

CEE Market Insights

First step into 1Q20 data in Poland

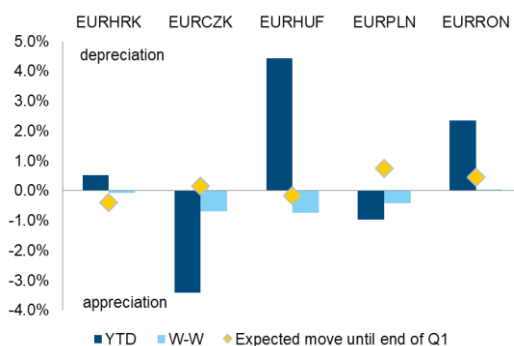
This week in CEE

After reporting on 4Q19 GDP growth, most CEE countries will take a break from data releases, while Poland takes its first step into 1Q20, with January industrial output and retail sales growth scheduled to be published. The market is quite pessimistic about development in January, as industry is expected to contract, while retail sales growth is seen as losing some of its dynamics. This is consistent with slowing employment growth. Further, we will get to see the inflation rate in Croatia and Serbia. As is the case everywhere else, dynamic growth of food prices is likely to leave its mark on the inflation numbers, while the dropping oil price should to some extent mitigate the pressure from increasing food prices.

Monday	Tuesday	Wednesday	Thursday	Friday
SI: Wages		SK: Unemployment PL: Wages, Employment	PL: Industry HR: Wages, Unemployment	PL: Retail sales HR RS: Inflation
SK 2028 2037 Bonds RO 2028 Bonds	RS 12Y Bonds		RO 2023 Bonds Bills HU Bills PL Bonds	

FX market

FX market developments



Source: Bloomberg, Erste Group Research

As the USD appreciated to levels not seen for nearly three years, CEE currencies also moved – but this move was, counter-intuitively, appreciation. We think this has to do with inflation reaching levels not seen for nearly a decade, and markets could think that central bankers may react. The CNB and MNB already did this; the former in a transparent fashion, the latter in a much more nontransparent way. Thanks to this, the forint nearly became the best performer last week. The Polish zloty also gained, despite the fact that the NBP is unlikely to hike. We think that the zloty, forint and koruna are all unlikely to gain in the near future, but the CZK could appreciate later this year.

LCY yields, Eurobond spreads

Bond market developments

LCY bond yields (%)		Eurobond spreads (bp)	
RO 10Y	3.91 (-13)	MO 2029	273 (-10)
RS 9Y	2.84 (-9)	RO 2030	171 (-20)
HU 10Y	2.26 (+24)	MK 2025	154 (-10)
PL 10Y	2.18 (+11)	HR 2030	97 (-7)
CZ 10Y	1.52 (+1)	HU 2027	69 (-3)
HR 10Y	0.59 (0)	BG 2028	67 (-3)
BG 10Y	0.16 (-4)	LV 2028	51 (-1)
		SK 2030	48 (-2)
		PL 2029	47 (-2)
		LT 2029	45 (-3)
		SI 2029	44 (-1)

Source: Bloomberg, Erste Group Research

Bund yields finished the week close to levels where they started it, but some CEE countries showed stronger moves. 10Y HGB yields went up substantially, thanks to the MNB making it clear that they are already tightening and are willing to continue if needed. Short-term rates also went up, which makes us think that the 3M Bubor could be around 70-80bp in the rest of 2020. Polish yields went up a bit too, but this move was much smaller. ROMGB yields continued to edge down, amid strong demand at bond auctions. We are thinking about our yield forecasts, but want to highlight that a 40% pension increase is still penciled in as of September. In the meantime, the budget deficit was already above 4% of GDP last year.

In case you missed

CEE GDP: 4Q19 economic growth surprised to upside in [Hungary](#), [Slovakia](#) and [Romania](#). [Czech economy](#) disappointed, while [Poland](#) slowed as expected.

CEE Inflation: Pressure rising across region, with inflation well above central bank targets in [Czechia](#), [Hungary](#), [Poland](#) and [Romania](#).

HU: S&P changed Hungary's outlook to positive and affirmed rating at BBB

RO: [Industry contracted](#) visibly at end of year. EC announced that Romania would be put under EDP.

RS [Policy rate](#) remained flat at 2.25%.

SI: [Industrial production](#) went up in December.

SK: [Industry](#) still waiting for the clouds to clear up

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
17-Feb	10:30	SI	Wages (y/y)	Dec			3.30%	
19-Feb		SK	Unemployment Rate	Jan		5.1%	4.9%	Mild seasonal uptick in unemployment rate expected.
	10:00	PL	Wages (y/y)	Jan	7.0%	5.9%	6.20%	We see wage growth losing some of its dynamics.
	10:00	PL	Employment (y/y)	Jan	2.1%		2.60%	
20-Feb	10:00	PL	Industrial Production (y/y)	Jan	-0.9%	1.4%	0.0	Negative calendar effect (-1WD) and falling market sentiment to weigh on industrial performance.
	10:00	PL	PPI (y/y)	Jan	1.2%	0.9%	1.0%	Price pressure to remain low.
	11:00	HR	Unemployment Rate	Jan			7.9%	
21-Feb	11:00	HR	Wages (y/y)	Dec			4.2%	
	10:00	PL	Retail Sales (y/y)	Jan	6.0%	5.6%	7.5%	Retail sales to mean strong start to new year.
	11:00	HR	CPI (y/y)	Jan		1.6%	1.4%	
	11:00	HR	CPI (m/m)	Jan			-0.1%	
	12:00	RS	CPI (y/y)	Jan		1.7%	1.9%	We expect inflation to land at 1.7% y/y. As for drivers, food likely to continue pushing inflation higher, while slump in oil prices observed during January should work in opposite direction.
12:00	RS	CPI (m/m)	Jan			0.5%		

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
Croatia 10Y	0.6	0.4	0.4	0.4	0.4
spread (bps)	98	60	60	50	50
Czechia 10Y	1.5	1.6	1.7	1.7	1.8
spread (bps)	191	182	189	184	187
Hungary 10Y	2.3	2.1	2.2	2.3	2.4
spread (bps)	265	231	241	235	246
Poland 10Y	2.2	2.2	2.3	2.3	2.3
spread (bps)	257	240	245	235	240
Romania 10Y	3.9	4.5	4.5	4.6	4.6
spread (bps)	430	470	470	470	470
Slovakia 10Y	0.0	0.2	0.2	0.3	0.4
spread (bps)	40	37	42	42	52
Slovenia 10Y	0.03	0.20	0.30	0.30	0.30
spread (bps)	42	40	50	40	40
Serbia 5Y	2.4	2.5	2.3	2.2	2.1
spread (bps)	280	270	250	230	220
DE10Y	-0.4	-0.2	-0.2	-0.1	-0.1

3M Money Market Rate

	current	2020Q1	2020Q2	2020Q3	2020Q4
Czechia	2.39	2.29	2.29	2.30	2.30
Hungary	0.50	0.70	0.75	0.80	0.85
Poland	1.71	1.71	1.71	1.71	1.71
Romania	3.15	3.00	2.90	3.10	3.00
Serbia	1.62	1.55	1.37	1.37	1.12
Eurozone	-0.41	-0.40	-0.40	-0.40	-0.40

Real GDP growth (%)

	2018	2019f	2020f	2021f
Croatia	2.7	3.0	2.5	2.4
Czechia	2.9	2.4	2.2	2.7
Hungary	5.1	4.9	3.6	3.1
Poland	5.1	4.0	3.0	3.1
Romania	4.4	4.1	3.5	2.0
Serbia	4.4	4.2	4.0	4.2
Slovakia	4.0	2.3	2.0	2.5
Slovenia	4.1	2.7	2.7	2.5
CEE8 avg	4.4	3.6	3.0	2.8

Public debt (% of GDP)

	2018	2019f	2020f	2021f
Croatia	74.7	71.4	69.2	66.9
Czechia	32.5	30.8	30.0	29.6
Hungary	70.2	66.5	63.8	62.3
Poland	48.9	46.5	45.0	43.0
Romania	34.7	36.1	37.1	38.0
Serbia	53.7	52.1	50.4	48.0
Slovakia	49.4	48.4	48.1	46.8
Slovenia	70.4	66.6	63.6	61.1
CEE8 avg	48.3	46.4	45.3	43.9

FX

	current	2020Q1	2020Q2	2020Q3	2020Q4
EURHRK	7.45	7.42	7.38	7.40	7.42
forwards		7.45	7.45	7.45	7.45
EURCZK	24.88	24.90	24.85	24.74	24.60
forwards		24.96	25.11	25.27	25.41
EURHUF	335.17	335.00	335.00	335.00	335.00
forwards		335.68	336.86	338.19	339.50
EURPLN	4.25	4.28	4.29	4.30	4.30
forwards		4.26	4.28	4.30	4.33
EURRON	4.77	4.79	4.82	4.85	4.87
forwards		4.79	4.83	4.87	4.91
EURRSD	117.45	117.60	117.40	117.20	117.30
forwards		-	-	-	-
EURUSD	1.08	1.11	1.13	1.15	1.15

Key Interest Rate

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

Average inflation (%)

	2018	2019f	2020f	2021f
Croatia	1.5	0.8	1.2	1.2
Czechia	2.2	2.8	2.9	1.9
Hungary	2.8	3.4	3.5	3.2
Poland	1.6	2.3	3.6	2.2
Romania	4.6	3.8	3.4	3.4
Serbia	2.0	1.9	2.0	2.0
Slovakia	2.5	2.7	2.2	2.0
Slovenia	1.7	1.6	1.7	1.8
CEE8 avg	2.4	2.7	3.1	2.4

C/A (%GDP)

	2018	2019f	2020f	2021f
Croatia	1.9	0.9	0.1	-0.4
Czechia	0.3	-0.1	0.3	0.2
Hungary	-0.5	-0.4	-0.3	-0.2
Poland	-0.7	1.1	-0.7	-0.6
Romania	-4.4	-4.7	-4.9	-4.6
Serbia	-5.2	-6.5	-5.9	-5.3
Slovakia	-2.6	-2.9	-1.7	-0.9
Slovenia	5.7	5.3	4.4	3.3
CEE8 avg	-1.1	-0.6	-1.2	-1.1

Unemployment (%)

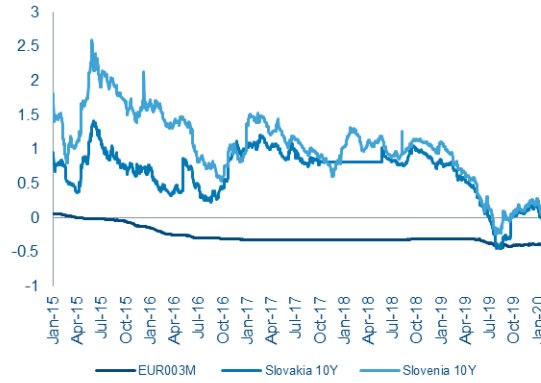
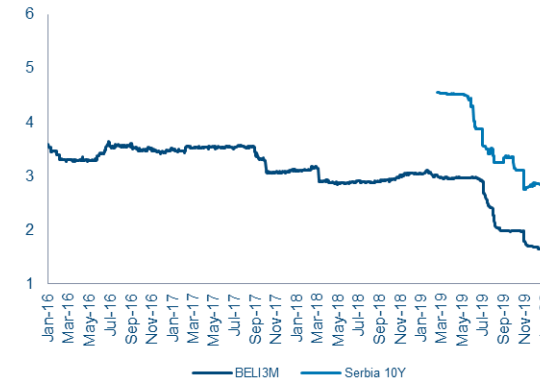
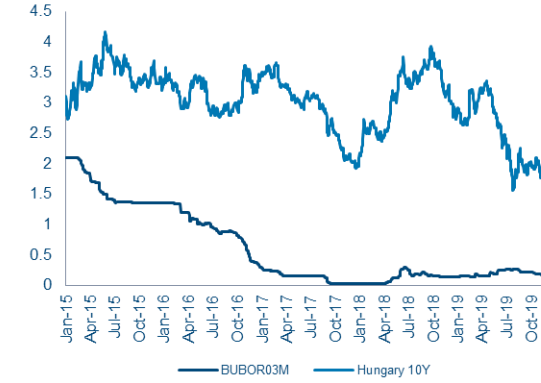
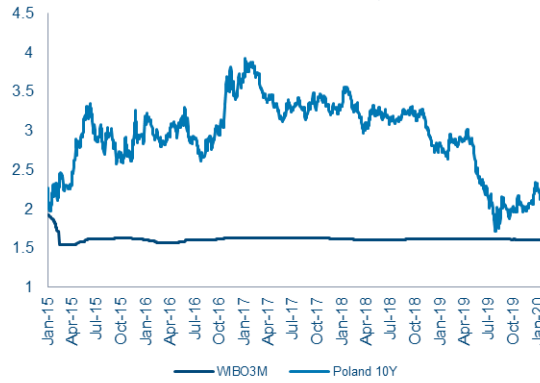
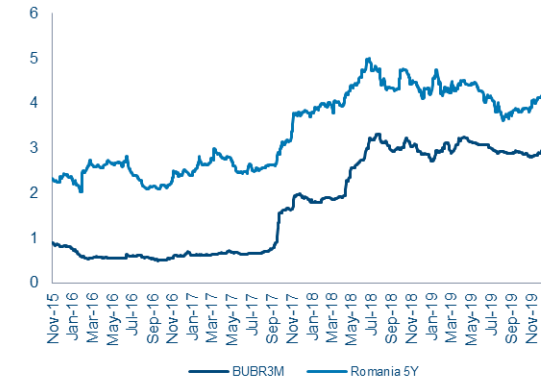
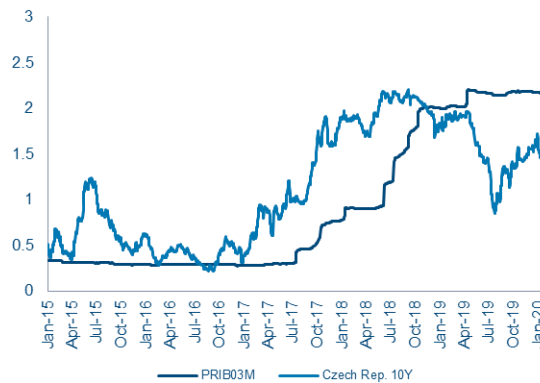
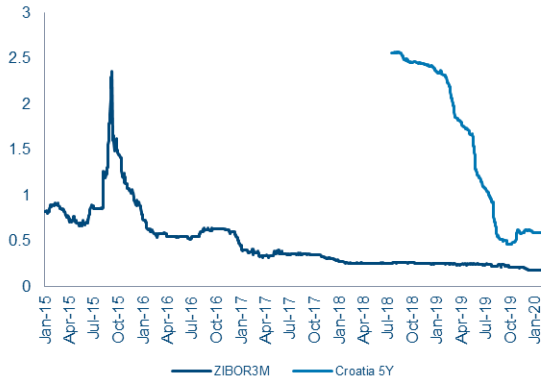
	2018	2019f	2020f	2021f
Croatia	8.4	6.8	5.8	5.3
Czechia	2.3	2.1	2.3	2.6
Hungary	3.7	3.4	3.4	3.4
Poland	6.1	5.4	5.3	5.5
Romania	4.2	3.9	4.0	4.2
Serbia	12.7	10.7	9.2	7.8
Slovakia	6.6	5.8	5.9	5.8
Slovenia	5.2	4.2	3.9	3.5
CEE8 avg	5.2	4.6	4.5	4.6

Budget Balance (%GDP)

	2018	2019f	2020f	2021f
Croatia	0.3	0.0	-0.5	-0.3
Czechia	1.1	0.6	0.3	0.2
Hungary	-2.3	-1.8	-1.4	-1.3
Poland	-0.2	-0.7	-2.1	-1.8
Romania	-2.9	-4.6	-3.8	-3.0
Serbia	0.6	-0.2	0.0	0.0
Slovakia	-1.1	-1.1	-1.2	-0.6
Slovenia	0.7	0.0	0.6	0.6
CEE8 avg	-0.6	-1.2	-1.6	-1.3

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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