

## CEE Market Insights

Hungarian central bank meeting, GDP in Poland

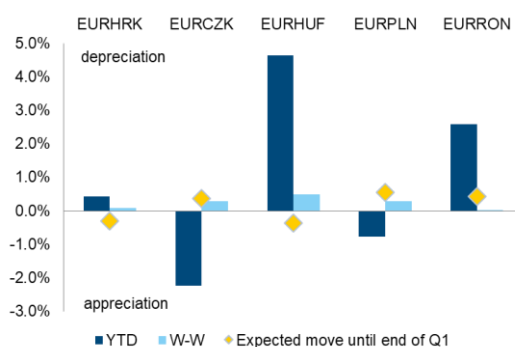
### This week in CEE

The Hungarian central bank meeting and release of 2019 GDP growth in Poland are this week's CEE highlights. In Hungary, stability of rates is broadly expected. We believe that, as long as the ECB sustains the current course of monetary policy, nothing should change in Hungary. FX swap transactions remain in focus after the central bank suddenly rejected all bids at its usual weekly FX swap tender last week. In Poland, we see GDP growth in 2019 at 4.2%. As the most recent data on industry performance was quite disappointing, slippage towards 4.1% cannot, however, be ruled out. As for other data releases in CEE, the December unemployment rate will be published in Poland, Hungary and Romania. In Croatia and Serbia, we get to see industrial output and retail sales growth for December. We expect some rebound of industry and solid retail sales number in both countries.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>PL:</b> Unemployment	<b>SK:</b> PPI, Current Account <b>HU:</b> Target rate	<b>HU:</b> Unemployment <b>PL:</b> 2019 GDP	<b>RO:</b> Unemployment <b>HR:</b> Retail Industry	<b>HU:</b> Wages <b>SI RS:</b> Retail <b>RS:</b> Industry, Trade
<b>SK 1Y Bills RO 2023</b> bonds	<b>HR 1Y Bill RS 5Y bonds</b>	<b>CZ 2027 and 2057</b> bonds <b>RS bonds</b>	<b>HU bonds CZ bills</b>	

### FX market

### FX market developments



Source: Bloomberg, Erste Group Research

CEE currencies had their own local stories last week. The Hungarian forint again hit all-time lows, but then reversed course to some extent as excess liquidity declined during the week. All eyes are on Monday's FX swap tenders to see if the central bank wants to react or not. We think that the forint is unlikely to appreciate lastingly. Towards the end of the week, the Polish zloty was hit by concerns over the rule of law, due to the conflicting views of the Supreme Court and the government on the judicial overhaul. We see the zloty weakening a bit in any case, as the recent appreciation was a bit too strong compared to the trend. The CZK could also slide a bit weaker, as the central bank may refrain from a rate increase on February 6.

### LCY yields, Eurobonds spreads Bond market developments

LCY bond yields (%)		Eurobond spreads (bp)	
RO 10Y	4.23 (-5)	MO 2029	293 (+8)
RS 9Y	2.99 (+5)	RO 2030	206 (+4)
PL 10Y	2.24 (-8)	MK 2025	183 (+3)
HU 10Y	2.08 (-10)	HR 2030	104 (+13)
CZ 10Y	1.55 (-11)	HU 2027	73 (+9)
HR 10Y	0.59 (0)	BG 2028	70 (+6)
BG 10Y	0.23 (-5)	LV 2028	54 (+7)
		SI 2029	53 (+3)
		LT 2029	52 (+8)
		PL 2029	51 (+7)
		SK 2030	48 (+2)

Bond yields generally fell last week globally and in the CEE region. Haven assets gained on the anxiety over the Chinese coronavirus and comments from the ECB's Lagarde that there are still downside risks to the Eurozone economy. Yields on basically all LCY yields declined in CEE, with a somewhat lower fall of Polish and Romanian yields. Polish yields increased on Friday, due perhaps to some effects from the rule of law issue. Romania successfully issued a total of EUR 3bn in 12Y and 30Y Eurobonds. After the initial increase due to the higher supply, Eurobond yields declined as well last week in Romania.

Source: Bloomberg, Erste Group Research

## In case you missed

CZ: Fitch affirmed Czech rating at AA-

HR: Unemployment rate continues to improve.

HU: Unexpected drop of [FX swap](#).

PL: While [industrial performance](#) disappointed, [retail sales](#) held strong in December.

SK: Unemployment rate remained flat.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
27. Jan	10:00	PL	Unemployment Rate	Dec		5.2%	5.1%	Unemployment rate to remain stable.
28. Jan	9:00	SK	PPI (y/y)	Dec			1.1%	
	14:00	HU	Central Bank Rate	Jan 28	0.90%	0.9%	0.9%	Rates to remain intact at upcoming meeting. MNB might fine-tune market with liquidity measures via FX swaps, while maintaining overall dovish monetary policy.
	14:00	HU	Overnight Deposit Rate	Jan 28	-0.05%	-0.05%	-0.05%	
	14:30	SK	Current Account Balance (monthly)	Nov			-92.00	
29. Jan	9:00	HU	Unemployment Rate	Dec	3.5%	3.5%	3.5%	Tight labor market conditions could have persisted in 4Q19.
	10:00	PL	GDP	2019	4.2%	4.2%	5.1%	We expect economy to have slowed down in 2019.
30. Jan		RO	Unemployment Rate	Dec			3.0%	
	11:00	HR	Industrial Production (y/y)	Dec		0.5%	-0.4%	December industrial production expected to show mild rebound, wrapping up 2019 performance slightly below 1%.
	11:00	HR	Retail Sales (y/y)	Dec		4.2%	0.0	Retail trade growth seen as accelerating, confirming expectations that consumption remains growth pillar.
31. Jan	9:00	HU	Trade Balance	Nov F			499.67	
	9:00	HU	Wages (y/y)	Nov	11.1%		11.6%	
	10:30	SI	Retail Sales (y/y)	Dec			-0.02	
	12:00	RS	Industrial Production (y/y)	Dec		4.5%	1.1%	Recovery pattern coupled with low base effect implies we could see highest monthly figure for whole 2019.
	12:00	RS	Retail Sales (y/y)	Dec		12.4%	11.2%	Strong labor market coupled with double-digit wage increases suggest yet another strong retail print.
	12:00	RS	Trade Balance	Dec			-519	

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

## Forecasts

### Government bond yields

	current	2020Q1	2020Q2	2020Q3	2020Q4
<b>Croatia 10Y</b>	0.6	0.4	0.4	0.4	0.4
spread (bps)	93	60	60	50	50
<b>Czechia 10Y</b>	1.5	1.7	1.7	1.8	1.9
spread (bps)	189	186	191	187	197
<b>Hungary 10Y</b>	2.1	2.1	2.2	2.2	2.3
spread (bps)	242	229	235	230	235
<b>Poland 10Y</b>	2.2	2.2	2.2	2.3	2.3
spread (bps)	258	235	240	235	240
<b>Romania 10Y</b>	4.2	4.5	4.5	4.6	4.6
spread (bps)	457	470	470	470	470
<b>Slovakia 10Y</b>	0.1	0.2	0.2	0.3	0.4
spread (bps)	42	37	42	42	52
<b>Slovenia 10Y</b>	0.18	0.20	0.30	0.30	0.30
spread (bps)	52	40	50	40	40
<b>Serbia 5Y</b>	2.5	2.5	2.3	2.2	2.1
spread (bps)	289	270	250	230	220
<b>DE10Y</b>	-0.3	-0.2	-0.2	-0.1	-0.1

### 3M Money Market Rate

	current	2020Q1	2020Q2	2020Q3	2020Q4
<b>Czechia</b>	2.17	2.16	2.14	2.13	2.12
<b>Hungary</b>	0.19	0.19	0.20	0.22	0.22
<b>Poland</b>	1.71	1.71	1.71	1.71	1.71
<b>Romania</b>	3.16	2.90	2.90	3.20	3.40
<b>Serbia</b>	1.63	1.55	1.45	1.45	1.20
<b>Eurozone</b>	-0.39	-0.40	-0.40	-0.40	-0.40

### Real GDP growth (%)

	2018	2019f	2020f	2021f
<b>Croatia</b>	2.7	3.0	2.5	2.4
<b>Czechia</b>	2.9	2.6	2.5	2.7
<b>Hungary</b>	5.1	4.9	3.6	3.1
<b>Poland</b>	5.1	4.2	3.4	2.8
<b>Romania</b>	4.1	4.0	3.5	3.4
<b>Serbia</b>	4.4	3.6	4.0	4.2
<b>Slovakia</b>	4.0	2.3	2.0	2.5
<b>Slovenia</b>	4.1	2.7	2.7	2.5
<b>CEE8 avg</b>	4.4	3.7	3.2	2.9

### Public debt (% of GDP)

	2018	2019f	2020f	2021f
<b>Croatia</b>	74.7	71.4	69.2	66.9
<b>Czechia</b>	32.5	30.8	30.0	29.6
<b>Hungary</b>	70.2	66.9	64.4	62.6
<b>Poland</b>	48.9	46.5	45.0	43.0
<b>Romania</b>	35.0	36.1	37.5	39.4
<b>Serbia</b>	53.7	51.9	50.2	47.8
<b>Slovakia</b>	49.4	48.4	48.1	46.8
<b>Slovenia</b>	70.4	66.6	63.6	61.1
<b>CEE8 avg</b>	48.4	46.5	45.4	44.2

### FX

	current	2020Q1	2020Q2	2020Q3	2020Q4
<b>EURHRK</b>	7.44	7.42	7.38	7.40	7.42
forwards		7.44	7.44	7.44	7.44
<b>EURCZK</b>	25.17	25.26	25.04	24.86	24.65
forwards		25.27	25.41	25.56	25.68
<b>EURHUF</b>	336.61	335.00	335.00	335.00	335.00
forwards		337.03	337.62	338.32	339.04
<b>EURPLN</b>	4.26	4.28	4.29	4.30	4.30
forwards		4.28	4.30	4.32	4.35
<b>EURRON</b>	4.78	4.80	4.82	4.85	4.87
forwards		4.81	4.85	4.90	4.94
<b>EURRSD</b>	117.53	117.60	117.40	117.20	117.30
forwards		-	-	-	-
<b>EURUSD</b>	1.10	1.15	1.15	1.15	1.15

### Key Interest Rate

	current	2020Q1	2020Q2	2020Q3	2020Q4
<b>Croatia</b>	0.30	0.30	0.30	0.30	0.30
<b>Czechia</b>	2.00	2.00	2.00	2.00	2.00
<b>Hungary</b>	0.90	0.90	0.90	0.90	0.90
<b>Poland</b>	1.50	1.50	1.50	1.50	1.50
<b>Romania</b>	2.50	2.50	2.50	2.50	2.50
<b>Serbia</b>	2.25	2.25	2.00	2.00	1.75
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

### Average inflation (%)

	2018	2019f	2020f	2021f
<b>Croatia</b>	1.5	0.8	1.2	1.2
<b>Czechia</b>	2.2	2.7	2.4	1.9
<b>Hungary</b>	2.8	3.4	3.4	3.2
<b>Poland</b>	1.6	2.3	3.0	2.0
<b>Romania</b>	4.6	3.9	3.3	4.2
<b>Serbia</b>	2.0	1.9	2.0	2.0
<b>Slovakia</b>	2.5	2.7	2.2	2.0
<b>Slovenia</b>	1.7	1.6	1.7	1.8
<b>CEE8 avg</b>	2.4	2.7	2.8	2.4

### C/A (%GDP)

	2018	2019f	2020f	2021f
<b>Croatia</b>	1.9	0.9	0.1	-0.4
<b>Czechia</b>	0.3	0.7	0.3	0.2
<b>Hungary</b>	-0.5	-0.4	-0.3	-0.2
<b>Poland</b>	-0.7	-0.5	-0.7	-0.8
<b>Romania</b>	-4.4	-4.9	-5.1	-4.7
<b>Serbia</b>	-5.2	-6.5	-5.9	-5.3
<b>Slovakia</b>	-2.6	-2.9	-1.7	-0.9
<b>Slovenia</b>	5.7	5.3	4.4	3.3
<b>CEE8 avg</b>	-1.1	-1.1	-1.2	-1.2

### Unemployment (%)

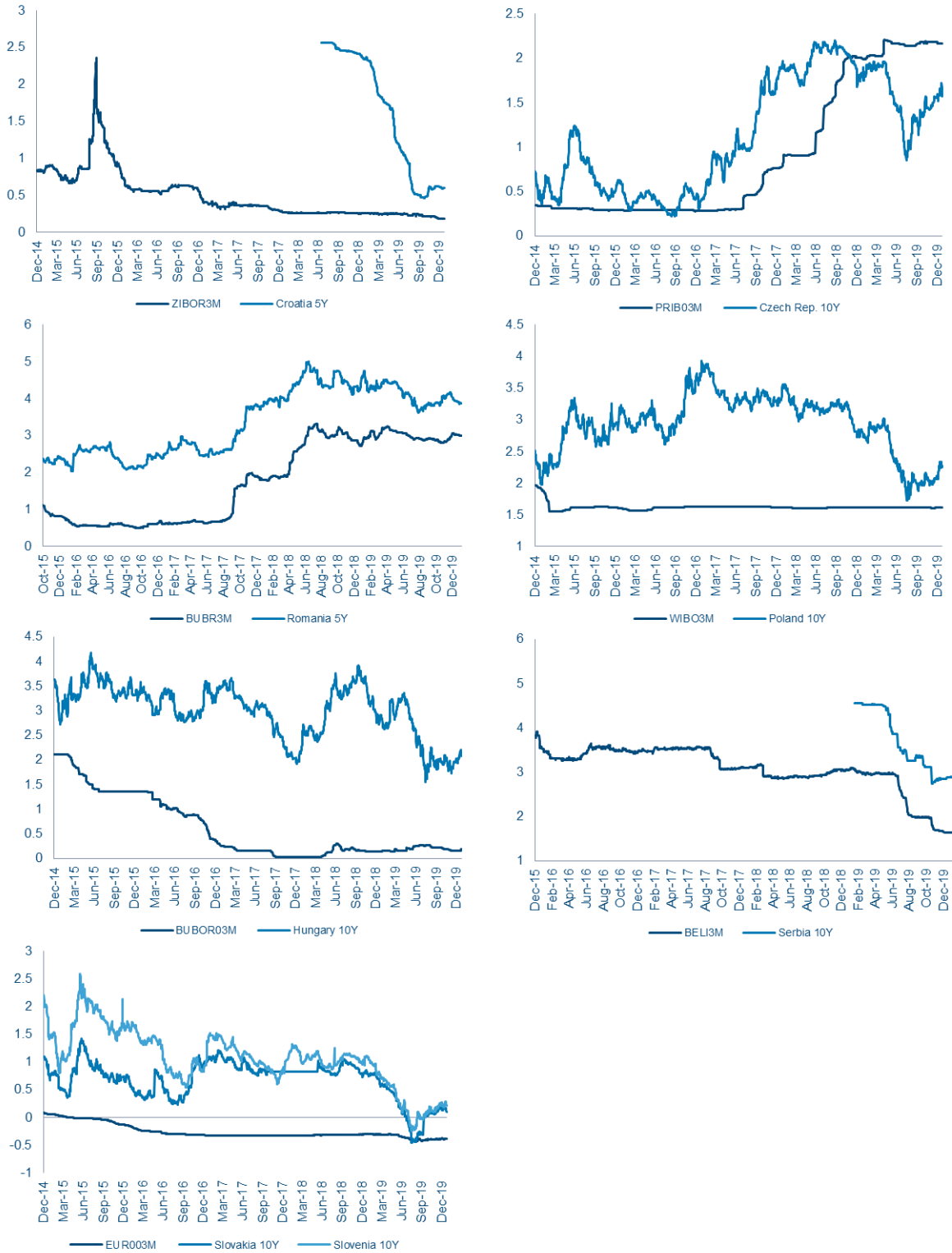
	2018	2019f	2020f	2021f
<b>Croatia</b>	8.4	6.8	5.8	5.3
<b>Czechia</b>	2.3	2.1	2.3	2.6
<b>Hungary</b>	3.7	3.4	3.4	3.4
<b>Poland</b>	6.1	5.4	5.3	5.5
<b>Romania</b>	4.2	3.9	4.0	4.2
<b>Serbia</b>	12.7	10.7	9.2	7.8
<b>Slovakia</b>	6.6	5.8	5.9	5.8
<b>Slovenia</b>	5.2	4.2	3.9	3.5
<b>CEE8 avg</b>	5.2	4.6	4.5	4.6

### Budget Balance (%GDP)

	2018	2019f	2020f	2021f
<b>Croatia</b>	0.3	0.0	-0.5	-0.3
<b>Czechia</b>	1.1	0.6	0.3	0.2
<b>Hungary</b>	-2.3	-1.8	-1.4	-1.3
<b>Poland</b>	-0.2	-0.7	-1.4	-1.8
<b>Romania</b>	-3.0	-4.3	-4.0	-4.7
<b>Serbia</b>	0.6	0.3	0.0	0.0
<b>Slovakia</b>	-1.1	-1.1	-1.2	-0.6
<b>Slovenia</b>	0.7	0.0	0.6	0.6
<b>CEE8 avg</b>	-0.6	-1.1	-1.4	-1.6

Source: Bloomberg, Erste Group Research

## Appendix



Source: Bloomberg, Erste Group Research

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