

CEE Market Insights

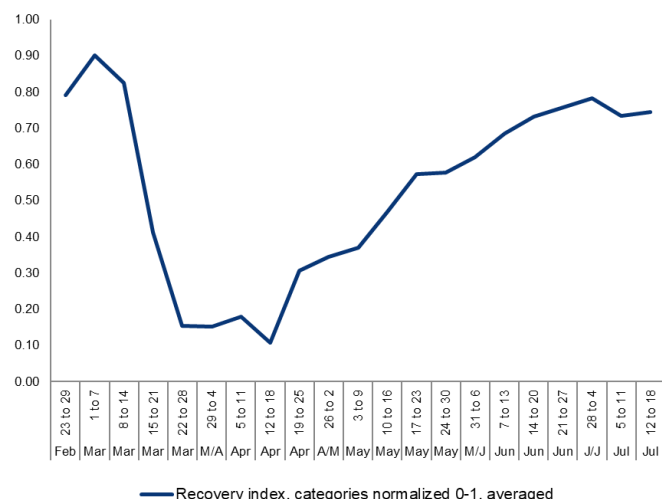
Czech 2Q GDP – size of recession

This week in CEE

The most important release this week will be second quarter GDP growth in Czechia. We expect the flash estimate to be deeply negative, even showing a double-digit y/y contraction, driven by the economic lockdown in April. In Croatia and Serbia, June retail trade and industrial output will be published. While in Croatia, a rather modest recovery is expected, in Serbia we should see positive y/y growth dynamics. As for the other releases, inflation is due in Poland and Slovenia. In Poland, we see headline inflation firming slightly in July, while Slovenia is likely to remain in deflation. In Hungary and Romania, the unemployment rate will be published.

Monday	Tuesday	Wednesday	Thursday	Friday
	SK: PPI	HU: Unemployment	RO: Unemployment	CZ: 2Q GDP
			HR: Industry, Retail	RS: Industry, Retail
				PL SI: CPI
RO: 2023 Bond		RS: 2025 Bond		HU: Bonds

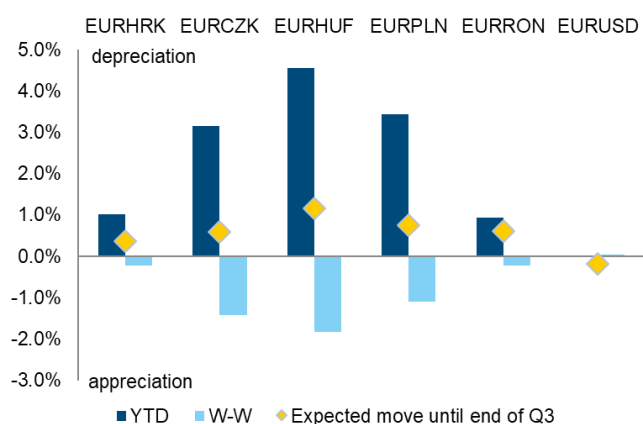
Recovery Index



The Recovery Index stabilized at the beginning of July. In the week starting July 12, mobility in all categories of groceries, retail and recreation, as well as the workplace, has improved. In particular, mobility in retail and recreation is worth paying attention to, as in many countries it is at the highest level since the pandemic outbreak. The increasing level of pollution is also consistent with higher mobility and improving economic activity. On the other hand, electricity consumption has marginally dropped.

Source: Erste Group Research

FX market

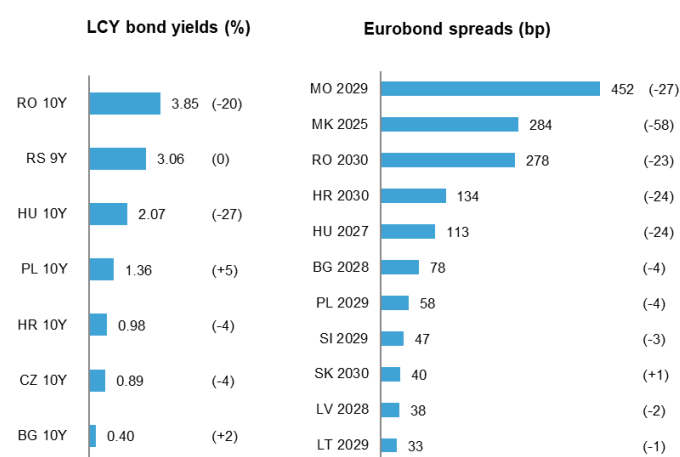


Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies gained very substantially last week on the news that an agreement on the EU Recovery Fund and budget was achieved. The euro got a boost against the US dollar, which was reinforced by the diverging situation in the real economy on the two sides of the Atlantic. This added to the regional currency optimism. The EUR 4bn swap line from the ECB to the MNB and the central bank's restart of government purchases added a bit of local flavor in Hungary, contributing to a slightly stronger appreciation of the forint. That said, market uncertainty may rise, due to coronavirus concerns, so further FX appreciation in CEE is getting less likely.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Yield moves were less remarkable in CEE last week, but the positive sentiment prevailed here as well. In particular, Romanian and Hungarian yields fell. As for the former, the bond auction on Thursday (where RON 200mn in 2034 paper was sold at more than three times bid-to-cover) showed interest in ROMGBs, after some yield increase earlier this month. The recent yield decline in Romania was in accordance with our forecasts. In Hungary, however, the major contributor to the gains on the bond market was the central bank, as it announced that it will restart purchases at the 15Y+ segment of the curve. 10Y yields fell almost 30bp w/w, while the drop was a remarkable 50bp on the 15Y segment last week. Further yield declines on the longer end seem unlikely in Hungary after this move.

In case you missed

CEE: Region to benefit from EU recovery plan, despite lower amount of grants available.

HR: Unemployment rate dropped in June, supported by seasonal factors.

HU: [Central bank](#) cut policy rate to 0.6% and announced purchases at long end of curve.

PL: [Industrial output](#) surprised to upside, as growth dynamics were positive in June, while [retail sales](#) remained slightly negative.

SK: [Unemployment rate](#) increased marginally to 7.4% in June.

SK: S&P changed outlook to negative from stable and affirmed rating at 'A+'.

CZ: Fitch affirmed rating at 'AA-' with stable outlook.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
28. Jul	9:00	SK	PPI (y/y)	Jun			-0.5%	
	14:30	SK	Current Account Balance (monthly)	May			-789	
29. Jul	9:00	HU	Unemployment Rate	Jun	4.60%	4.8%	4.1%	
30. Jul	8:00	RO	Unemployment Rate	Jun			5.2%	
	11:00	HR	Industrial Production (y/y)	Jun		-8.5%	-12.4%	Industrial production decline expected to move into single-digit area
	11:00	HR	Retail Sales (y/y)	Jun		-6.0%	-7.8%	Retail trade seen remaining negative, but with further moderation of downturn in June
31. Jul	9:00	CZ	GDP (q/q)	2Q A	-10.90%	-7.9%	-3.4%	Subdued economic activity in April and a part of May affected the overall figure for 2Q. From the end of May thereafter, we see a gradual recovery.
	9:00	CZ	GDP (y/y)	2Q A	-13.9%	-10.20%	-2%	The economy decreased significantly in y/y terms in 2Q, due to negative development mainly in investments and foreign trade.
	9:00	HU	Trade Balance	May F			155.46	
	10:00	PL	CPI (y/y)	Jul P	3.1%	3.10%	3.3%	Inflation pressure to begin to ease in July on the back of still low oil prices and base effect.
	10:00	PL	CPI (m/m)	Jul P	-0.1%	0.10%	0.6%	
	10:30	SI	CPI (y/y)	Jul		-0.20%	-0.3%	July inflation seen remaining in mild negative area
	12:00	RS	Industrial Production (y/y)	Jun		1.00%	-9.3%	We expect industrial production returned to positive territory mostly due to low base and positive calendar effect (+2WD).
	12:00	RS	Retail Sales (y/y)	Jun		5.00%	4.7%	After surprising in May, we expect similar positive retail growth in June as well.
	12:00	RS	Trade Balance	Jun			-348.2	

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

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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)	143	140	120	110	-
Czechia 10Y	0.9	1.0	1.1	1.1	1.3
spread (bps)	133	137	125	124	125
Hungary 10Y	2.1	2.3	2.3	2.4	2.5
spread (bps)	251	265	250	245	245
Poland 10Y	1.4	1.5	1.6	1.7	1.7
spread (bps)	180	190	180	180	170
Romania 10Y	3.8	3.8	3.7	3.5	3.6
spread (bps)	430	420	385	360	360
Slovakia 10Y	-0.1	0.0	0.1	0.1	0.2
spread (bps)	30	40	30	20	15
Slovenia 10Y	0.07	0.40	0.40	0.50	0.50
spread (bps)	52	80	60	60	50
Serbia 5Y	2.4	2.6	2.6	2.5	2.4
spread (bps)	289	300	275	260	240
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	0.60	0.60	0.60	0.60	0.60
Poland	0.25	0.25	0.25	0.25	0.25
Romania	2.15	1.75	1.25	1.25	1.50
Serbia	1.02	0.99	0.94	0.94	0.94
Eurozone	-0.45	-0.45	-0.45	-0.45	-0.45

Real GDP growth (%)

	2018	2019	2020f	2021f
Croatia	2.7	2.9	-9.0	5.4
Czechia	3.2	2.3	-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

Public debt (% of GDP)

	2018	2019	2020f	2021f
Croatia	74.7	73.2	89.3	86.6
Czechia	32.0	30.2	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	61.9	60.9
Slovakia	1.0	0.9	8.1	4.1
Slovenia	70.4	66.1	80.1	79.9
CEE8 avg	44.7	42.6	51.6	49.9

FX

	current	2020Q3	2020Q4	2021Q1	2021Q2
EURHRK	7.52	7.55	7.60	7.55	7.48
forwards		7.52	7.52	7.52	7.52
EURCZK	26.24	26.40	26.10	25.79	25.68
forwards		26.26	26.28	26.29	26.32
EURHUF	345.46	350.00	350.00	350.00	350.00
forwards		346.11	346.46	346.99	347.73
EURPLN	4.40	4.44	4.43	4.44	4.45
forwards		4.41	4.41	4.42	4.43
EURRON	4.83	4.86	4.90	4.92	4.94
forwards		4.85	4.89	4.93	4.98
EURRSD	117.60	117.50	117.60	117.50	117.40
forwards		-	-	-	-
EURUSD	1.17	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	0.60	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	2.9	1.9
Hungary	2.8	3.4	3.1	2.9
Poland	1.6	2.3	3.1	1.7
Romania	4.6	3.8	2.8	3.4
Serbia	2.0	1.9	1.7	2.0
Slovakia	2.5	2.7	2.0	1.0
Slovenia	1.7	1.6	0.2	1.0
CEE8 avg	2.4	2.7	2.7	2.0

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	-2.1	-0.9
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	-2.4	-2.7	-2.4	-2.5
Slovenia	5.7	6.6	2.4	2.9
CEE8 avg	-1.1	-0.7	-1.0	-0.5

Unemployment (%)

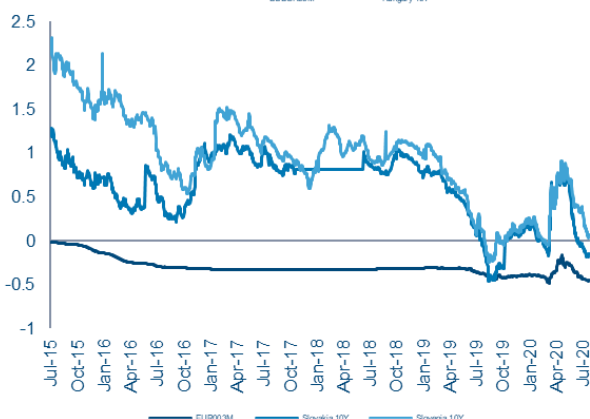
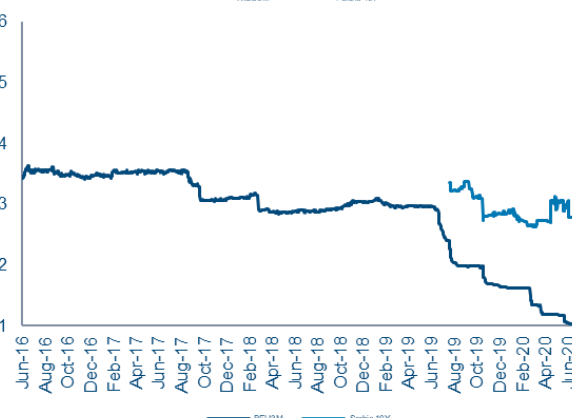
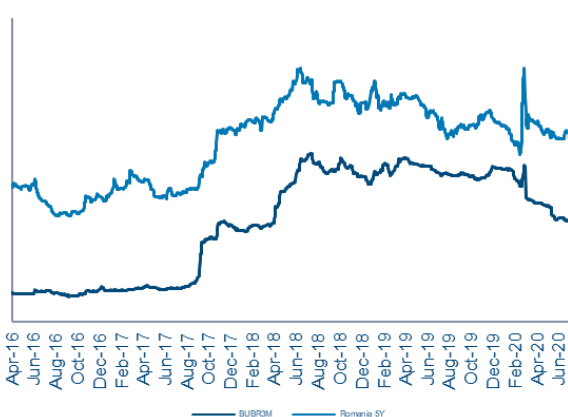
	2018	2019	2020f	2021f
Croatia	8.4	6.6	10.4	13.2
Czechia	2.2	2.0	4.5	4.8
Hungary	3.7	3.4	5.1	4.9
Poland	6.1	5.4	6.3	6.2
Romania	4.2	3.9	5.9	8.5
Serbia	12.7	10.4	11.0	10.6
Slovakia	6.5	5.8	8.3	8.0
Slovenia	5.2	4.4	6.9	7.4
CEE8 avg	5.2	4.6	6.3	6.8

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	-8.4	-4.9
Slovenia	0.7	0.0	-8.5	-3.0
CEE8 avg	-0.6	-1.1	-7.8	-3.1

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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