

Presidential election could change political landscape in Poland

Unemployment rate for May should land at 6%. First round of presidential election to take place this week.

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Watch this week

June 24 | Unemployment rate to increase in May

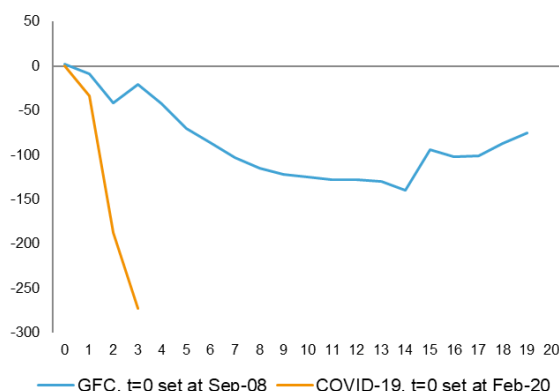
Last week's data showed further deterioration of labor market conditions, with slowing wage growth and dropping employment. However, the drop in employment in absolute terms (thousands, m/m) was lower compared to April. However, the unemployment rate, as reported by the Ministry of Family, Labor and Social Policy, increased only marginally, to 6.0% in May.

June 28 | First round of presidential election

The first round of the presidential election will take place on Sunday. The election was rescheduled from mid-May due to the outbreak of the coronavirus. The latest poll shows President Duda with high levels of support in the first round, although not high enough to guarantee victory. He is thus likely to meet the opposition candidate in the second round, which is scheduled for July 12. Should President Duda not secure reelection, the political situation for the current government will become more complicated.

Drop in employment slowed in May

Thousands m/m



Source: CSO, Erste Group Research

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

Last week's highlights

- Central bank kept [target rate stable](#) at 0.1%.
- [Milder contraction of industry](#) in May compared to April.
- [Retail sales rebounded in May](#) and arrived at -8.6% y/y.
- Labor market conditions worsened in May as wage growth landed at meager 1.2% y/y, while employment growth went further into negative territory and came in at -3.2% y/y.

Market developments

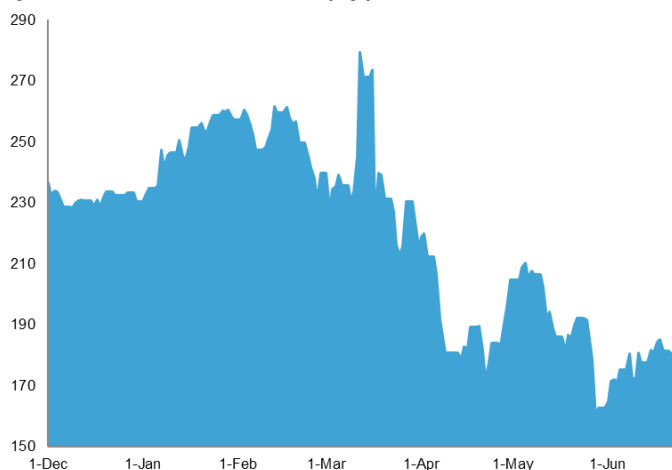
Bond market drivers | Long end of curve followed core markets

Over the course of the week, the 10Y yield mirrored the development on core markets. In the first half of the week, the 10Y yield went up 15bp to 1.45% before dropping towards 1.3% in the rest of the week. As a result, the spread over the 10Y German Bund remained broadly stable at around 180bp. With no major macro release scheduled for the remainder of this week, we expect the bond market to focus on core market developments. This week, the National Bank of Poland will hold its second outright-buy operation this month. At the previous auction, the NBP bought back papers worth a total of PLN 8.4bn. The Polish Development Fund (PFR) announced that the next auction will take place only at the beginning of July.

FX market drivers | Mixed signals for zloty

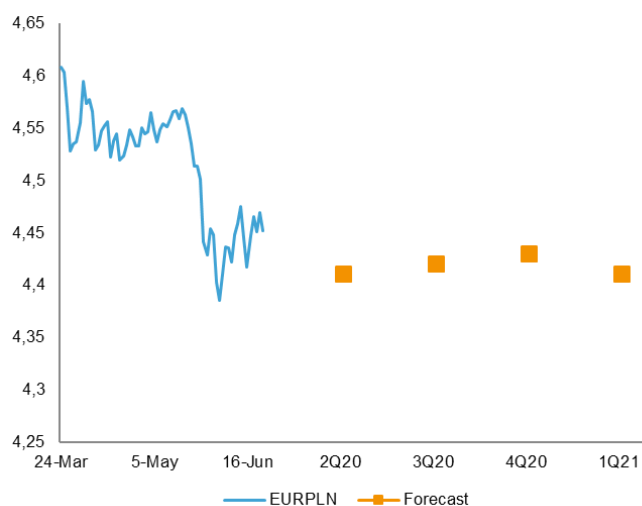
Mixed signals from the central bank and Ministry of Finance impacted the zloty. Ahead of the central bank meeting, the zloty appreciated and went shortly below 4.40 vs. the EUR. However, concerns from the central bank that the recent strengthening of the zloty could dampen recovery prospects, took a toll on the EURPLN, which went sharply up and returned above 4.45. On the other hand, the MinFin commented that, from the perspective of fiscal policy, further appreciation of the zloty would be desirable. The contradictory comments resulted in increased volatility for the zloty at the end of the week.

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
23. Jun	14:00	HU	Central Bank Rate	Jun	0,90%	0,90%	0.9%	No change of rates expected. New economic forecasts of the MNB could be the focus.
	14:30	SK	Current Account Balance (monthly)	Apr			-631.03	
24. Jun	10:00	PL	Unemployment Rate	May	6,10%	6,0%	5.8%	Unemployment rate to increase due to pandemics.
	13:00	CZ	Central Bank Rate	Jun	0,25%	0,25%	0.25%	After the May cut, monetary conditions are sufficiently loose and the CNB thus does not need to cut rates again.
25. Jun	12:00	RS	Wages (y/y)	Apr			8.7%	
26. Jun	9:00	SK	PPI (y/y)	May			1.4%	

Source: Bloomberg, Erste Group Research

Market forecasts

Government bond yields

	current	2020Q3	2020Q4	2021Q1	2021Q2
Croatia 10Y	1.0	1.0	1.0	1.0	-
spread (bps)	145	140	120	110	-
Czechia 10Y	0.8	1.0	1.2	1.2	1.3
spread (bps)	123	140	138	130	129
Hungary 10Y	2.2	2.2	2.3	2.4	2.5
spread (bps)	267	255	245	245	245
Poland 10Y	1.3	1.4	1.5	1.6	1.6
spread (bps)	180	180	165	165	160
Romania 10Y	3.9	3.8	3.7	3.5	3.6
spread (bps)	435	420	385	360	360
Slovakia 10Y	0.0	0.3	0.3	0.3	0.3
spread (bps)	40	65	50	40	32
Slovenia 10Y	0.34	0.40	0.40	0.50	0.50
spread (bps)	79	80	60	60	50
Serbia 5Y	2.6	2.4	2.4	2.3	2.2
spread (bps)	301	280	260	240	220
DE10Y	-0.4	-0.4	-0.2	-0.1	0.0

3M Money Market Rate

	current	2020Q3	2020Q4	2021Q1	2021Q2
Czechia	0.34	0.34	0.34	0.34	0.41
Hungary	0.89	1.00	1.00	1.00	1.00
Poland	0.27	0.27	0.27	0.27	0.27
Romania	2.19	1.75	1.25	1.25	1.50
Serbia	1.05	1.00	0.95	0.95	0.95
Eurozone	-0.40	-0.40	-0.40	-0.40	-0.40

Source: Bloomberg, Erste Group Research

FX

	current	2020Q3	2020Q4	2021Q1	2021Q2
EURHRK	7.57	7.55	7.60	7.55	7.48
forwards		7.57	7.57	7.57	7.57
EURCZK	26.68	26.40	26.10	25.79	25.68
forwards		26.72	26.75	26.75	26.77
EURHUF	346.63	350.00	350.00	345.00	345.00
forwards		347.34	348.15	348.28	349.26
EURPLN	4.45	4.42	4.43	4.41	4.40
forwards		4.46	4.47	4.48	4.49
EURRON	4.84	4.88	4.90	4.92	4.94
forwards		4.89	4.93	4.97	5.01
EURRSD	117.69	117.50	117.60	117.50	117.40
forwards		-	-	-	-
EURUSD	1.12	1.12	1.15	1.16	1.18

Key Interest Rate

	current	2020Q3	2020Q4	2021Q1	2021Q2
Croatia	0.30	0.05	0.05	0.05	0.05
Czechia	0.25	0.25	0.25	0.25	0.25
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	0.10	0.10	0.10	0.10	0.10
Romania	1.75	1.50	1.50	1.50	1.50
Serbia	1.25	1.25	1.25	1.25	1.25
Eurozone	0.00	0.00	0.00	0.00	0.00

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