

CEE Market Insights

Foreign politics in focus

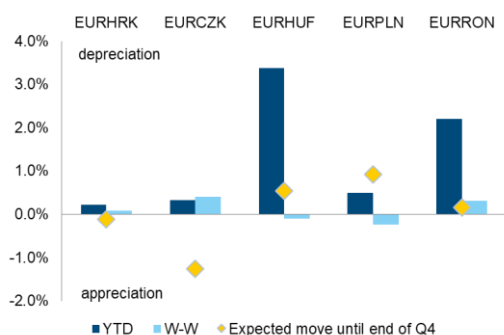
Week ahead

Politics will remain in focus this week. One would think that domestic factors would reign, but the weekend elections (parliamentary in Poland, municipal in Hungary) have not brought any material change and last week's collapse of the Romanian government was the fourth one since the last elections in 2016. So, all eyes will be on the international political scene, particularly the European Council meeting scheduled for the end of this week, at which Brexit will be discussed. Any progress towards an agreement would be supportive for CEE countries and markets, as negative sentiment has already been taking its toll on confidence in industry and output. Romania will report its industrial production numbers for August on Monday and Poland will release its September numbers on Friday. In Romania, we expected a slight decline of production, while Poland should show growth (5.3% y/y), due to a positive calendar effect. On Friday, a rating upgrade of Croatia by Moody's is expected.

Monday	Tuesday	Wednesday	Thursday	Friday
RO: Current Account, Industry	PL: CPI	HR: CPI	PL: Wages	RS: Current Account
SK: CPI		CZ: PPI		SK: Unemployment
PL: Trade				PL: Industry

FX market performance

FX market developments

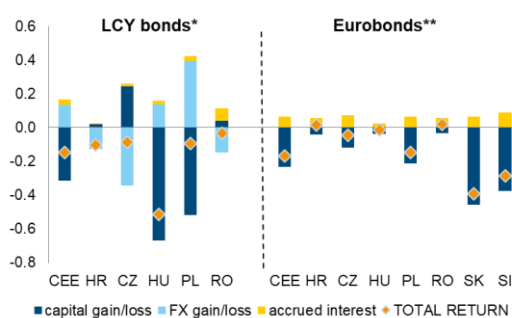


Source: Bloomberg, Erste Group Research

The Polish zloty and Hungarian forint were the only CEE currencies to benefit from the stronger EUR and increased risk appetite, having appreciated last week. There have been new hopes raised about the feasibility of an orderly Brexit after the meeting of the Irish PM with Boris Johnson. Moreover, the first round of talks between China and the US went well. Other currencies were more affected by domestic factors. Weak Czech industrial production data for August and a drop in inflation took a toll on the Czech koruna, which depreciated, hitting 25.900 EURCZK on Thursday. After a successful no-confidence motion against PM Dancila, the Romanian leu jumped above 4.76 EURRON.

Performance of 5Y bonds

Bond market developments



Source: Bloomberg, Erste Group Research

We saw some yield spread compression in 10Y CEE bonds over German Bunds last week. Many CEE bonds did not follow the increase of German Bund yields (+15bp w/w), which seemed to be associated with an easing of the risk-off mode, as 10Y US Treasury yields went up as well (+19bp w/w). Serbia sold EUR 30.3mn of 10Y EUR-denominated bonds at an average yield of 1.89%. Croatia's bonds continued in their own rally, ahead of another potential rating upgrade by Moody's already this Friday. In Romania, the Ministry of Finance rejected all bids in an auction of 12Y government bonds, due to low demand.

In case you missed

CEE: Check our latest CEE Bond Market Report: [CEE Spreads will remain compressed](#)
 CEE: Darker clouds gathering over industrial sector; disappointing figures in [HU](#), [CZ](#), [SK](#), [SI](#)
 CEE: Inflation eased in September in [HU](#), [CZ](#), [RO](#), [RS](#)
 PL: Partial results show Law and Justice sustaining simple majority (44.38%) in the Parliament.
 RS: [Rates remained unchanged](#); monetary policy of SNB should remain accommodative.
 RO: [Parliament adopted no-confidence motion](#) , government has been dismissed

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
14. Oct		RO	Current Account Balance	Aug			-6025	
	8:00	RO	Industrial Production (y/y)	Aug		-5.1%	-6.4%	Deep contraction of industrial production, due to weak external demand and competitiveness issues of local manufacturing
	9:00	SK	CPI (y/y)	Sep	2.9%		2.8%	Inflation is likely to have inched up a bit in September.
	9:00	SK	CPI (m/m)	Sep			0.2%	Small monthly increase is anticipated, especially on the back of food and service prices.
	14:00	PL	Trade Balance	Aug	-440		-376	
15. Oct	10:00	PL	CPI (y/y)	Sep F			2.6%	
	10:00	PL	CPI (m/m)	Sep F			-0.1%	
16. Oct	9:00	CZ	PPI (y/y)	Sep	1.9%	1.9%	2.1%	PPI inflation has been slowing down, mainly due to lower oil price in y/y terms and low inflation in Eurozone
	11:00	HR	CPI (y/y)	Sep		1.0%	0.8%	Inflation is expected to remain in tight band around 1% mark
	11:00	HR	CPI (m/m)	Sep			-0.3%	
17. Oct	10:00	PL	Wages (y/y)	Sep	7.1%	6.1%	6.8%	Wage growth to maintain solid dynamics
18. Oct		RS	Current Account Balance	Aug			-291.7	
		SK	Unemployment Rate	Sep	5.0%	5.0%	4.97%	We expect rate of unemployment to stagnate at level close to 5%
	10:00	PL	Industrial Production (y/y)	Sep	5.0%	5.3%	-1.3%	Positive calendar effect (+1WD) should support performance of industry; we see industrial production slowing down on average in 3Q19 compared to previous quarter
	10:00	PL	PPI (y/y)	Sep	0.5%	0.5%	0.7%	Price pressure remains low

Source: 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)	92	80	80	80	70
Czechia 10Y	1.2	1.5	1.6	1.7	1.7
spread (bps)	170	188	200	208	204
Hungary 10Y	2.0	2.1	2.2	2.2	2.2
spread (bps)	245	249	255	261	255
Poland 10Y	2.0	2.0	2.0	2.1	2.1
spread (bps)	242	235	240	245	235
Romania10Y	4.1	4.4	4.5	4.5	4.6
spread (bps)	455	480	490	490	490
Slovakia 10Y	0.0	-0.1	0.1	0.1	0.2
spread (bps)	48	35	45	50	50
Slovenia 10Y	0.05	0.00	0.00	0.00	0.00
spread (bps)	51	40	40	40	30
Serbia 5Y	2.7	3.0	2.9	2.7	2.5
spread (bps)	311	340	330	310	280
DE10Y	-0.5	-0.4	-0.4	-0.4	-0.3

3M Money Market Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.44	0.50	0.50	0.50	0.50
Czechia	2.17	2.13	2.12	2.12	2.12
Hungary	0.21	0.21	0.22	0.25	0.25
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.06	3.00	2.90	2.90	3.20
Serbia	1.98	2.00	1.90	1.80	1.70
Eurozone	-0.42	-0.50	-0.50	-0.50	-0.50

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	4.1	4.9	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	4.7	4.3	3.8	3.2

Public debt (% of GDP)

	2017	2018	2019f	2020f
Croatia	77.8	74.6	71.3	69.3
Czechia	34.6	32.7	31.0	30.1
Hungary	73.4	70.8	68.2	66.2
Poland	50.6	48.9	46.5	45.0
Romania	35.2	35.0	34.5	36.0
Serbia	59.3	53.6	50.4	47.9
Slovakia	51.2	49.2	48.4	47.7
Slovenia	74.1	70.4	66.2	62.8
CEE8 avg	50.4	48.4	46.3	45.2

FX

	current	2019Q4	2020Q1	2020Q2	2020Q3
EURHRK	7.43	7.42	7.42	7.38	7.40
forwards		7.43	7.43	7.43	7.43
EURCZK	25.81	25.50	25.34	25.04	24.86
forwards		25.93	26.08	26.24	26.38
EURHUF	331.77	334.00	335.00	335.00	335.00
forwards		332.17	332.59	333.13	333.74
EURPLN	4.31	4.35	4.35	4.35	4.34
forwards		4.33	4.35	4.38	4.40
EURRON	4.76	4.77	4.79	4.82	4.85
forwards		4.79	4.84	4.88	4.92
EURRSD	117.55	118.00	118.00	117.70	117.70
forwards		-	-	-	-
EURUSD	1.10	1.10	1.12	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	2.5	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	1.1	1.5	1.0	1.0
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	3.7	2.6	1.5	0.1
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	-1.0	-1.2	-1.2

Unemployment (%)

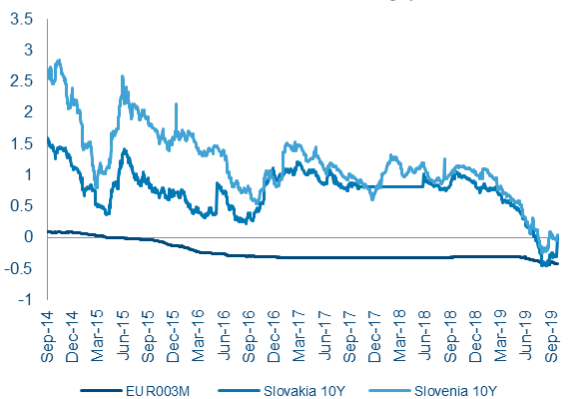
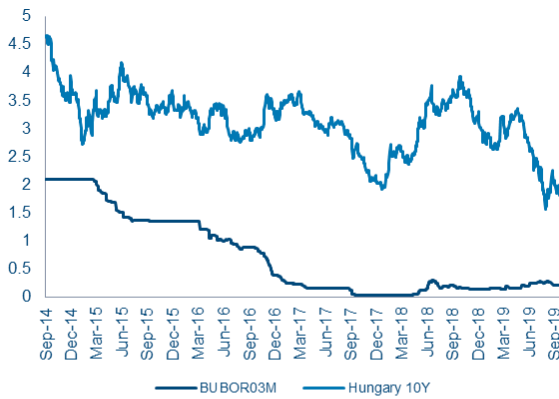
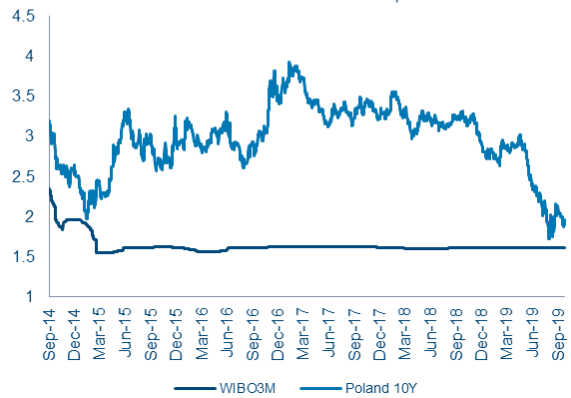
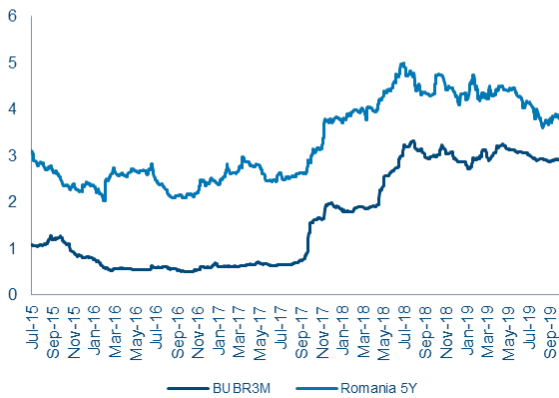
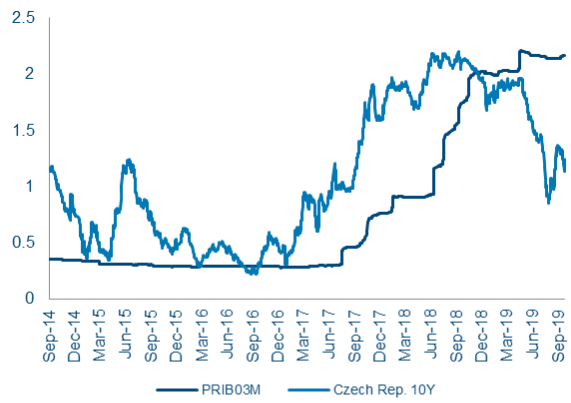
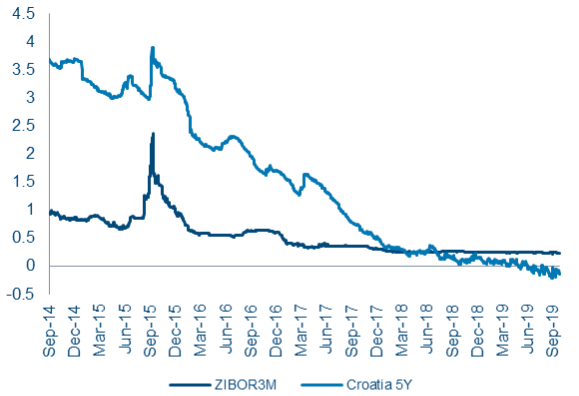
	2017	2018	2019f	2020f
Croatia	11.3	8.4	6.8	5.8
Czechia	2.9	2.3	2.1	2.4
Hungary	4.2	3.7	3.4	3.4
Poland	7.3	6.1	5.6	5.8
Romania	4.9	4.2	3.8	4.0
Serbia	13.5	12.7	10.7	9.8
Slovakia	8.1	6.6	5.8	5.9
Slovenia	6.6	5.2	4.0	3.6
CEE8 avg	6.3	5.2	4.7	4.8

Budget Balance (%GDP)

	2017	2018	2019f	2020f
Croatia	0.8	0.2	0.0	-0.5
Czechia	1.6	0.9	0.6	0.3
Hungary	-2.2	-2.2	-1.8	-1.4
Poland	-1.5	-0.4	-0.7	-0.5
Romania	-2.7	-3.0	-3.0	-4.0
Serbia	1.1	0.6	0.3	0.0
Slovakia	-0.8	-0.7	-0.8	-0.7
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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