

## CEE Market Insights

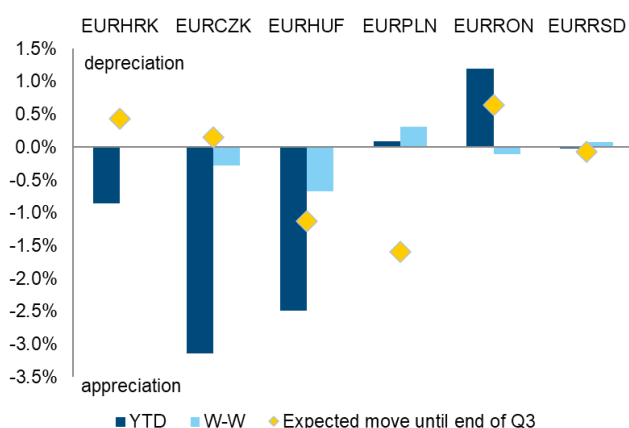
### July inflation in the spotlight

#### This week in CEE

This week will be busy as we await a flood of data and one central bank meeting. The Serbian central bank will likely remain on hold and keep the key rate at 1% on Thursday. Inflation figures for July will be published in most of the region. Hungarian CPI is likely to have eased to 4.7% y/y, reflecting the higher base from last July. Czech consumer prices are expected to be up by 2.8% y/y as inflation remains high mainly due to sound domestic demand and tight labor market. Serbian inflation may have remained around the mid-part of the NBS' target band at 3% y/y and a similar pace can be expected in Slovakia, where tobacco and imputed rents remain significant contributors. Romanian inflation likely accelerated to 4.8% year-over-year, reflecting expected increases in electricity and gas prices. The Polish CPI print should be confirmed at 5% y/y. More interesting news from Poland will come regarding the flash GDP release. Strong real economy data and the base effect likely pushed 2Q21 GDP growth up to the vicinity of 10.7% y/y (2.3% q/q), while net exports probably remained a drag on growth. Moreover, industrial production figures for June will be published in Slovenia, Romania and Slovakia. Robust double-digit growth of industry of around 10% may be expected, still affected by the base effect (though less so than before), but also some supply-side concerns and bottlenecks. June trade balance will be published in Romania, Slovakia, Slovenia and Poland. On Friday, the S&P will review the Hungarian rating – no changes to the outlook or rating are anticipated.

Monday	Tuesday	Wednesday	Thursday	Friday
RO,SK,SI,HR: Trade balance	SK,SI: Industry CZ,HU: CPI	RO:CPI, wages	RO: Industry SK: wages RS: Central bank, CPI	RO: Current account SK: CPI PL: CPI, GDP, Trade balance
RO: 2034 Bonds	HU: Bills	CZ: 2029, 2032, 2040 Bonds	RO: 2024 Bonds	

#### FX market

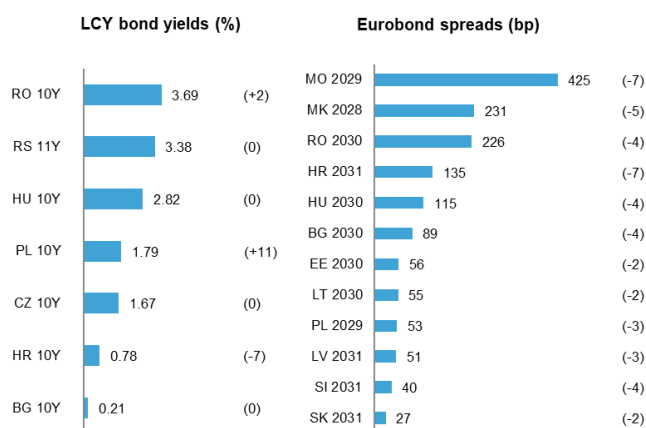


Source: Bloomberg, Erste Group Research

#### FX market developments

CEE currencies benefited from higher interest rate expectations in CEE. The Hungarian forint continued to outperform its regional peers with the fastest speed of tightening in the pipeline. A new pledge from the CNB to deliver more rate increases in the coming months also helped the Czech koruna at the end of last week. Due to the uncertainty around the pandemic, we are not certain whether a 25bp hike will be delivered at each subsequent policy meeting, but if so, and if pandemic risks abate, the koruna can easily strengthen below 25 EURCZK. We plan to issue our new macro and market forecasts for Czechia at the beginning of September. The Croatian kuna also slightly appreciated last week, which can be attributed to the typical seasonal pattern. Depreciation pressure on the Romanian leu has also eased; the leu returned below 4.92 EURRON last week, supported by exports of agricultural crops as well as tight liquidity management from the central bank.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

10Y government bond yields remained flat or even edged slightly down last week in CEE, with the exception of Poland and Romania. In Romania, the yield curve steepened, due to underweighting of duration in ROMGBs by local investors ahead of the disclosure of the new NBR inflation forecast and July inflation, which should point to a higher inflation trajectory. Despite the very strong resistance of the NBP towards monetary tightening, the POLGB curve shifted up about 8bp w/w, as the pressure related to higher inflation is mounting, particularly given how seriously it has been taken by peer central banks. The more aggressive speed of tightening announced by the CNB has hardly caused any damage to CZGBs; the curve has flattened, as yields on short-term bonds (i.e. 1Y) moved up. At the end of this week, S&P should publish its sovereign rating on Hungary.

## In case you missed

CZ: [Czech central bank delivered another 25bp rate hike](#) and outlined further tightening plans.

CZ: [Industrial production went up](#) by 11.4% y/y in June. Retail trade growth stood at 7.2% y/y in the same month.

RO: Central bank left monetary policy unchanged, with the key rate at 1.25%. You can read our [short note](#).

RO: [Retail sales growth eased](#) to 13.6% y/y in June.

HU: [Industry performed well](#) in June, growing by 18.6% y/y/. [Retail sales growth](#) reached 5.8% y/y in June.

SK: [June retail sales grew](#) by 6.6% y/y, reaching pre-crisis levels.

CEE: We published a special report on housing in CEE: [Dearer housing faces new green challenges](#).

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
09.Aug	8:00	RO	Trade Balance	Jun			-1772,8	
	9:00	SK	Trade Balance	Jun		-50	142,7	
	10:30	SI	Trade Balance	Jun			-0,23	
10.Aug	9:00	SK	Industrial Production (y/y)	Jun		10,0%	37,60%	
	9:00	CZ	CPI (y/y)	Jul	2,90%	2,80%	2,80%	Inflation remains high mainly due to sound domestic demand and tight labor market.
	9:00	CZ	CPI (m/m)	Jul	0,53%	0,5%	0,50%	A positive seasonal effect and higher food prices stand behind a rise of the price level.
	9:00	HU	CPI (y/y)	Jul	4,80%	4,70%	5,3%	The high base figure from last July will probably lead to a slowdown of the headline rate.
	9:00	HU	CPI (m/m)	Jul		0,60%	0,60%	Fuel and services price increases imply another high monthly rate.
	10:30	SI	Industrial Production (y/y)	Jun		10%	22,10%	Industrial production expected to maintain double-digit growth dynamics
11.Aug	8:00	RO	CPI (y/y)	Jul	4,60%	4,80%	3,94%	Provided that our scenario for July electricity and gas prices is correct, the year-end CPI outlook could show inflation just above 5% y/y.
	8:00	RO	CPI (m/m)	Jul		0,83%	0,27%	Large increase expected in electricity and gas prices, on top of higher fuel prices. Forecast uncertainty is very high for July change in electricity and gas prices due to lack of data.
	8:00	RO	Wages (y/y)	Jun		4,70%	9,85%	We expect wage growth to decelerate.
12.Aug	8:00	RO	Industrial Production (y/y)	Jun		10,70%	0,3	Weaker confidence overall in manufacturing on lower order books, higher inventories and less optimistic outlook for the months
	12:00	RS	CPI (y/y)	Jul		3,00%	3,30%	We see inflation remaining around mid-part of the NBS' target band
	12:00	RS	CPI (m/m)	Jul			0,30%	
	12:00	RS	Central Bank Rate	Aug		1,00%	1,00%	We expect NBS to remain on hold
13.Aug	9:00	SK	CPI (y/y)	Jul	3,30%	3,00%	2,90%	
	9:00	SK	CPI (m/m)	Jul	0,50%	0,20%	0,6%	
	10:00	PL	CPI (y/y)	Jul F			5%	
	10:00	PL	CPI (m/m)	Jul F			0,40%	
	10:00	PL	GDP (y/y)	2Q P	10,40%	10,70%	-0,90%	Strong real economy data and the base effect will likely push 2Q21 GDP growth into double-digit territory, while net export will likely remain a drag on growth. We expect the economy to increase by 2.3% q/q s.a.
	14:00	PL	Trade Balance	Jun	848		185	

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
<b>Croatia 10Y</b>	0.5	0.5	0.5	0.6	0.6
spread (bps)	98	67	64	67	62
<b>Czechia 10Y</b>	1.7	1.7	1.8	1.9	1.9
spread (bps)	214	190	191	193	196
<b>Hungary 10Y</b>	2.8	2.9	3.0	3.0	3.1
spread (bps)	327	311	315	311	309
<b>Poland 10Y</b>	1.7	1.80	1.90	2.00	2.10
spread (bps)	221	197	204	207	212
<b>Romania 10Y</b>	3.7	3.4	3.4	3.5	3.5
spread (bps)	418	362	359	357	357
<b>Slovakia 10Y</b>	-0.2	0.2	0.2	0.3	0.3
spread (bps)	34	32	34	32	32
<b>Slovenia 10Y</b>	-0.17	0.15	0.15	0.25	0.35
spread (bps)	32	32	29	32	37
<b>Serbia 5Y</b>	2.2	2.3	2.2	2.1	2.1
spread (bps)	273	247	234	217	212
<b>DE10Y*</b>	-0.5	-0.2	-0.1	-0.1	0.0

\* Spreads based on Bloomberg consensus forecast

3M Money Market Rate					
	current	2021Q3	2021Q4	2022Q1	2022Q2
<b>Czechia</b>	0.81	0.78	0.87	1.13	1.39
<b>Hungary</b>	1.35	1.85	1.85	1.85	1.85
<b>Poland</b>	0.21	0.21	0.35	0.35	0.60
<b>Romania</b>	1.52	1.55	1.55	1.55	1.55
<b>Serbia</b>	0.88	0.85	0.83	0.83	0.83
<b>Eurozone</b>	-0.54	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)				
	2019	2020	2021f	2022f
<b>Croatia</b>	2.9	-8.0	5.0	5.5
<b>Czechia</b>	3.0	-5.8	3.7	4.3
<b>Hungary</b>	4.6	-5.0	6.9	4.1
<b>Poland</b>	4.7	-2.7	4.8	5.4
<b>Romania</b>	4.1	-3.9	6.7	4.5
<b>Serbia</b>	4.2	-1.0	6.0	4.0
<b>Slovakia</b>	2.5	-4.8	4.2	4.8
<b>Slovenia</b>	3.2	-5.5	5.0	4.8
<b>CEE8 avg</b>	4.0	-4.0	5.2	4.8

Public debt (% of GDP)				
	2019	2020	2021f	2022f
<b>Croatia</b>	72.8	88.7	87.2	84.3
<b>Czechia</b>	31.2	38.1	44.4	46.8
<b>Hungary</b>	65.5	80.4	77.7	76.0
<b>Poland</b>	45.6	57.5	57.0	55.0
<b>Romania</b>	35.3	47.3	49.6	50.8
<b>Serbia</b>	52.1	57.4	59.1	58.4
<b>Slovakia</b>	48.2	60.3	63.0	62.8
<b>Slovenia</b>	65.6	80.8	79.7	76.3
<b>CEE8 avg</b>	45.9	57.4	58.3	57.6

Source: Bloomberg, Erste Group Research

FX					
	current	2021Q3	2021Q4	2022Q1	2022Q2
<b>EURHRK</b>	7.50	7.53	7.53	7.53	7.48
<b>EURCZK</b>	25.44	25.45	25.25	25.14	24.98
<b>EURHUF</b>	354.68	350.00	350.00	350.00	350.00
<b>EURPLN</b>	4.54	4.50	4.48	4.45	4.42
<b>EURRON</b>	4.92	4.94	4.98	4.99	5.03
<b>EURRSD</b>	117.52	117.50	117.60	117.55	117.50
<b>EURUSD</b>	1.19	1.18	1.20	1.20	1.20

Key Interest Rate					
	current	2021Q3	2021Q4	2022Q1	2022Q2
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.50	0.75	0.75	1.00	1.25
<b>Hungary</b>	1.20	1.80	1.80	1.80	1.80
<b>Poland</b>	0.10	0.10	0.25	0.25	0.50
<b>Romania</b>	1.25	1.25	1.25	1.25	1.25
<b>Serbia</b>	1.00	1.00	1.00	1.00	1.00
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

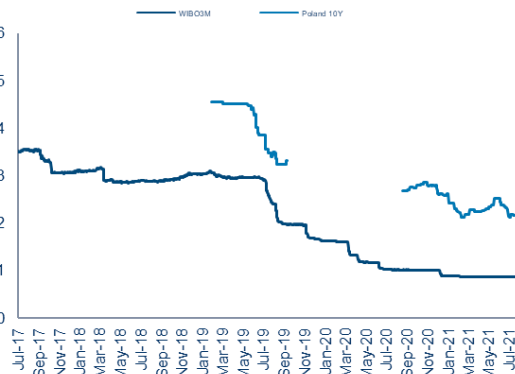
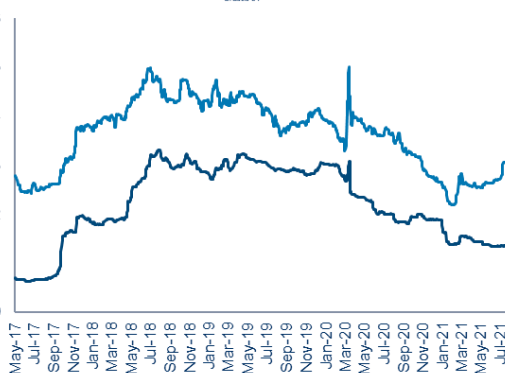
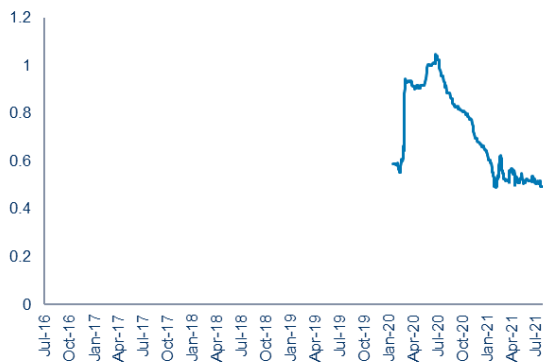
Average inflation (%)				
	2019	2020	2021f	2022f
<b>Croatia</b>	0.8	0.1	1.7	1.6
<b>Czechia</b>	2.8	3.2	3.1	2.4
<b>Hungary</b>	3.4	3.3	4.3	3.3
<b>Poland</b>	2.3	3.4	4.4	3.9
<b>Romania</b>	3.8	2.7	3.7	3.0
<b>Serbia</b>	1.9	1.6	2.5	2.7
<b>Slovakia</b>	2.7	1.9	2.4	2.8
<b>Slovenia</b>	1.6	0.0	1.3	1.5
<b>CEE8 avg</b>	2.7	2.8	3.6	3.2

C/A (%GDP)				
	2019	2020	2021f	2022f
<b>Croatia</b>	2.8	-0.8	0.6	0.4
<b>Czechia</b>	0.3	3.6	0.7	0.3
<b>Hungary</b>	-0.5	-0.1	-0.1	0.1
<b>Poland</b>	0.5	3.5	1.6	0.9
<b>Romania</b>	-4.9	-5.2	-5.9	-5.4
<b>Serbia</b>	-6.9	-4.3	-3.5	-3.6
<b>Slovakia</b>	-2.7	-2.7	-1.6	-0.9
<b>Slovenia</b>	5.6	7.1	6.3	5.5
<b>CEE8 avg</b>	-0.7	1.0	-0.2	-0.5

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

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

## Appendix



Source: Bloomberg, Erste Group Research

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**9 August 2021**

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