provide important insight into 3Q19 GDP developments. Apart from this, the macro calendar is relatively empty for other countries. Therefore, CEE markets could be heavily affected by the Fed decision. A rate cut is in the cards, but the outlook from Chair Powell will be crucial, especially after the recent call from President Trump to cut rates to "zero, or less". Brexit, as always, could also influence CEE markets, but the direction of the effect is hardly predictable here.

Last week's substantial increase in Bund yields was not followed as much by most CEE countries, and therefore, spread narrowing was observable. The ECB still introduced measures, so we feel that our yield forecasts do not really need adjustment. FX markets were more divergent: while the zloty continued its recovery, the Hungarian forint remained hectic around all-time lows. A loose central bank policy could mean that volatility could remain high for the HUF. The Fed decision this week could play a major role for all currencies in CEE.



Looking ahead this week:

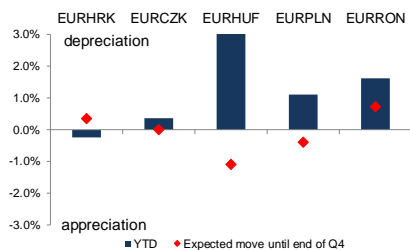
Monday	Tuesday	Wednesday	Thursday	Friday
CZ: PPI HR: CPI		PL: Wages	RS: Current Account SK: Unemployment PL: Industry, PPI	HU: Current Account PL: Retail SI: PPI HR: Unemployment

While we only received a full picture of the July economic performance across the entire region last week, we are already moving on to monthly indicators for August this week. Poland will publish industry and retail sales growth. While household spending likely remained high, industry may suffer from fewer working days. Once these two indicators are released, we should be able to get a pretty accurate estimate of the extent of the economic slowdown in the third quarter with our now-casting model. Apart from that, the data on labor market conditions will be published. In Poland, nominal wage and employment growth are due, while in Croatia and Slovakia, the unemployment rate should remain low.

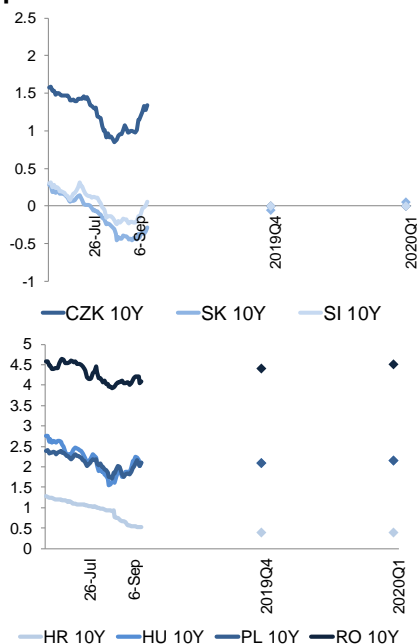
In case you missed it last week...

- CEE: New Macro Outlooks: [Croatia](#) [Czech Republic](#) [Hungary](#) [Poland](#) [Romania](#) [Serbia](#) [Slovakia](#) [Slovenia](#)
- CZ: August [inflation above expectations](#), driven mostly by tight labor market
- HU: [Headline CPI](#) moved slightly down in August
- PL: Inflation in August was revised slightly up, while [MPC sustains stability of rates](#) as most likely scenario
- RO: [Industrial output growth disappointed](#) in July, while [inflation eased](#) in August
- SK: [Consumer Price Index](#) eased mildly in August, while [July industry fared better](#) than expected
- SI: [Industrial production](#) increased in July
- RS: [Inflation undershot expectations](#) in August and the [NBS kept policy rate](#) unchanged

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

The main scheduled event for the EURUSD this week will be without question the rate decision in the US. A rate cut is fully priced in by markets. More exciting will be the indications on the outlook, not least from the survey among FOMC meeting participants. Any news on Brexit could also give the market direction, but these are unpredictable.

CEE currencies:

Free-floating currencies in the region tend to follow a somewhat different path recently. The Polish zloty managed to recover from August lows, while the Hungarian forint remained volatile around all-time lows. As for the latter, the recent inflation print puts the central bank into a more comfortable position and removes pressure to tighten policy. We see no change in MNB policy in September. However, we also do not share some current views that easing could come soon. Overall, the forint could remain volatile. As for Poland, the appreciation came as bond yields and shorter-term rate expectations also edged up somewhat, while Hungarian rates and yields declined. The Romanian leu also slightly declined, which also came with some yield and rate declines. The Czech koruna stayed relatively stable, but around somewhat weak levels. An interesting aspect of this is that expectations for rate easing are continuously being priced out on the Czech market. We see the koruna at somewhat stronger levels in the coming months. On a general note, FX markets are watching the Fed decision this week.

CEE rates and yields:

There were strong fears that a possible disappointment from the ECB could trigger yield increases not just on the Bund market, but also for CEE bond markets. While yields already edged up before the Thursday decision, only Bund yields reacted to the ECB meeting as feared, as CEE yields, on average, did not go up as much as Bund yields did, or even showed some decline. The ECB still introduced measures, so we feel that our yield forecasts do not really need adjustment. Rate markets are also looking interesting in CEE: in August, rate cut expectations intensified in Poland and especially in Czechia, but in recent weeks, we see this reversing. The increase in rate expectations is especially strong on the Czech market. We do not expect the CNB to change rates in the coming months. As for Serbia, after the rate cuts during the summer, the NBS did not continue easing, so the key rate was left unchanged at 2.5%. We expect this to remain unchanged until the year-end, but note that the stance of the monetary policy should still remain accommodative and growth-supportive. Poland also did not see any rate change as expected, keeping the 1.5% policy rate unchanged. While inflation is on the rise in Poland, even the NBP started to acknowledge external growth risks. Thus, we see the target rate flat until 2020 and beyond.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
16-Sep							
9:00	CZ	PPI (y/y)	Aug	2.0%	1.8%	2.1%	Lower oil prices were main factor behind further slowdown in inflation of producer prices in y/y terms
9:00	SI	Wages (y/y)	Jul			2.1%	
11:00	HR	CPI (y/y)	Aug		1.0%	1.1%	Inflation seen remaining in tight band around 1% mark in August
11:00	HR	CPI (m/m)	Aug			-0.5%	
18-Sep							
10:00	PL	Wages (y/y)	Aug	6.8%	6.7%	7.4%	Wages should maintain solid growth dynamics
10:00	PL	Employment	Aug	2.7%		2.7%	
19-Sep							
	RS	Current Account Balance	Jul			-326.6	
	SK	Unemployment Rate	Aug		5.0%	4.97%	Unemployment rate is expected to have remained roughly unchanged in August
10:00	PL	Industrial Production (y/y)	Aug	1.1%	1.8%	5.8%	Negative calendar effect (-1 WD) will downplay performance of industry
10:00	PL	PPI (y/y)	Aug	0.9%	1.3%	0.6%	Price pressure to remain limited
20-Sep							
8:30	HU	Current Account Balance (q)	2Q			328.9	
10:00	PL	Retail Sales (y/y)	Aug	6.5%	7.0%	7.4%	Retail sales growth should remain strong, supported by favorable situation on labor market and increased social transfers
10:30	SI	PPI (y/y)	Aug			0.2%	
11:00	HR	Unemployment Rate	Aug			7.2%	
11:00	HR	Wages (y/y)	Jul			2.8%	

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia 10Y	0.51	0.40	0.40	0.40	0.40
spread (bps)	100	80	80	80	80
Czech Rep. 10Y	1.34	1.48	1.60	1.68	1.74
spread (bps)	182	188	200	208	214
Hungary 10Y	2.10	2.09	2.15	2.21	2.25
spread (bps)	258	249	255	261	265
Poland 10Y	2.10	2.10	2.15	2.20	2.20
spread (bps)	259	250	255	260	260
Romania10Y	4.08	4.40	4.50	4.50	4.60
spread (bps)	457	480	490	490	500
Slovakia 10Y	-0.28	-0.05	0.05	0.10	0.20
spread (bps)	21	35	45	50	60
Slovenia 10Y	0.06	0.00	0.00	0.00	0.00
spread (bps)	55	40	40	40	40
Serbia 5Y	2.71	3.00	2.90	2.70	2.50
DE10Y	-0.49	-0.40	-0.40	-0.40	-0.40

FX					
	current	2019Q4	2020Q1	2020Q2	2020Q3
EURHRK	7.40	7.42	7.42	7.38	7.40
forwards		7.40	7.40	7.40	7.40
EURCZK	25.85	25.50	25.34	25.04	24.86
forwards		26.02	26.14	26.28	26.40
EURHUF	331.7	329.0	328.0	329.0	330.0
forwards		332.3	332.7	333.3	334.0
EURPLN	4.33	4.32	4.31	4.30	4.29
forwards		4.36	4.38	4.40	4.43
EURRON	4.74	4.77	4.79	4.82	4.85
forwards		4.78	4.82	4.86	4.90
EURRSD	117.7	118.0	118.0	117.7	117.7
forwards		-	-	-	-
EURUSD	1.11	1.10	1.12	1.15	1.15

3M Money Market Rate						Key Interest Rate					
	current	2019Q4	2020Q1	2020Q2	2020Q3		current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.48	0.50	0.50	0.50	0.50	Croatia	0.30	0.30	0.30	0.30	0.30
Czechia	2.14	2.13	2.12	2.12	2.12	Czechia	2.00	2.00	2.00	2.00	2.00
Hungary	0.21	0.26	0.28	0.29	0.30	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	3.05	3.00	2.90	2.90	3.20	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	1.98	2.00	1.90	1.80	1.70	Serbia	2.50	2.50	2.50	2.50	2.50
Eurozone	-0.40	-0.50	-0.50	-0.50	-0.50	Eurozone	0.00	0.00	0.00	0.00	0.00

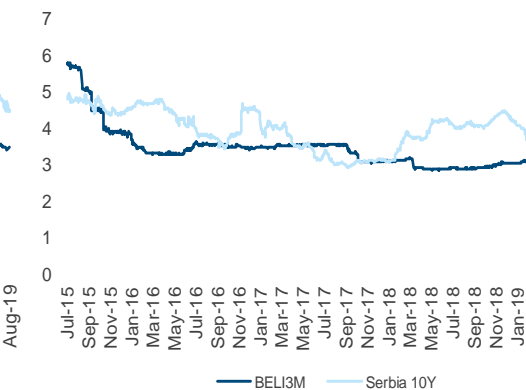
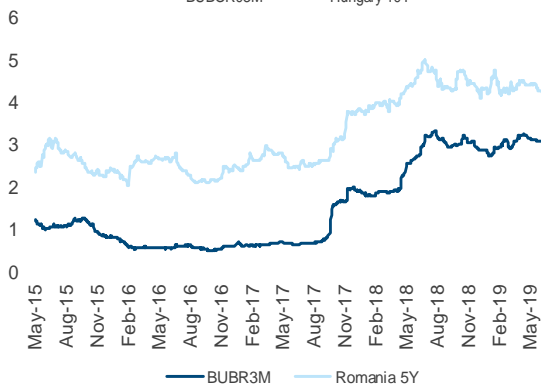
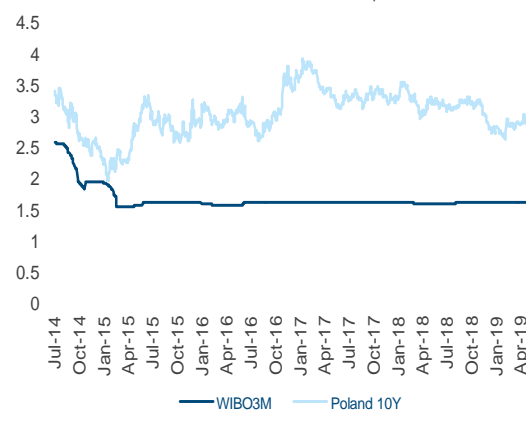
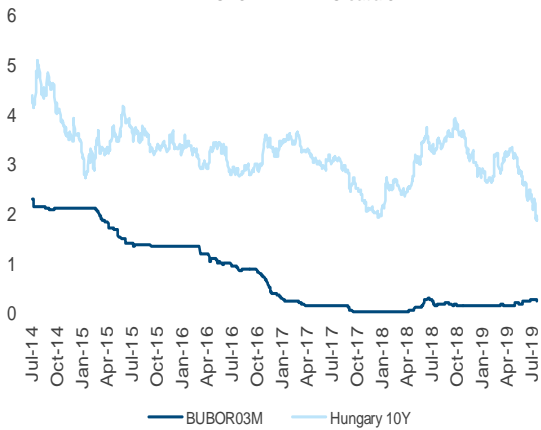
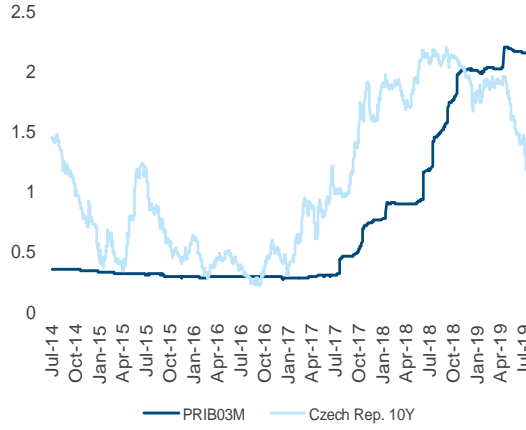
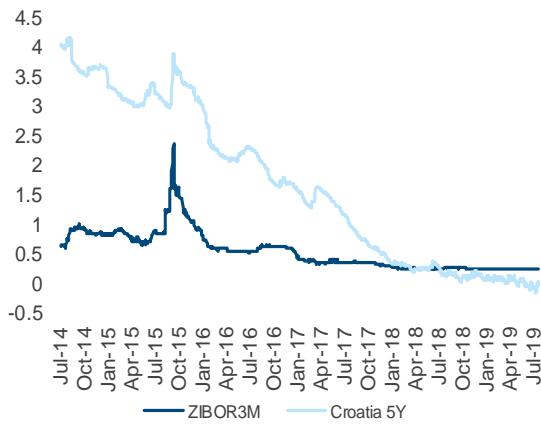
Macro forecasts

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	1.0	Croatia	11.3	8.4	6.8	5.8
Czechia	4.5	2.9	2.6	2.7	Czechia	2.5	2.1	2.6	2.2	Czechia	2.9	2.3	2.1	2.4
Hungary	4.1	4.9	4.6	3.3	Hungary	2.4	2.8	3.3	3.3	Hungary	4.2	3.7	3.4	3.4
Poland	4.8	5.1	4.4	3.8	Poland	2.0	1.6	2.3	2.9	Poland	7.3	6.1	5.6	5.8
Romania	7.0	4.1	4.5	3.8	Romania	1.3	4.6	3.9	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	2.2	1.8	Serbia	13.5	12.7	10.7	9.8
Slovakia	3.2	4.1	2.5	2.3	Slovakia	1.3	2.5	2.6	2.3	Slovakia	8.1	6.6	5.8	5.9
Slovenia	4.8	4.1	3.0	2.7	Slovenia	1.4	1.7	1.8	2.1	Slovenia	6.6	5.2	4.0	3.6
CEE8 average	4.7	4.3	3.9	3.4	CEE8 average	1.9	2.4	2.7	2.7	CEE8 average	6.3	5.2	4.7	4.8

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	71.3	69.3	Croatia	3.7	2.6	1.5	0.1	Croatia	0.8	0.2	0.0	-0.5
Czechia	34.6	32.7	31.0	30.1	Czechia	1.7	0.3	0.4	0.5	Czechia	1.6	0.9	0.6	0.3
Hungary	73.4	70.8	68.2	66.2	Hungary	2.8	0.4	-0.1	0.3	Hungary	-2.2	-2.2	-1.8	-1.4
Poland	50.6	48.9	48.0	46.5	Poland	0.2	-0.7	-0.5	-0.7	Poland	-1.5	-0.4	-0.7	-0.5
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	50.4	47.9	Serbia	-5.2	-5.2	-6.9	-6.6	Serbia	1.1	0.6	0.3	0.0
Slovakia	50.9	48.9	48.2	47.4	Slovakia	-2.0	-2.5	-2.8	-1.6	Slovakia	-0.8	-0.7	-0.8	-0.7
Slovenia	74.1	70.4	66.2	62.8	Slovenia	6.1	5.7	5.0	4.1	Slovenia	0.0	0.0	0.70	0.8
CEE8 average	50.3	48.4	46.9	45.8	CEE8 average	0.2	-0.9	-1.1	-1.2	CEE8 average	-1.0	-0.7	-0.9	-1.0

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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