

CEE Market Insights

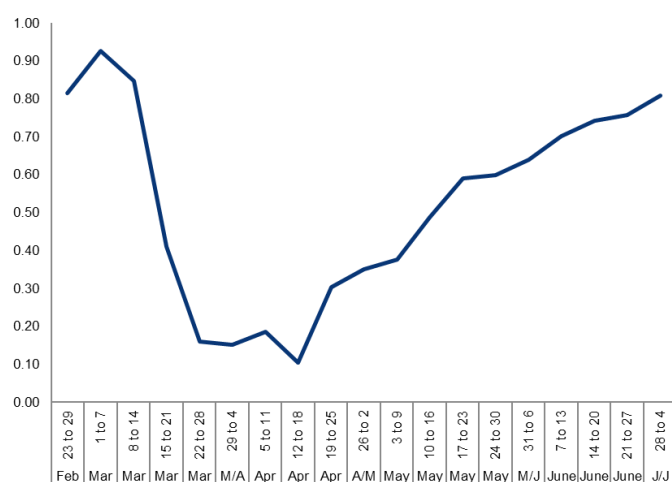
Increased inflationary pressure in June

This week in CEE

This week, CEE countries will continue to publish their June CPI data. As it has in those countries which have already published their June inflation, we expect y/y inflation to pick up in Serbia, Slovenia, Croatia and (mildly) in Slovakia. Poland should confirm its earlier published flash estimate, which surprised on the upside. The focus in Poland will be on core inflation, which could be as high as 4% in June. Despite higher inflation readings, Poland's central bank will keep the key rate at 0.1% at Tuesday's MPC meeting. May industrial data will also be published for Slovenia and Romania, where we expect easing of y/y contraction by about 12-13pp compared to April. Wage growth numbers will be published for Poland and Slovakia.

Monday	Tuesday	Wednesday	Thursday	Friday
SK: Wages	PL: Central bank, trade balance	PL: CPI	HR: CPI	CZ: PPI
RS: CPI	RO: Industry, current account			PL: Wages
	SK: CPI			
RO: 2024 Bonds	SI: Bills		HU: Bonds	
	RS: 2032 Bonds		RO: Bills, 2025 Bonds	
			CZ: Bills	

Recovery Index

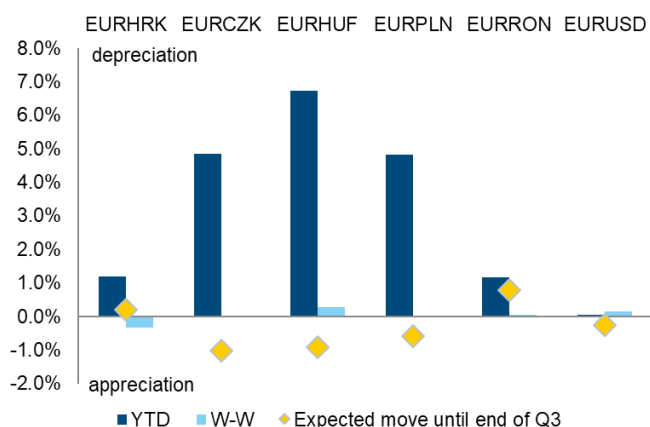


At the beginning of July, our composite CEE Recovery Index showed further improvement towards 0.8, meaning that 4/5 of the gap between pre-crisis normal and the bottom of the crisis has already been closed. Mobility to retail stores is already back to normal, while mobility to work, electricity consumption, and capacity utilization in automotive still needs more time before it is fully restored.

— Recovery index, categories normalized 0-1, averaged

Source: Erste Group Research

FX market

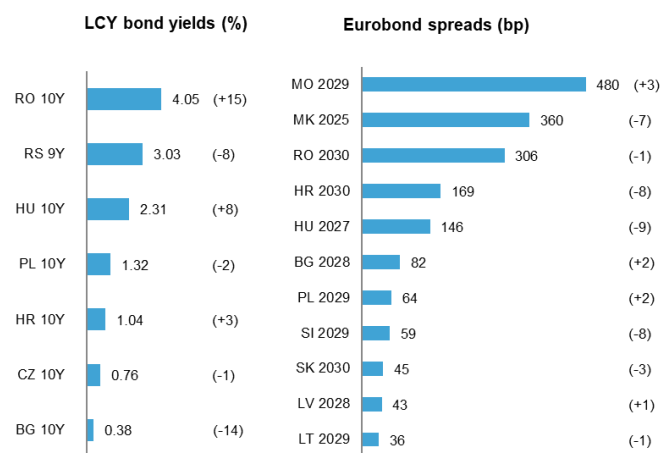


Source: Bloomberg, Erste Group Research

FX market developments

The CEE FX market entered summer mood, with limited volatility and stable currencies. Local currencies mostly seem to be focusing on global news regarding the development of the pandemic and changes in market sentiment. We think that space for further depreciation of the Hungarian forint is limited, as the markets have accepted deeper monetary easing than will likely take place at the next rate-setting meeting in July. Higher than expected inflation readings for June in Hungary and Czechia did not impact exchange rates. However, it remains to be seen whether the Czech National Bank could react earlier to increased inflationary pressure and tighten monetary conditions earlier than expected. However, the decision of the Eurogroup to allow Croatia to enter the ERM-II was the highlight of the week. The central parity has been set at 7.5345 and we expect Croatia to remain in ERM-II for at least two years before the final assessment of the Maastricht criteria is made and the country adopts the euro.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Romania tapped the international bond market and issued two USD-denominated papers (USD 1.3bn in 10Y bond and USD 2bn in 30Y bond). According to our forecast, 72% of this year's gross borrowing needs have been already been covered. However, Romania will have to maintain the high issuance pace in the coming months and will most likely focus on local issuance, given the recent increased supply on the international market. The National Bank of Poland held another QE operation and bought PLN 5.14bn in Treasuries and state-guaranteed papers. The total volume of QE in Poland has already reached PLN 101.4bn (4.5% of last year's GDP). In our view, the NBP could still buy an additional PLN 40-50bn in bonds by the end of the year, conditional on no substantial increase in the current fiscal stimulus program.

In case you missed

CEE: Inflationary pressure increased in June in [Czechia](#), [Romania](#) and [Hungary](#).

CEE: Recovery of industrial production in May not as good as expected in [Slovakia](#), [Czechia](#) and [Slovenia](#), but above expectations in [Hungary](#).

CEE: Retail sales growth rebounded in May in [Hungary](#), [Romania](#) and [Slovakia](#).

RS: [Key rate remained stable](#) at 1.25%.

SK: [Foreign trade](#) remained driven by pandemic in May.

PL: According to preliminary results, incumbent President Duda secured reelection with 51% support.

HR: Eurogroup gave green light for entering ERM-II. Central parity for EURHRK was set at 7.5345.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
13.Jul	9:00	SK	Wages (y/y)	May			-10.7%	
	12:00	RS	CPI (y/y)	Jun		1.2%	0.7%	We expect mild monthly acceleration, hence 1.2% y/y increase. CPI expected to slowly crawl back towards lower end of target band (i.e. 1.5%).
	12:00	RS	CPI (m/m)	Jun			-0.2%	
14.Jul		PL	Central Bank Rate	Jul	0.1%	0.1%	0.1%	Central bank to keep policy rate stable at 0.1%. Main findings of new inflation and growth projection to be published.
		RO	Current Account Balance (monthly)	May			-1782	
	8:00	RO	Industrial Production (y/y)	May		-26.5%	-38.6%	Gradual recovery of manufacturing in May in line with partial reopening of production facilities.
	9:00	SK	CPI (y/y)	Jun		0	2%	Inflation expected to have remained roughly unchanged from May, still mainly driven by food and service prices.
	9:00	SK	CPI (m/m)	Jun		0.1%	0.3%	Minor monthly increase likely to have taken place in June.
	14:00	PL	Trade Balance	May	156.86		-33	
15.Jul	10:00	PL	CPI (y/y)	Jun F		3.30%	3.3%	Flash inflation reading jumped unexpectedly to 3.3% y/y in June, likely on back of surging services prices. Core inflation increased, in our view, to around 4.0% y/y in June.
	10:00	PL	CPI (m/m)	Jun F			0.7%	
16.Jul	11:00	HR	CPI (y/y)	Jun		-0.50%	-0.6%	Deflationary pressures remained pronounced in June.
	11:00	HR	CPI (m/m)	Jun			0.1%	
17.Jul	9:00	CZ	PPI (y/y)	Jun	-0.1%	-0.10%	-0.9%	Anti-inflationary effects stemming from subdued economic activity mitigated by increasing oil prices.
	10:00	PL	Wages (y/y)	Jun	1.6%	0.40%	1.2%	Wage growth to ease further in June due to deteriorating situation on labor market.

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

Erste Group Research
CEE Market Insights
13 July 2020

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Forecasts

Government bond yields

	current	2020Q3	2020Q4	2021Q1	2021Q2
Croatia 10Y	1.0	1.0	1.0	1.0	-
spread (bps)	151	140	120	110	-
Czechia 10Y	0.8	1.0	1.1	1.1	1.3
spread (bps)	123	137	125	124	125
Hungary 10Y	2.3	2.2	2.3	2.4	2.5
spread (bps)	278	260	250	245	245
Poland 10Y	1.3	1.5	1.6	1.7	1.7
spread (bps)	179	190	180	180	170
Romania 10Y	4.1	3.8	3.7	3.5	3.6
spread (bps)	452	420	385	360	360
Slovakia 10Y	-0.1	0.0	0.1	0.1	0.2
spread (bps)	35	40	30	20	15
Slovenia 10Y	0.16	0.40	0.40	0.50	0.50
spread (bps)	63	80	60	60	50
Serbia 5Y	2.5	2.4	2.4	2.3	2.2
spread (bps)	293	280	260	240	220
DE10Y	-0.5	-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	0.70	0.65	0.65	0.65	0.65
Poland	0.26	0.26	0.26	0.26	0.26
Romania	2.15	1.75	1.25	1.25	1.50
Serbia	1.03	1.00	0.95	0.95	0.95
Eurozone	-0.44	-0.40	-0.40	-0.40	-0.40

Real GDP growth (%)

	2018	2019	2020f	2021f
Croatia	2.7	2.9	-9.0	5.4
Czechia	2.8	2.5	-7.0	4.5
Hungary	5.1	4.9	-4.6	4.1
Poland	5.1	4.1	-3.7	3.6
Romania	4.4	4.1	-4.7	3.9
Serbia	4.4	4.2	-2.3	4.7
Slovakia	3.9	2.4	-7.5	7.1
Slovenia	4.1	2.4	-7.7	4.0
CEE8 avg	4.4	3.7	-5.1	4.2
Austria	2.4	1.6	-6.0	4.2

Public debt (% of GDP)

	2018	2019	2020f	2021f
Croatia	74.7	73.2	89.3	86.6
Czechia	32.5	30.7	38.9	40.6
Hungary	70.2	66.3	72.7	69.9
Poland	48.8	46.0	56.0	52.0
Romania	34.7	35.2	41.2	43.9
Serbia	53.7	52.0	62.3	61.5
Slovakia	49.5	48.0	59.9	59.6
Slovenia	70.4	66.1	80.1	79.9
CEE8 avg	48.3	46.1	55.2	53.8
Austria	74.0	70.4	87.5	85.1

Source: Bloomberg, Erste Group Research

FX

	current	2020Q3	2020Q4	2021Q1	2021Q2
EURHRK	7.54	7.55	7.60	7.55	7.48
forwards		7.54	7.54	7.54	7.54
EURCZK	26.64	26.40	26.10	25.79	25.68
forwards		26.68	26.69	26.71	26.73
EURHUF	352.87	350.00	350.00	350.00	350.00
forwards		353.73	353.91	354.51	355.18
EURPLN	4.47	4.44	4.43	4.44	4.45
forwards		4.47	4.48	4.49	4.50
EURRON	4.84	4.88	4.90	4.92	4.94
forwards		4.87	4.91	4.95	4.99
EURRSD	117.84	117.50	117.60	117.50	117.40
forwards		-	-	-	-
EURUSD	1.13	1.12	1.15	1.16	1.18

Key Interest Rate

	current	2020Q3	2020Q4	2021Q1	2021Q2
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.25	0.25	0.25	0.25	0.25
Hungary	0.75	0.60	0.60	0.60	0.60
Poland	0.10	0.10	0.10	0.10	0.10
Romania	1.75	1.75	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

Average inflation (%)

	2018	2019	2020f	2021f
Croatia	1.5	0.8	-0.2	0.9
Czechia	2.2	2.8	3.0	1.8
Hungary	2.8	3.4	3.0	3.2
Poland	1.6	2.3	3.1	1.7
Romania	4.6	3.8	2.8	3.4
Serbia	2.0	1.9	1.0	1.7
Slovakia	2.5	2.7	2.0	1.0
Slovenia	1.7	1.6	0.2	1.0
CEE8 avg	2.4	2.7	2.6	2.1
Austria	2.1	1.5	0.8	1.7

C/A (%GDP)

	2018	2019	2020f	2021f
Croatia	1.9	2.9	-3.5	2.0
Czechia	0.3	-0.1	-1.5	0.3
Hungary	0.0	-0.8	-1.3	0.4
Poland	-1.0	0.5	1.2	0.7
Romania	-4.4	-4.7	-3.5	-3.1
Serbia	-4.8	-6.9	-6.1	-5.4
Slovakia	-2.6	-2.9	-2.7	-2.6
Slovenia	5.7	6.6	2.4	2.9
CEE8 avg	-1.1	-0.7	-0.9	-0.4
Austria	2.3	2.6	1.9	2.0

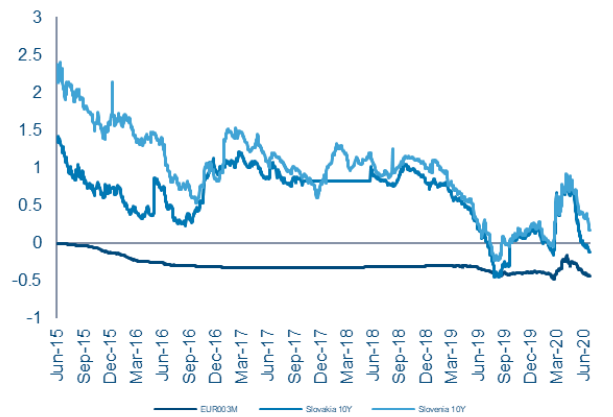
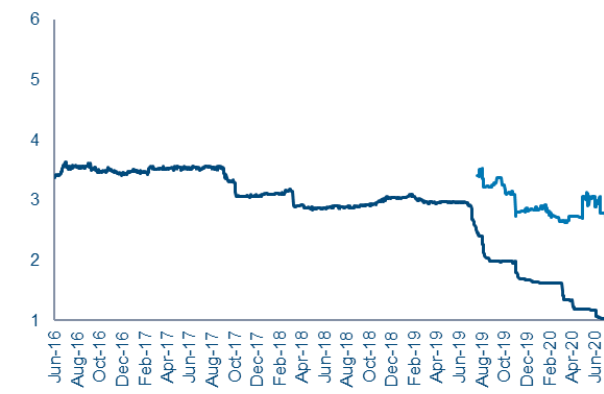
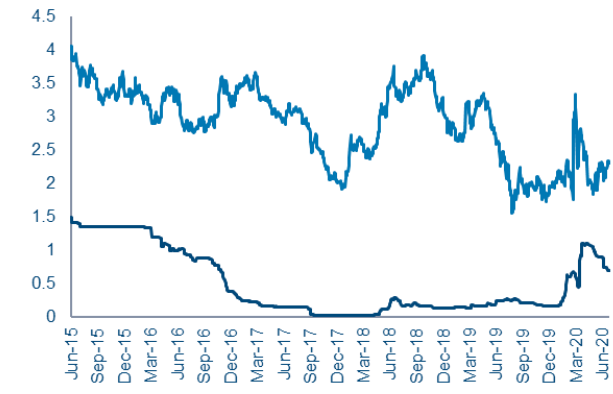
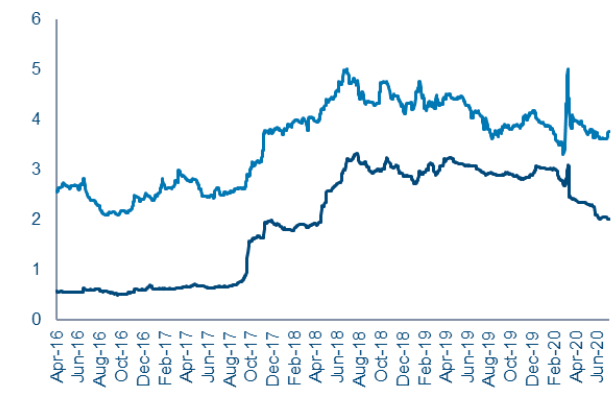
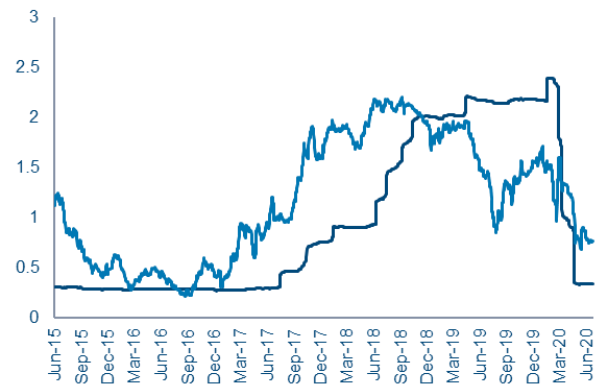
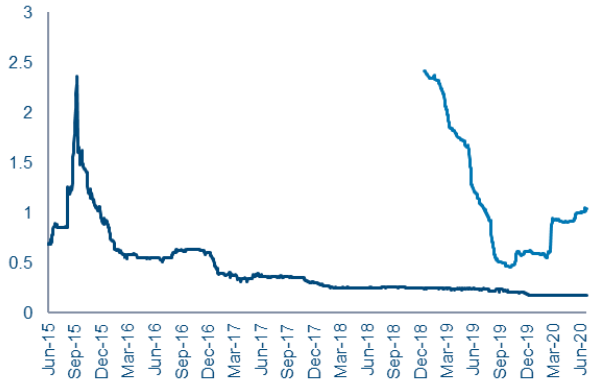
Unemployment (%)

	2018	2019	2020f	2021f
Croatia	8.4	6.6	10.4	13.2
Czechia	2.3	2.0	2.9	4.4
Hungary	3.7	3.4	5.1	4.9
Poland	6.1	5.4	6.7	6.2
Romania	4.2	3.9	10.9	6.3
Serbia	12.7	10.4	11.0	10.6
Slovakia	6.6	5.8	9.5	8.5
Slovenia	5.2	4.4	6.9	7.4
CEE8 avg	5.2	4.6	7.1	6.4
Austria	4.9	4.5	6.2	5.8

Budget Balance (%GDP)

	2018	2019	2020f	2021f
Croatia	0.2	0.4	-9.0	-3.0
Czechia	1.1	0.6	-5.9	-2.8
Hungary	-2.1	-2.0	-5.2	-3.2
Poland	-0.2	-0.7	-9.1	-2.9
Romania	-2.9	-4.3	-7.3	-3.8
Serbia	0.6	-0.2	-8.0	-1.0
Slovakia	-1.0	-1.3	-8.5	-4.3
Slovenia	0.7	0.0	-8.5	-3.0
CEE8 avg	-0.6	-1.2	-7.8	-3.1
Austria	0.2	0.0	-8.1	-4.3

Appendix



Source: Bloomberg, Erste Group Research

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Published by:

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

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