

CEE Market Insights

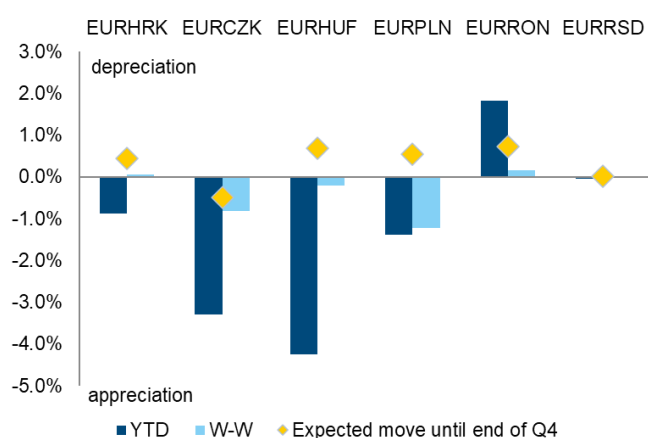
August inflation and central banks meetings in focus

This week in CEE

This week, inflation numbers for August will be in focus in CEE. We expect the annual rate of change of CPI to remain about the same level as in July in Hungary and Czechia while edging up in Romania due to the base effect and higher fuel prices. Any surprises in Czech and Hungarian CPI may spark some speculation on the change in the pace of tightening or its extent. We expect the Hungarian inflation rate to be 4.7% in August but to return above 5% later this year, which should advocate for some further tightening (although in smaller steps) from the central bank in order to tame inflation expectations. This week, Poland's and Serbia's central banks will decide on rates; we expect rates to remain on hold in both cases. Poland's central bank will hold a press conference at which the governor will be under heavy scrutiny to explain why the central bank is keeping rates at 0.1% while inflation is topping 5% (5.4% in August according to the flash estimate). The central bank is likely to point to the necessity to wait for the new inflation forecast (due in November) and having more clarity on another pandemic wave and its impact on the economy. We expect that the NBP will start its hiking cycle at the November meeting. Separately, many CEE countries will publish industrial output and foreign trade data for July. These should be negatively affected by disruptions on the supply side and higher fuel prices. Finally, Romania will disclose detailed GDP data for 2Q21; we expect growth to be confirmed at 13% y/y.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ: Industry, Trade balance	RO: 2Q21 GDP	PL: Central bank	RS: Central bank	CZ, RO: CPI
	CZ: Retail sales	HU: CPI	RO, SI: Trade balance	SK, SI: Industry
	HU: Industry	HU, HR, SK: Trade balance		RO: Wages
RO: 2034 Bonds	HU, SI: Bills	CZ: 2032, 2040 Bonds	RO: Bills, 2024 Bonds	
	RS: 2032 Bonds			

FX market



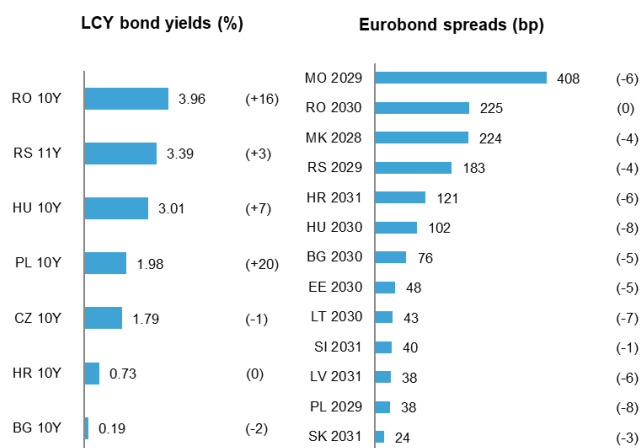
Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies benefited from last week's local macro releases and weaker US dollar. After two months of underperformance compared to local peers, the Polish zloty appreciated visibly and gained 1.4% vs. the EUR. The zloty was supported by a surprisingly high inflation print for August (5.4% y/y), which puts the National Bank of Poland into an uncomfortable position, given its pledge to maintain stable interest rates. While this week's NBP meeting should not bring any material change into the monetary policy setup, some sharpening of the dovish rhetoric or hints about possible rate hikes could be expected. The Czech koruna appreciated as well and moved to 25.30 vs. the EUR following the upward revision of the 2Q21 GDP figures, while the Hungarian forint awaits the September rate-setting meeting.

Coalition jitters in Romania weighed on the leu that returned to an all-time low at 4.94 vs. the EUR. Finally, the Croatian kuna and Serbian dinar remain stable, as both central banks remain present on the market.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

As discussion regarding the start of tapering has also intensified in the Eurozone, government bond yields increased not just in the euro area, but also in CEE. On top of that, there were some local factors that contributed to yield increases. In Poland, inflation surprised on the upside in August (5.4% vs. the consensus forecast of 5.1%) and thus the yield curve moved up +15bp for maturities longer than 3Y. In Romania, the government of PM Ciuca is near to collapse. This weighed on both currency and bonds, especially as the mid-part of the ROMGB curve was hit hard, with yields increasing 15-25bp w/w. This week, Romania will reopen ROMGBs 2024 and 2034, Serbia will reopen 2032 bonds and Czechia will sell CZGBs 2032 and 2040. Romania, Slovenia and Hungary will also offer T-bills. The NBP plans its QE auction for mid-September, where the volume of purchases may slightly increase compared to previous auctions, as the long end of the POLGB curve moved higher. At the end of this week, Moody's will publish its rating on Serbia.

In case you missed

HU: We revise our [FY21 growth forecast](#) to 7.5%. Subdued [retail sales](#) activity in July.

PL: Upward revision of [FY21 growth forecast](#) to 5.3%. [CPI](#) landed at 20-year high in August.

CZ: [2Q21 GDP](#) growth revised upwards.

RS: [2Q21 GDP](#) growth revised up. [Industrial output](#) slowed somewhat down in July. Fitch affirmed Serbian rating at BB+' with stable outlook.

SK: [2Q21 GDP](#) growth confirmed recovery. [Retail sales](#) in line with expectations in July.

SI: [2Q21 GDP](#) growth surprised to upside.

RO: [Retail sales](#) switched to lower gear. [Economic sentiment](#) softened in August.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
06.Sep		CZ	Industrial Production (y/y)	Jul	0.10%	5.50%	11.40%	Demand remains sound, but production still negatively affected by lack of materials and components, mainly in automotive industry.
		CZ	Trade Balance	Jul	-4.2	-4.5	16.3	Trade balance should remain in deficit, as result of high oil prices, and low car exports due to missing chips and semiconductors.
07.Sep	8:00	RO	GDP (q/q)	2Q P		1.80%	1.8%	Strong service sector aided by pent-up demand was likely main driver behind sequential expansion in second quarter, more than offsetting relative weakness in industry.
	8:00	RO	GDP (y/y)	2Q P	13.00%	13.00%	13.00%	
	9:00	CZ	Retail Sales (y/y)	Jul	4.30%	4.90%	7.20%	Tight labor market and optimistic sentiment of households are most important factors.
	9:00	HU	Industrial Production (y/y)	Jul	13.70%	11.50%	18.60%	Subdued activity caused by supply-chain problems and fading base-effect probably led to continued slowdown of yearly rate.
	12:00	RS	PPI (y/y)	Aug			9.60%	
08.Sep		PL	Central Bank Rate	Sep	0.10%	0.10%	0.10%	Despite inflation surging to two decade high in August, we expect central bank to keep rates unchanged.
	9:00	HU	CPI (y/y)	Aug	4.60%	4.70%	4.60%	Headline rate might have remained unchanged, before it probably starts to accelerate again from September.
	9:00	HU	Trade Balance	Jul P			629	
	9:00	SK	Trade Balance	Jul		150	296.7	Despite supply-side problems, we expect foreign trade to remain in good shape thanks to inventories.
	11:00	HR	Trade Balance	Jun			-5364	
09.Sep	8:00	RO	Trade Balance	Jul			-1761.4	
	10:30	SI	Trade Balance	Jul			-0.09	
	11:00	HR	PPI (y/y)	Aug			7.90%	
	12:00	RS	Central Bank Rate	Sep		1.00%	1.00%	We expect NBS to keep key rate unchanged.
10.Sep		SK	Industrial Production (y/y)	Jul		10.00%	14.20%	Semiconductor problems not as serious as in previous months, so we expect m/m growth, while base effect still plays role on y/y basis.
	8:00	RO	CPI (y/y)	Aug	5.20%	5.20%	4.95%	Low base effect behind rise in annual CPI.
	8:00	RO	CPI (m/m)	Aug		0.20%	0.97%	Not usual August, with seasonal monthly drop in prices in 2021. Imported inflation, fuel, tobacco and urban transportation leading to monthly rise in CPI.
	8:00	RO	Wages (y/y)	Jul		7.00%	7.37%	Tight labor market for skilled workers should keep upward pressure on wages.
	9:00	CZ	CPI (y/y)	Aug	3.60%	3.40%	3.40%	Tight labor market is most important factor, but also some supply-side factors have become important sources of high pro-inflationary pressures.
	10:30	SI	Industrial Production (y/y)	Jul		9.00%	18.9%	Industrial production seen as maintaining vivid growth pattern.

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

Forecasts

Government bond yields

	current	2021Q4	2022Q1	2022Q2	2022Q3
Croatia 10Y	0.4	0.5	0.5	0.6	0.6
spread (bps)	80	63	62	57	56
Czechia 10Y	1.8	1.9	1.9	1.9	2.0
spread (bps)	215	203	202	195	192
Hungary 10Y	3.0	3.1	3.2	3.2	3.3
spread (bps)	337	331	328	326	322
Poland 10Y	2.0	1.90	2.00	2.10	2.20
spread (bps)	235	208	212	212	216
Romania10Y	4.0	3.4	3.5	3.5	3.6
spread (bps)	432	363	362	357	356
Slovakia 10Y	0.0	0.2	0.3	0.3	0.4
spread (bps)	32	38	37	32	36
Slovenia 10Y	-0.04	0.15	0.25	0.35	0.35
spread (bps)	32	33	37	37	31
Serbia 5Y	2.2	2.2	2.1	2.1	2.0
spread (bps)	259	238	222	212	196
DE10Y*	-0.37	-0.18	-0.12	-0.02	0.04

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q4	2022Q1	2022Q2	2022Q3
Czechia	1.02	1.38	1.64	1.89	2.15
Hungary	1.60	2.15	2.15	2.15	2.15
Poland	0.24	0.35	0.35	0.60	0.85
Romania	1.60	1.80	2.05	2.05	2.30
Serbia	0.88	0.86	0.86	0.86	0.86
Eurozone	-0.55	-0.54	-0.54	-0.54	-

Real GDP growth (%)

	2019	2020	2021f	2022f
Croatia	2.9	-8.0	7.3	5.1
Czechia	3.0	-5.8	3.7	4.3
Hungary	4.6	-5.0	7.5	4.3
Poland	4.7	-2.7	5.3	5.6
Romania	4.1	-3.9	7.4	4.5
Serbia	4.2	-1.0	7.0	4.5
Slovakia	2.5	-4.8	4.2	4.8
Slovenia	3.3	-4.2	6.5	4.8
CEE8 avg	4.0	-4.0	5.7	4.9

Public debt (% of GDP)

	2019	2020	2021f	2022f
Croatia	72.8	88.7	84.8	82.3
Czechia	31.2	38.1	44.4	46.8
Hungary	65.5	80.4	77.3	76.5
Poland	45.6	57.5	56.1	55.0
Romania	35.3	47.3	49.4	50.7
Serbia	52.1	57.4	57.6	56.8
Slovakia	48.2	60.3	63.0	62.8
Slovenia	65.6	79.8	77.4	74.6
CEE8 avg	45.9	57.3	57.6	57.5

Source: Bloomberg, Erste Group Research

FX

	current	2021Q4	2022Q1	2022Q2	2022Q3
EURHRK	7.50	7.53	7.53	7.48	7.48
EURCZK	25.36	25.25	25.14	24.98	24.84
EURHUF	347.63	350.00	350.00	350.00	350.00
EURPLN	4.51	4.53	4.51	4.48	4.46
EURRON	4.95	4.98	4.99	5.03	5.05
EURRSD	117.57	117.60	117.55	117.50	117.50
EURUSD	1.19	1.20	1.20	1.20	-

Key Interest Rate

	current	2021Q4	2022Q1	2022Q2	2022Q3
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.75	1.25	1.50	1.75	2.00
Hungary	1.50	2.10	2.10	2.10	2.10
Poland	0.10	0.25	0.25	0.50	0.75
Romania	1.25	1.50	1.75	1.75	2.00
Serbia	1.00	1.00	1.00	1.00	1.00
Eurozone	0.00	0.00	0.00	0.00	-

Average inflation (%)

	2019	2020	2021f	2022f
Croatia	0.8	0.1	2.0	1.8
Czechia	2.8	3.2	3.1	2.4
Hungary	3.4	3.3	4.6	3.3
Poland	2.3	3.4	4.4	3.9
Romania	3.8	2.7	4.3	3.5
Serbia	1.9	1.6	3.0	3.0
Slovakia	2.7	1.9	2.4	2.8
Slovenia	1.6	0.0	1.5	1.6
CEE8 avg	2.7	2.8	3.8	3.3

C/A (%GDP)

	2019	2020	2021f	2022f
Croatia	3.0	-0.4	0.5	0.3
Czechia	0.3	3.6	0.7	0.3
Hungary	-0.5	-0.1	-0.1	0.1
Poland	0.5	3.5	1.6	0.9
Romania	-4.9	-5.2	-5.8	-5.4
Serbia	-6.9	-4.3	-3.6	-3.7
Slovakia	-2.7	-2.7	-1.6	-0.9
Slovenia	5.6	7.0	5.1	4.3
CEE8 avg	-0.7	1.0	-0.3	-0.5

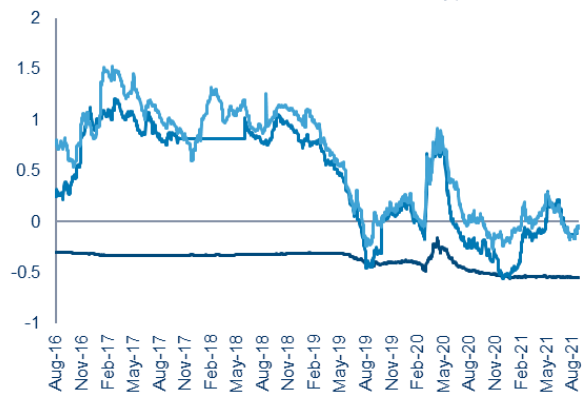
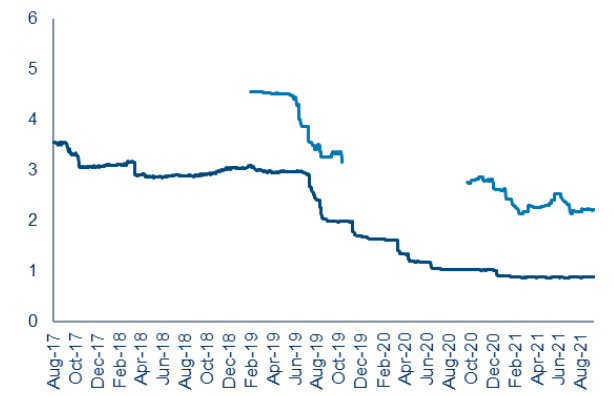
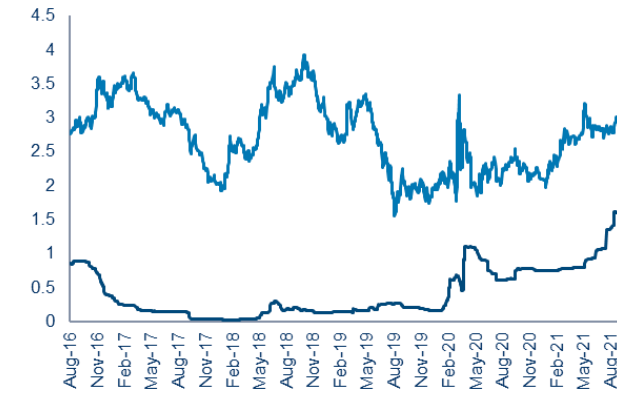
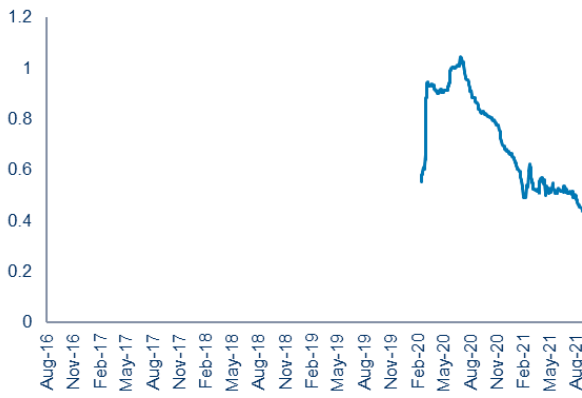
Unemployment (%)

	2019	2020	2021f	2022f
Croatia	6.6	7.5	8.3	7.4
Czechia	2.0	2.6	3.3	2.7
Hungary	3.4	4.2	4.2	3.8
Poland	5.4	5.9	6.0	5.9
Romania	3.9	5.0	5.9	6.1
Serbia	11.2	9.7	11.4	10.6
Slovakia	5.8	6.7	7.0	6.0
Slovenia	4.5	5.0	5.2	4.9
CEE8 avg	4.6	5.2	5.7	5.4

Budget Balance (%GDP)

	2019	2020	2021f	2022f
Croatia	0.3	-7.4	-4.2	-3.0
Czechia	0.3	-6.1	-7.2	-3.5
Hungary	-2.1	-8.1	-7.1	-5.5
Poland	-0.7	-7.0	-1.8	-2.5
Romania	-4.4	-9.2	-7.8	-5.4
Serbia	-0.2	-8.0	-6.0	-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	-4.9	-3.7

Appendix



Source: Bloomberg, Erste Group Research

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