

## First glance at fourth quarter

This week, first macroeconomic data for October will be released. We expect labor market to remain tight, with solid wage growth and stable employment growth. Industrial production is expected to slow, despite some recovery of new orders.

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### Watch this week

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#### November 21 | Wage growth to remain solid

We expect the wage growth to land at 6.1% y/y in October, slightly below market expectations of 6.2% y/y, while employment should remain stable at 2.6% y/y in October. All in all, the labor market remains tight and supports a high level of household spending.

#### November 22 | Industry to stay weak

After the somewhat stronger print in September (5.6% y/y), we see industrial production growth slowing to 4.1% y/y in October. We are more optimistic than the market, as the consensus stands at a sluggish 2.5% y/y. While new industrial orders have somewhat recovered and increased by 12.6% y/y in September, manufacturing sentiment continues to drop. Slowing industrial production weighed on 3Q19 GDP, as the growth dynamics eased to 3.9% y/y. We think that the sluggish performance of manufacturing is likely to continue and 4Q19 GDP could slow down towards 3.6% y/y. As of now, we keep our FY19 GDP forecast at 4.2%.

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Note: Past performance is not necessarily indicative of future results.

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### Last week's highlights

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- Deputy PM Sasin said in a radio interview that the government is not planning to unfreeze electricity prices for households in 2020. Hence, we see risks to the downside to our current inflation forecast.
- 3Q19 GDP growth arrived at 3.9% y/y, slightly below our and market expectations.
- The flash inflation reading was confirmed at 2.5% y/y in October. Core inflation came in at 2.4% y/y in October.

## Market developments

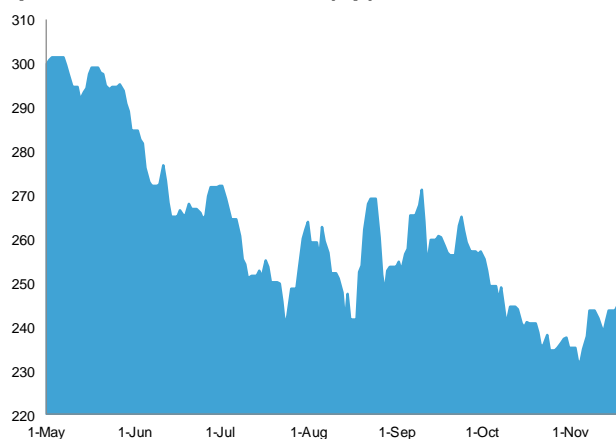
### Bond market drivers | 10Y yield returned to around 2.1%

In the first half of a shorter week (due to the public holiday on Monday), the Polish 10Y yield went down by 10bp to around 2.05%. However, towards the end of the week, it followed core market developments and slightly recovered. Ahead of the 3Q19 GDP release in Germany, the 10Y Bund fell visibly to below -0.35%. As the flash GDP growth arrived above market expectations at 0.1% q/q, the long end of the German curve somewhat recovered and increased on the last day of the week. As a result, the spread over the 10Y Bund fluctuated in a narrow band around 240bp. This week, the long end of the curve should move around recent levels; the industrial production data for October should be a non-event for the bond market.

### FX market drivers | Global tensions pushed zloty down

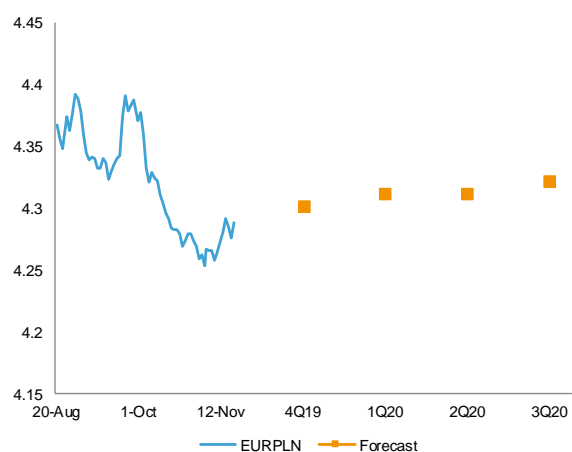
Last week, the zloty followed other emerging market currencies and continued to weaken, on the back of less optimistic trade war news, increasing tensions in Hong Kong and Jerome Powell's testimony in Congress. The EURPLN went above 4.29 and is currently close to our year-end forecast at 4.30. As far as local factors are concerned, the publication of a new inflation and growth projection by the National Bank of Poland added further pressure to the zloty, as it confirmed the expected economic slowdown next year. We expect the EURPLN to stay on the stronger side of 4.30.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

## Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
18.Nov	9:00	CZ	PPI (y/y)	Oct	1.2%	<b>1.4%</b>	1.9%	Due to lower prices of energy in y/y terms, PPI inflation should weaken further
19.Nov		SK	Unemployment Rate	Oct			5.04%	
	14:00	HU	Target Rate	Nov	0.9%	<b>0.9%</b>	0.9%	No change in rates is expected, monetary policy could preserve its dovish stance
	14:00	HU	O/N Rate	Nov	-0.05%	<b>-0.05%</b>	-0.05%	
	14:30	SK	Current Account Balance (monthly)	Sep			-489	
21.Nov	10:00	PL	Wages (y/y)	Oct	6.0%	<b>6.1%</b>	6.6%	Wage growth should maintain solid dynamics
	10:00	PL	Employment (y/y)	Oct	2.6%		2.6%	
	10:30	SI	PPI (y/y)	Oct			0.4%	
	11:00	HR	Unemployment Rate	Oct			6.7%	
	11:00	HR	Wages (y/y)	Sep			2.3%	
22.Nov	10:00	PL	Industrial Production (y/y)	Oct	2.1%	<b>4.1%</b>	5.6%	Despite dropping sentiment in manufacturing, somewhat stronger new orders growth should support October figure
	10:00	PL	PPI (y/y)	Oct	0.5%	<b>0.5%</b>	0.9%	Producer price pressure to remain low

Source: Bloomberg, Erste Group Research

## Market forecasts

### Government bond yields

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>Croatia 10Y</b>	0.6	0.4	0.4	0.4	0.4
spread (bps)	95	80	70	60	60
<b>Czechia 10Y</b>	1.4	1.6	1.7	1.7	1.8
spread (bps)	177	198	196	191	197
<b>Hungary 10Y</b>	2.0	2.1	2.2	2.2	2.2
spread (bps)	238	249	245	241	245
<b>Poland 10Y</b>	2.1	2.0	2.0	2.1	2.1
spread (bps)	244	235	230	225	225
<b>Romania10Y</b>	4.5	4.4	4.5	4.5	4.6
spread (bps)	479	480	480	470	480
<b>Slovakia 10Y</b>	0.1	0.1	0.2	0.2	0.3
spread (bps)	43	47	47	42	52
<b>Slovenia 10Y</b>	0.13	0.00	0.00	0.00	0.00
spread (bps)	46	40	30	20	20
<b>Serbia 5Y</b>	2.6	2.6	2.6	2.4	2.3
spread (bps)	288	300	285	255	245
<b>DE10Y</b>	-0.3	-0.4	-0.3	-0.2	-0.2

### 3M Money Market Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>Croatia</b>	0.41	0.50	0.50	0.50	0.50
<b>Czechia</b>	2.18	2.17	2.16	2.14	2.13
<b>Hungary</b>	0.19	0.21	0.22	0.25	0.25
<b>Poland</b>	1.71	1.72	1.72	1.72	1.72
<b>Romania</b>	2.97	3.00	2.90	2.90	3.20
<b>Serbia</b>	1.70	1.75	1.75	1.75	1.75
<b>Eurozone</b>	-0.40	-0.40	-0.40	-0.40	-0.40

Source: Bloomberg, Erste Group Research

### FX

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>EURHRK</b>	7.44	7.42	7.42	7.38	7.40
forwards		7.44	7.44	7.44	7.44
<b>EURCZK</b>	25.60	25.40	25.26	25.04	24.86
forwards		25.66	25.78	25.93	26.07
<b>EURHUF</b>	335.35	334.00	335.00	335.00	335.00
forwards		335.58	335.94	336.38	336.90
<b>EURPLN</b>	4.29	4.30	4.31	4.31	4.32
forwards		4.30	4.32	4.35	4.37
<b>EURRON</b>	4.77	4.77	4.79	4.82	4.85
forwards		4.79	4.83	4.88	4.92
<b>EURRSD</b>	117.50	118.00	118.00	117.70	117.70
forwards		-	-	-	-
<b>EURUSD</b>	1.11	1.13	1.15	1.15	1.15

### Key Interest Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>Croatia</b>	0.3	0.3	0.3	0.3	0.3
<b>Czechia</b>	2.0	2.0	2.0	2.0	2.0
<b>Hungary</b>	0.9	0.9	0.9	0.9	0.9
<b>Poland</b>	1.5	1.5	1.5	1.5	1.5
<b>Romania</b>	2.5	2.5	2.5	2.5	2.5
<b>Serbia</b>	2.3	2.5	2.5	2.5	2.5
<b>Eurozone</b>	0.0	0.0	0.0	0.0	0.0

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