

## Pandemic in focus

With no macro releases scheduled, QE operation held by National Bank of Poland to be this week's highlight. Bond market to focus on Ministry of Finance auction. Global sentiment should shape development of zloty this week.

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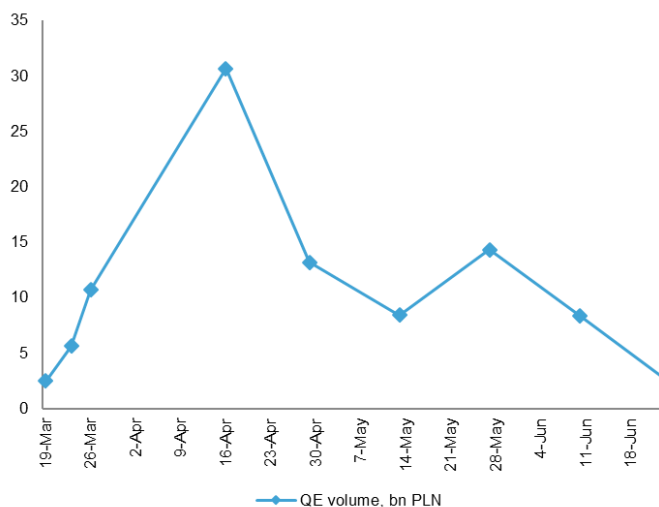
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### Watch this week

#### July 8 | National Bank of Poland to buy bonds

The NBP is scheduled to hold the first of two planned QE operations for July. So far, the NBP has bought PLN 96.2bn in Treasuries (PLN 50.8bn) and state-guaranteed papers issued by PFR and BGK (PLN 45.4bn). The volume of bonds bought within each operations peaked in mid-April at PLN 30.6bn and has been dropping since then, with just PLN 2.4bn bought at the second auction in June. In our view, the NBP will continue buying bonds throughout 2020, while monetary policy will remain flat at least until the end of 2021.

#### QE program of National Bank of Poland, volume PLN bn



Source: NBP, Erste Group Research

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

### Last week's highlights

- [CPI jumped to 3.3% y/y](#) in June, likely on back of services prices. We see risks to upside to our current inflation forecast of 3.1% in 2020.
- PMI increased to 47.2 in June up from 40.6 in previous month.
- BGK sold bonds worth in total PLN 11.85bn in 5Y and 10Y papers. Total issuance stands at PLN 54.5bn.
- NBP to hold QE operation on July 8 and July 22.
- MinFin plans to sell bonds worth PLN 5-12bn in 1-2 regular auctions in 3Q20.

## Market developments

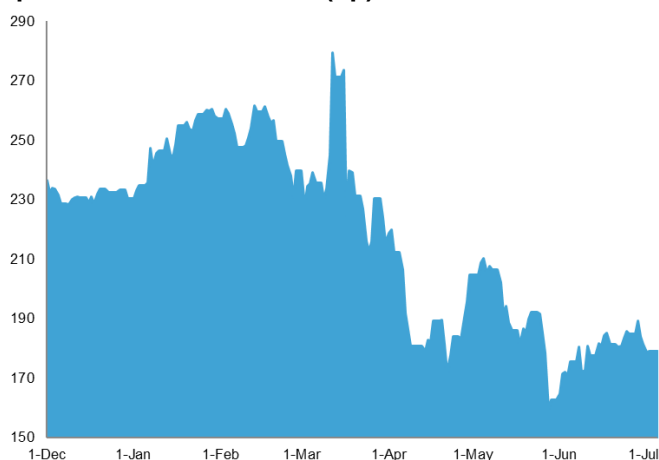
### Bond market drivers | 10Y yield remains below 1.4%

Over the course of the week, the long end of the Polish curve moved in a narrow range between 1.35-1.4%. The markets did not react to a sharp increase of inflation in June, as the 10Y yield hardly moved after the release. The second half of the week brought yield decreases, as the long end of the curve went below 1.35% and remained locked there at the start of the new week. As far as core markets are concerned, the 10Y German Bund went up by around 5bp to around -0.44%. As a result, the spread against the 10Y Bund narrowed and returned to 180bp. With no macro releases scheduled for this week, the bond market will focus on the auction held by the MinFin and the QE operation of the NBP. Moreover, global sentiment will drive the market this week, with the pandemic being in focus.

### FX market drivers | EURPLN fluctuates around 4.46

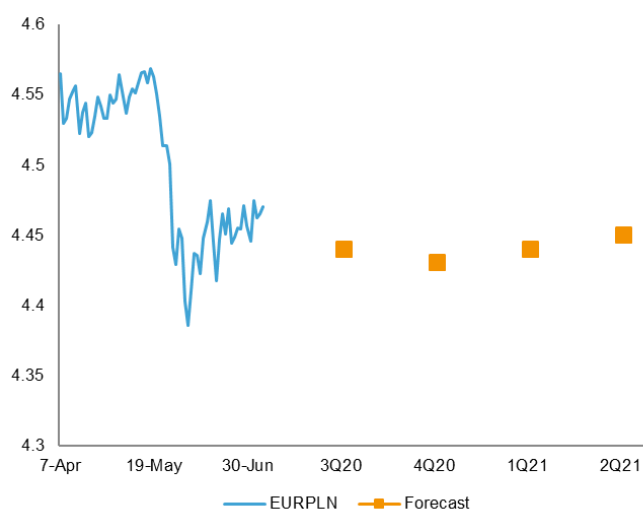
The publication of the PMI for June, which came in at 47.2 (above market expectations), pushed the EURPLN below 4.45. However, the reaction was short lived and the pair bounced back to the 4.46 area, where the zloty has remained locked since mid-June. All in all, we continue to think that global risk on/off mood is the key driver for the zloty. We expect it to remain broadly unchanged at around 4.45 until the end of 3Q20.

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
07. Jul	8:00	RO	GDP (q/q)	1Q F	0.3%	<b>0.3%</b>	0.31%	Positive economic growth in 1Q20 could help Romania avoid technical recession this year.
	8:00	RO	GDP (y/y)	1Q F	2.40%	<b>2.4%</b>	2.41%	We expect that retail sales, construction and services to companies helped real GDP expand in 1Q20.
	9:00	CZ	Industrial Production (y/y)	May	-22.40%	<b>-21.8%</b>	-33.7%	Due to improved sentiment and resumption of production in factories, industrial output increased significantly in m/m terms in May.
	9:00	CZ	Trade Balance	May		<b>-5</b>	16.3	Foreign demand was still subdued in May; however, it should recover during coming months.
	9:00	HU	Industrial Production (y/y)	May	-33.90%	<b>-30.5%</b>	-36.64%	Reopening in May implies 10-15% rebound on monthly level, mitigating previous month's recession in sector. Performance y/y could have remained deeply negative, however.
	11:00	HR	PPI (y/y)	Jun			-6.6%	
	12:00	RS	PPI (y/y)	Jun			-3.3%	
08. Jul	9:00	CZ	Retail Sales (y/y)	May	-6.5%	<b>-6.40%</b>	-10.6%	In comparison with industrial production, retail sales should recover more quickly, as labor market has not been hit too hard yet.
	9:00	HU	CPI (y/y)	Jun	3.0%	<b>3.30%</b>	2.2%	Unsupportive base effect, coupled with relatively high monthly index, suggests sharp acceleration of 12-month headline rate.
	9:00	HU	CPI (m/m)	Jun		<b>0.90%</b>	0.4%	Fuel prices reached almost their pre-crisis level during month.
09. Jul	8:00	RO	Wages (y/y)	May		<b>3.20%</b>	2.15%	Net nominal wages slowed down significantly beginning with April, due to temporary unemployment schemes in context of COVID-19 crisis.
	9:00	SK	Trade Balance	May		<b>-368</b>	-492.12	Owing to easing of restrictions, foreign trade dynamics are expected to have improved on monthly basis in May.
	11:00	HR	Trade Balance	Apr			-5930	
	12:00	RS	Central Bank Rate	Jul		<b>1.25%</b>	1.25%	NBS is expected to remain on hold after cut in June.
10. Jul	8:00	RO	CPI (y/y)	Jun	2.5%	<b>2.4%</b>	2.26%	Inflation comfortably inside the NBR's target favors additional monetary easing through liquidity management by central bank.
	08:00	RO	Trade Balance	May		<b>-1.8</b>	-1633.00	Exports of goods fell steeper than imports in recent months, as many factories were closed.
	09:00	SK	Industrial Production (y/y)	May		<b>-24.00%</b>	-42.00%	Due to visible resumption of activity especially in car sector, industrial production is thought to have notably improved in monthly terms, despite remaining in negative territory compared to last year.
	09:00	CZ	CPI (y/y)	Jun	2.90%	<b>2.90%</b>	2.90%	Inflation remains close to upper bound of tolerance band, mainly due to tight labor market and increasing food prices.
	10:30	SI	Industrial Production (y/y)	May		<b>-9.00%</b>	-22.80%	After double-digit contraction in April, we see May industrial production remaining negative, albeit showing more moderate decline rate.
	10:30	SI	Trade Balance	May			0.15	

Source: Bloomberg, Erste Group Research

## Market forecasts

### Government bond yields

	current	2020Q3	2020Q4	2021Q1	2021Q2
<b>Croatia 10Y</b>	1.0	1.0	1.0	1.0	-
spread (bps)	144	140	120	110	-
<b>Czechia 10Y</b>	0.8	1.0	1.1	1.1	1.3
spread (bps)	121	137	125	124	125
<b>Hungary 10Y</b>	2.3	2.2	2.3	2.4	2.5
spread (bps)	269	255	245	245	245
<b>Poland 10Y</b>	1.3	1.5	1.6	1.7	1.7
spread (bps)	178	190	180	180	170
<b>Romania 10Y</b>	3.9	3.8	3.7	3.5	3.6
spread (bps)	434	420	385	360	360
<b>Slovakia 10Y</b>	-0.1	0.3	0.3	0.3	0.3
spread (bps)	37	65	50	40	32
<b>Slovenia 10Y</b>	0.31	0.40	0.40	0.50	0.50
spread (bps)	74	80	60	60	50
<b>Serbia 5Y</b>	2.5	2.4	2.4	2.3	2.2
spread (bps)	292	280	260	240	220
<b>DE10Y</b>	-0.4	-0.4	-0.2	-0.1	0.0

### 3M Money Market Rate

	current	2020Q3	2020Q4	2021Q1	2021Q2
<b>Czechia</b>	0.34	0.34	0.34	0.34	0.41
<b>Hungary</b>	0.71	0.65	0.65	0.65	0.65
<b>Poland</b>	0.26	0.26	0.26	0.26	0.26
<b>Romania</b>	2.19	1.75	1.25	1.25	1.50
<b>Serbia</b>	1.04	1.00	0.95	0.95	0.95
<b>Eurozone</b>	-0.44	-0.40	-0.40	-0.40	-0.40

### FX

	current	2020Q3	2020Q4	2021Q1	2021Q2
<b>EURHRK</b>	7.55	7.55	7.60	7.55	7.48
forwards		7.56	7.56	7.56	7.56
<b>EURCZK</b>	26.70	26.40	26.10	25.79	25.68
forwards		26.73	26.74	26.77	26.79
<b>EURHUF</b>	352.95	350.00	350.00	350.00	350.00
forwards		353.71	353.79	354.44	355.16
<b>EURPLN</b>	4.47	4.44	4.43	4.44	4.45
forwards		4.48	4.49	4.50	4.51
<b>EURRON</b>	4.84	4.88	4.90	4.92	4.94
forwards		4.87	4.91	4.95	4.99
<b>EURRSD</b>	117.61	117.50	117.60	117.50	117.40
forwards		-	-	-	-
<b>EURUSD</b>	1.13	1.12	1.15	1.16	1.18

### Key Interest Rate

	current	2020Q3	2020Q4	2021Q1	2021Q2
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.25	0.25	0.25	0.25	0.25
<b>Hungary</b>	0.75	0.60	0.60	0.60	0.60
<b>Poland</b>	0.10	0.10	0.10	0.10	0.10
<b>Romania</b>	1.75	1.75	1.50	1.50	1.50
<b>Serbia</b>	1.25	1.25	1.25	1.25	1.25
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

Source: Bloomberg, Erste Group Research

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## **Published by:**

**Erste Group Bank AG**  
**Group Research**  
**1100 Vienna, Austria, Am Belvedere 1**  
**Head Office: Wien**  
**Commercial Register No: FN 33209m**  
**Commercial Court of Vienna**

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