

CEE Market Insights

All eyes on the central banks

This week in CEE

Two central bank meetings will be in the spotlight this week. It is pretty much a done deal that the Hungarian central bank will deliver some monetary policy tightening on Tuesday. Given the current setup of the policy toolkit, we expect the policy rate (0.6%) and the 1-week depo rate (0.75%) to be merged and hiked to 0.9%. The new forecasts should highlight faster pace of economic recovery combined with higher inflation this year. Of importance will be the bank's projection for next year's inflation – whether it sees it abating and if so, how quickly. There are two possible timings for the first rate hike in Czechia – June or August. Even though the uncertainty around the pandemic has not fully receded, given the current inflationary pressures we see a higher probability that the Czech central bank will raise its key rate by 25bps to 0.5% already on Wednesday. This should come as no surprise to the markets, that have already priced it in. Apart from the expected monetary policy changes in Hungary and Czechia, we will get a first look at the Polish real economy data in May. Industrial output likely rose by 33.4% y/y, pushed up by last year's low base but partially limited by a negative calendar effect (-1WD). Re-opening of the economy likely gave a boost to Polish retail sales dynamics in May, even in spite of the waning base effect, as they may have grown by 15.7% y/y. Moreover, the unemployment rate in Poland is thought to have dropped to 6.1% last month (local methodology).

Monday	Tuesday	Wednesday	Thursday	Friday
PL: Industry, PPI	HU: Central bank	CZ: Central bank	PL: Unemployment	RS: Wages
HU: Current account	PL: Retail sales			
SI: PPI				
SK: 2024, 2028, 2032, 2047 Bonds	RS: 2032 Bonds	HR: Bills	RO: Bills, 2027 Bonds	
	HU: Bills			

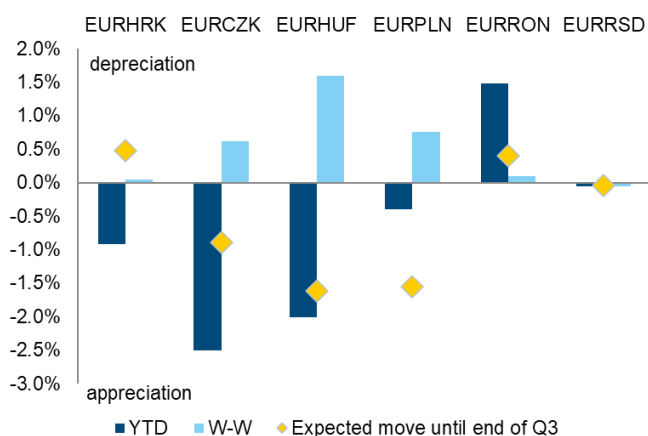
CEE Recovery Index



In the week ending June 12, the CEE Recovery Index accelerated and exceeded the previous week's record. The improving epidemiological situation gave a boost to mobility across all categories. Mobility to grocery and retail stores increased substantially, reaching new peaks since the beginning of the outbreak. Furthermore, mobility to workplace rose sharply, hitting its highest value on record. Moreover, electricity consumption went up considerably compared to the previous week. On the other hand, air pollution fell slightly, with negligible effects on the Recovery Index's surge. All in all, the CEE Recovery Index bodes well for the coming quarters, as the economic rebound is in a full swing, supported by the vaccine rollout and relaxed containment measures. For more details, please check our [website](#).

Source: Erste Group Research

FX market

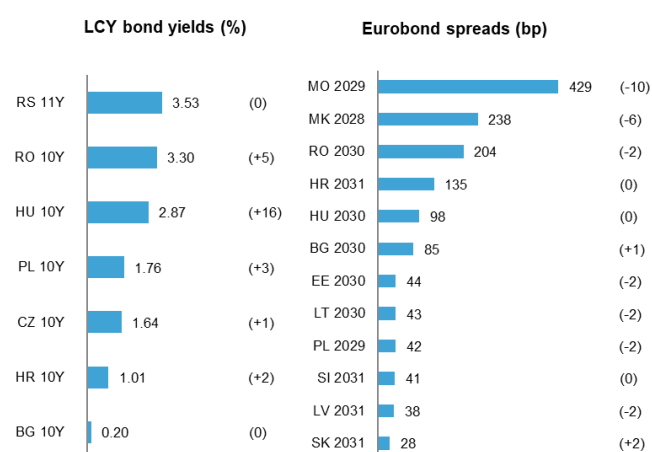


Source: Bloomberg, Erste Group Research

FX market developments

Following the FOMC decision to keep monetary policy unchanged at last week's meeting and the publication of a new inflation and interest rate outlook, the US dollar appreciated visibly and moved towards 1.19 vs. the EUR, the strongest level in two months. The stronger USD weighed on CEE currencies, which weakened last week, with the Hungarian forint being hit the most. Apart from global factors, we think that recent comments from MPC member Pleschinger about the quarterly pace of tightening in Hungary somewhat disappointed markets, which were likely eyeing hikes in June and July. Should the Hungarian central bank not deliver an effective tightening step at Tuesday's meeting, the forint is expected to quickly weaken. Global factors – the strong US dollar – would amplify the weakening. It seems close to certain that the Czech National Bank will also hike the key rate this week. The tightening would not be a surprise for the markets and neither would communication of at least one more hike this year. Thus, we do not expect any sizable reaction on the part of the koruna. The zloty might show increased volatility this week and follow regional peers.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Hungarian bonds were the main victim of the FED's hawkish comments, as, on top of strong HUF depreciation (2% w/w), 10Y yields also jumped up more visibly (nearly 15bp w/w). That already includes a correction that could result from continued MNB bond purchases (volume will be disclosed only today). The FED's hint on an early start of discussion on tapering also puts Hungary's QE program in jeopardy, which may add some upward pressure on Hungarian bond yields. National Bank of Poland bought Treasuries and state-guaranteed papers worth only PLN 2bn at last week's QE auction – just 36% of what investors offered to sell. It was a second tender in a row at which NBP bought less than expected, what in our view can be seen as a start of the tapering. We expect the NBP to continue to limit asset purchases over summer and likely end the QE program at the turn of 3Q21 and 4Q21. This week, Slovakia will reopen SLOVGBs 2024, 2028, 2032 and 2047, Romania will reopen ROMGB 2027 and Serbia SERBGB 2032. On top of the regular bond auctions, Hungary will sell 91-day T-bills; Romania and Croatia will sell 364-day T-bills.

In case you missed

CEE: New [CEE Macro Outlook](#) published.
SK: [Inflation](#) exceeded 2% y/y in May.
RO: [Industrial production](#) accelerated in May.
SI: Fitch affirmed Slovenian rating at 'A' with stable outlook.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
21.Jun	8:30	HU	Current Account Balance (quarterly)	1Q			184.6	
	10:00	PL	Industrial Production (y/y)	May	30.4%	33.40%	44.5%	Industrial output to maintain solid dynamics in May. Due to low base from last year, another double-digit reading is highly likely. Negative calendar effect (-1WD) could offset some of base effect.
	10:00	PL	PPI (y/y)	May	5.80%	6.10%	5.30%	Producer prices to go further up, reflecting soaring commodity prices.
	10:30	SI	PPI (y/y)	May			2.40%	
22.Jun	10:00	PL	Retail Sales (y/y)	May	16.1%	15.70%	25.70%	Reopening of economy in May likely boosted retail sales dynamics. Base effect somewhat faded away in May.
	14:00	HU	Central Bank Rate	Jun	0.90%	0.90%	0.60%	MNB to carry out rate hike and make policy rate effective again.
23.Jun	14:30	CZ	Central Bank Rate	Jun	0.50%	0.50%	0.25%	CNB could increase rates in June or in August. Given current inflationary pressures, we see slightly higher probability of June meeting.
24.Jun	10:00	PL	Unemployment Rate	May	6.10%	6.10%	6.30%	Unemployment rate to drop in May.
25.Jun	12:00	RS	Wages (y/y)	Apr			7.30%	

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	2021Q3	2021Q4	2022Q1	2022Q2
Croatia 10Y	0.5	0.5	0.5	0.6	0.6
spread (bps)	72	62	53	63	59
Czechia 10Y	1.6	1.8	1.9	2.0	2.1
spread (bps)	184	193	194	205	211
Hungary 10Y	2.9	2.9	2.9	3.0	3.1
spread (bps)	307	300	293	303	308
Poland 10Y	1.8	2.00	2.20	2.30	2.40
spread (bps)	196	212	223	233	239
Romania 10Y	3.3	3.5	3.5	3.5	3.6
spread (bps)	350	357	348	353	354
Slovakia 10Y	0.2	0.2	0.3	0.4	0.5
spread (bps)	39	27	33	38	49
Slovenia 10Y	0.11	0.15	0.15	0.25	0.35
spread (bps)	32	27	18	28	34
Serbia 5Y	2.4	2.3	2.2	2.1	2.1
spread (bps)	257	242	223	213	209
DE10Y*	-0.2	-0.1	0.0	0.0	0.0

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Czechia	0.44	0.59	0.86	1.13	1.39
Hungary	0.93	1.05	1.20	1.35	1.35
Poland	0.21	0.21	0.35	0.35	0.60
Romania	1.49	1.60	1.60	1.65	1.65
Serbia	0.87	0.85	0.83	0.83	0.83
Eurozone	-0.54	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)

	2019	2020	2021f	2022f
Croatia	2.9	-8.0	5.0	5.5
Czechia	2.2	-5.6	3.7	4.3
Hungary	4.6	-5.0	6.9	4.1
Poland	4.7	-2.7	4.8	5.4
Romania	4.1	-3.9	6.7	4.5
Serbia	4.2	-1.0	6.0	4.0
Slovakia	2.5	-4.8	4.0	4.8
Slovenia	3.2	-5.5	5.0	4.8
CEE8 avg	3.9	-4.0	5.1	4.8

Public debt (% of GDP)

	2019	2020	2021f	2022f
Croatia	72.8	88.7	87.2	84.3
Czechia	31.2	38.1	44.4	46.8
Hungary	65.5	80.4	77.5	75.9
Poland	45.6	57.5	57.0	55.0
Romania	35.3	47.3	49.6	50.8
Serbia	52.1	57.4	59.1	58.4
Slovakia	48.2	60.3	63.5	63.5
Slovenia	65.6	80.8	79.7	76.3
CEE8 avg	45.9	57.4	58.3	57.7

Source: Bloomberg, Erste Group Research

FX

	current	2021Q3	2021Q4	2022Q1	2022Q2
EURHRK	7.50	7.53	7.53	7.53	7.48
EURCZK	25.58	25.35	25.25	25.14	24.98
EURHUF	355.38	350.00	350.00	350.00	350.00
EURPLN	4.55	4.48	4.42	4.38	4.35
EURRON	4.93	4.95	4.98	4.99	5.03
EURRSD	117.69	117.50	117.60	117.55	117.50
EURUSD	1.19	1.18	1.20	1.20	1.22

Key Interest Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.25	0.50	0.75	1.00	1.25
Hungary	0.60	1.05	1.20	1.35	1.35
Poland	0.10	0.10	0.25	0.25	0.50
Romania	1.25	1.20	1.20	1.22	1.25
Serbia	1.00	1.00	1.00	1.00	1.00
Eurozone	0.00	0.00	0.00	0.00	0.00

Average inflation (%)

	2019	2020	2021f	2022f
Croatia	0.8	0.1	1.7	1.6
Czechia	2.8	3.2	3.1	2.4
Hungary	3.4	3.3	4.2	3.2
Poland	2.3	3.4	4.0	3.5
Romania	3.8	2.7	3.7	3.0
Serbia	1.9	1.6	2.5	2.7
Slovakia	2.7	1.9	1.6	1.8
Slovenia	1.6	0.0	1.3	1.5
CEE8 avg	2.7	2.8	3.4	2.9

C/A (%GDP)

	2019	2020	2021f	2022f
Croatia	2.8	-0.8	0.6	0.4
Czechia	-0.3	3.2	0.7	0.3
Hungary	-0.5	0.1	-0.2	-0.1
Poland	0.5	3.5	2.1	1.2
Romania	-4.9	-5.2	-5.9	-5.4
Serbia	-6.9	-4.3	-3.5	-3.6
Slovakia	-2.7	-2.7	-1.6	-0.9
Slovenia	5.6	7.1	6.3	5.5
CEE8 avg	-0.8	0.9	0.0	-0.4

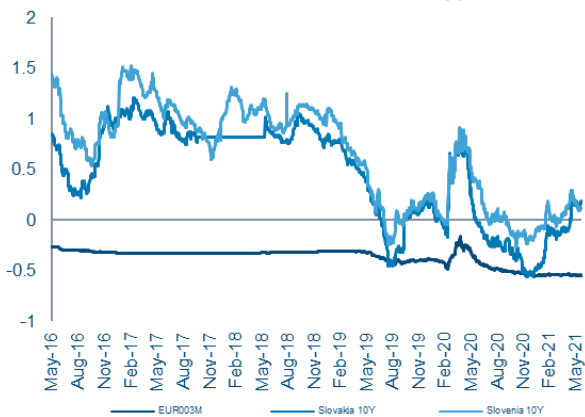
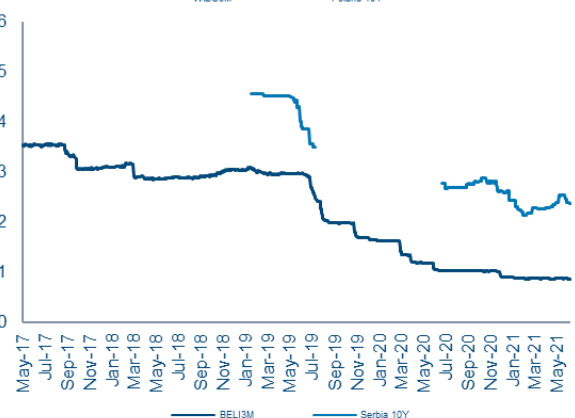
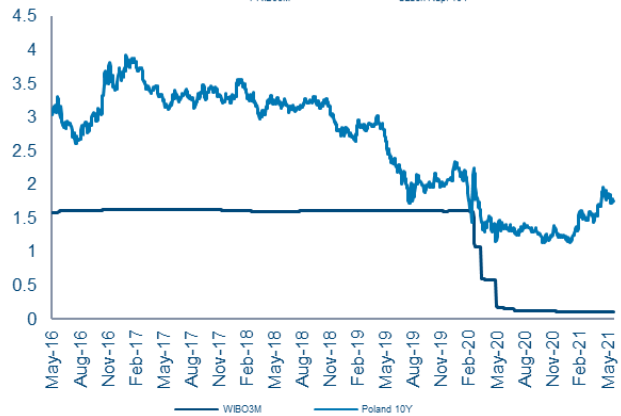
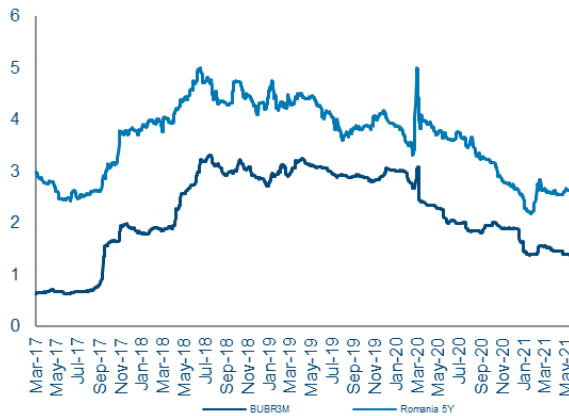
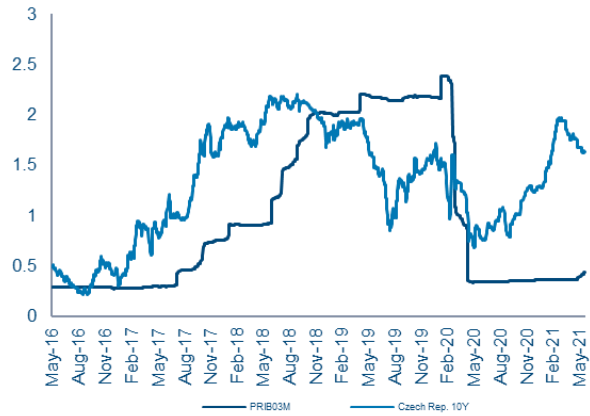
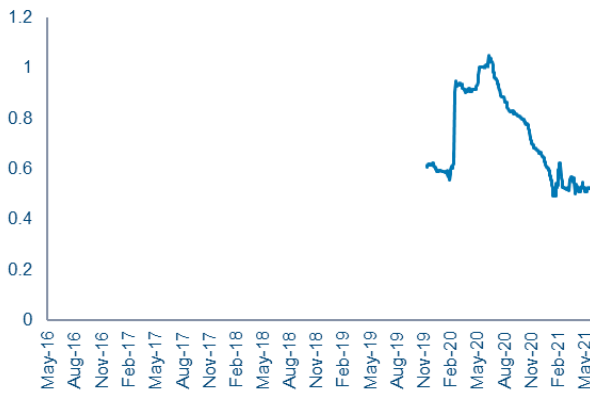
Unemployment (%)

	2019	2020	2021f	2022f
Croatia	6.6	7.5	7.5	6.7
Czechia	2.0	2.6	3.3	2.7
Hungary	3.4	4.2	4.2	3.8
Poland	5.4	5.9	6.2	5.9
Romania	3.9	4.9	5.9	6.1
Serbia	10.4	9.0	8.9	8.5
Slovakia	5.8	6.7	7.0	6.0
Slovenia	4.4	5.0	5.0	4.8
CEE8 avg	4.6	5.2	5.6	5.3

Budget Balance (%GDP)

	2019	2020	2021f	2022f
Croatia	0.3	-7.4	-4.2	-3.0
Czechia	0.3	-6.2	-7.2	-3.5
Hungary	-2.1	-8.1	-7.1	-5.5
Poland	-0.7	-7.0	-4.5	-3.2
Romania	-4.4	-9.2	-7.8	-5.4
Serbia	-0.2	-8.0	-6.5	-3.0
Slovakia	-1.3	-6.1	-6.0	-4.0
Slovenia	0.5	-8.4	-7.0	-4.5
CEE8 avg	-1.2	-7.4	-6.0	-3.9

Appendix



Source: Bloomberg, Erste Group Research

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CEE Market Insights
 21 June 2021

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