

CEE Market Insights

Central banks need to reflect the bold step in Czechia

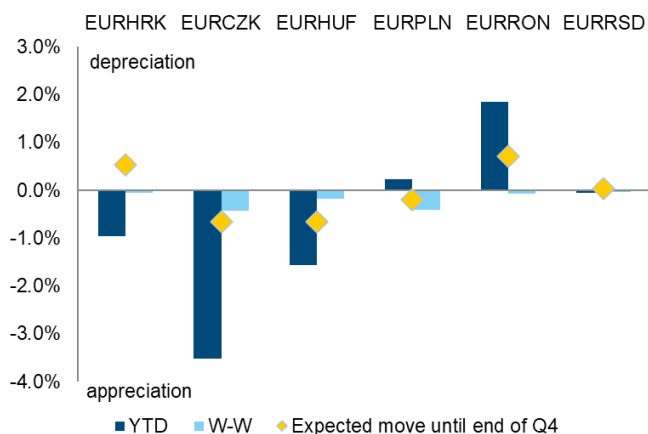
This week in CEE

A very busy week ahead awaits in CEE. Three regional central banks will take over the center stage. Romanian central bank will start with its Tuesday meeting, where it is anticipated to keep its key rate on hold at 1.25%, citing lack of clarity related to the pandemic (with the fourth COVID wave in full swing). Moreover, political uncertainty remains, with the no-confidence vote scheduled on the same day. However, once that is cleared, a hike in November should follow as suggested by rising domestic inflationary pressures, weak fiscal adjustment, currency weakness, and a narrowing real interest rate differential vs. peers against the backdrop of a divergent external position. Last week's surprising 75bp rate hike from the Czech National Bank puts the Polish central bank into a less comfortable position. Albeit we do not expect any changes to the 0.1% key rate at the moment, a November hike is back on the table as flash September inflation shot up to 5.8% y/y. Serbian central bank meeting on Thursday should confirm the key rate at 1%, as core inflation remains low and stable. Moreover, September inflation will be published in Hungary where it may have risen to 5.4% y/y, courtesy of an unfavorable base effect and higher fuel prices. Czech and Hungarian industrial production prints for August should reflect the supply chain problems and an unhelpful base effect, thus slowing down to 2.3% and 4% y/y, respectively. Finally, retail sales data for August will be published in several CEE countries. These should retain solid but divergent growth paces – with some moderation anticipated in Romania and Hungary, compared to an acceleration in Slovakia and Czechia.

Monday	Tuesday	Wednesday	Thursday	Friday
RO: PPI	RO: Central bank	PL: Central bank RO, SK: Retail sales HU: Retail sales, Industry HR: PPI	RS: Central bank, PPI CZ: Industry, Trade balance	HU: CPI CZ: Retail sales HR, SI, SK: Trade balance
RO: 2024, 2034 Bonds	HU: Bills		RO: Bills, 2025, 2027 Bonds	

FX market

FX market developments

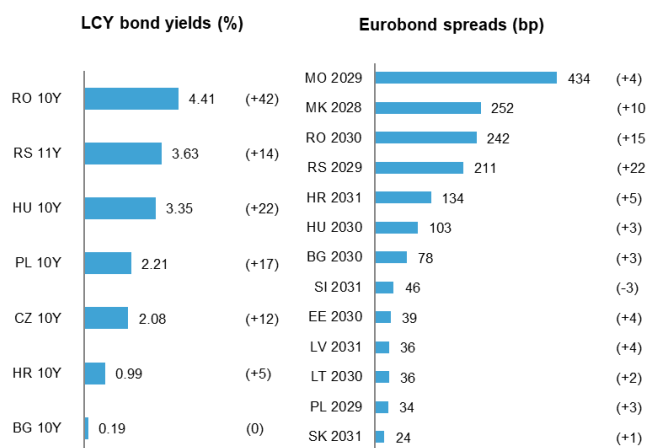


Source: Bloomberg, Erste Group Research

While the US dollar extended its gains and the EURUSD moved below 1.16, the strongest level since the end of July 2020, CEE currencies were a mixed bag. The Czech koruna benefited from the unprecedented move of the central bank, as the key rate was raised by 75bp to 1.5%, and appreciated toward 25.3 vs. the EUR. We expect the CNB to continue with monetary tightening in the remainder of the year, conditional on the FX development. Elsewhere, the Polish zloty strengthened, on the back of the minutes of the September rate setting meeting and upward surprise in September inflation, which could have increased the chances for a rate hike already in November. Should this week's MPC meeting disappoint those expectations, the Polish zloty could depreciate

beyond 4.60 vs. the EUR. Separately, we revised our EURHUF year-end forecast up to 355, given the increased global risk aversion, smaller than expected rate hike as well as quarter-end turmoil on the swap market.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Last week, we saw a pretty substantial w/w increase of 10Y LCY government bond yields in CEE, ranging within 10-35bp. The increase was purely driven by local factors. ROMGBs suffered from the deepened political crisis, as the confidence vote against the government scheduled for Tuesday has a high chance of succeeding. Despite the surprisingly high rate hike (+75bp) delivered by the CNB, yields on 10Y CZGBs increased only 10bp w/w. The hike primarily impacted the short end of the CZGBs yield curve. Obviously, the market believes that frontloading of hikes could help to tame inflation in the mid run. We revised our call for the interest rate path and see the key rate at 2% in December, with the peak at 2.5% in 2022. Our model implies the key rate at 2.25% in 2023, conditional on CZK appreciation, which may mitigate the need for aggressive hikes. After the very decisive CNB move, the pressure on peer central banks to hike is clearly mounting. In particular, the NPB is coming under strong cross-fire, with headline inflation climbing to 5.8% in September (according to the flash estimate) and the key rate staying at 0.1%. This week, Romania will reopen ROMGBs 2024, 2025, 2027 and 2034 and offer T-bills. Hungary will also offer T-bills on top of regular bond auctions.

In case you missed

CZ: [Central bank](#) raised key rate by 75bp to 1.5%. Further hikes are expected by year-end.

PL: [Inflation](#) surprised to upside in September. We revised our FY21 and FY22 forecasts up. S&P affirmed Polish rating at 'A-' with stable outlook.

RO: [Sentiment](#) suggests that economy peaked in 2Q21.

HR: [Retail sales](#) further accelerated in August, while [industrial production](#) maintained positive trend.

RS: [Retail trade](#) remained solid in August, while [industrial output](#) moderated.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
04. Oct	8:00	RO	PPI (y/y)	Aug			13.96%	
05. Oct		RO	Central Bank Rate	Oct 5	1.25%	1.25%	1.25%	On October 5, we expect NBR to stay on hold, citing uncertainty related to pandemic developments and subsequent economic impact with fourth Covid wave in full swing and already exceeding most pessimistic expectations. Political uncertainty stems from no-confidence vote scheduled for same day.
06. Oct		PL	Central Bank Rate	Oct 6	0.10%	0.10%	0.10%	National Bank of Poland to keep policy rate unchanged, but risks for hike in November increased after upward surprise in September inflation and massive rate hike in Czechia.
	8:00	RO	Retail Sales (y/y)	Aug		6.50%	12.60%	Business activity (sales) development over past three months reported by retail managers in ESI survey point to significant deterioration of retail sales in August.
	9:00	HU	Industrial Production (y/y)	Aug		4.00%	10.20%	Industry might have declined on monthly level, due to supply constraints and subdued performance of car makers. This, coupled with base effect, implies further relevant slowdown of yearly rate.
	9:00	HU	Retail Sales (y/y)	Aug		2.80%	3.00%	Subdued performance probably remained, as households have rather spent on services than on retail items.
	9:00	SK	Retail Sales (y/y)	Aug		3.00%	1.50%	
	11:00	HR	PPI (y/y)	Sep			9.3%	
07. Oct		CZ	Industrial Production (y/y)	Aug		2.30%	7.00%	Problems with trade chains, base effect and company holidays affected industrial production, which slowed down in y/y terms.
		CZ	Trade Balance	Aug		-7.5	16.3	Trade balance should stay in deficit. This is result of high oil prices and low car exports due to missing semiconductors.
	12:00	RS	PPI (y/y)	Sep			10.4%	
	12:00	RS	Central Bank Rate	Oct 7		1.0%	1.0%	We see NBS remaining on hold, notwithstanding rising inflation, as core inflation remains low and stable.
08. Oct	9:00	CZ	Retail Sales (y/y)	Aug		5.40%	3.10%	Demand of households remains high, due to favorable development in labor market.
	9:00	HU	CPI (y/y)	Sep		5.40%	4.90%	Inflation is on rise again, thanks to unfavorable base effect and higher fuel prices.
	9:00	SK	Trade Balance	Aug			-10.7	
	10:30	SI	Trade Balance	Aug			-0.04	
	11:00	HR	Trade Balance	Jul			-5970.1	

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	2021Q4	2022Q1	2022Q2	2022Q3
Croatia 10Y	0.4	0.5	0.5	0.6	0.6
spread (bps)	64	66	63	63	60
Czechia 10Y	2.1	2.1	2.1	2.1	2.1
spread (bps)	230	232	223	219	214
Hungary 10Y	3.4	3.2	3.2	3.2	3.3
spread (bps)	358	341	335	332	330
Poland 10Y	2.2	2.00	2.10	2.20	2.30
spread (bps)	244	221	223	228	230
Romania10Y	4.4	3.9	3.8	3.9	4.0
spread (bps)	464	411	393	398	395
Slovakia 10Y	0.1	0.2	0.3	0.3	0.4
spread (bps)	34	41	38	38	40
Slovenia 10Y	0.14	0.10	0.20	0.30	0.35
spread (bps)	37	31	33	38	35
Serbia 5Y	2.5	2.2	2.1	2.1	2.0
spread (bps)	276	241	223	218	200
DE10Y*	-0.23	-0.21	-0.13	-0.08	0.00

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q4	2022Q1	2022Q2	2022Q3
Czechia	1.82	2.21	2.38	2.57	2.57
Hungary	1.76	2.15	2.15	2.15	2.15
Poland	0.24	0.23	0.40	0.40	0.65
Romania	1.79	1.80	2.05	2.30	2.30
Serbia	0.87	0.86	0.86	0.86	0.86
Eurozone	-0.55	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)

	2020	2021f	2022f	2023f
Croatia	-8.0	7.3	5.1	4.5
Czechia	-5.8	3.3	4.7	4.6
Hungary	-5.0	7.5	4.9	4.1
Poland	-2.7	5.3	5.6	4.6
Romania	-3.9	7.4	4.5	5.0
Serbia	-1.0	7.0	4.5	4.5
Slovakia	-4.8	4.2	4.8	4.1
Slovenia	-4.2	7.2	4.8	3.9
CEE8 avg	-4.0	5.7	5.1	4.5

Public debt (% of GDP)

	2020	2021f	2022f	2023f
Croatia	88.7	84.8	82.3	81.4
Czechia	38.1	43.1	45.2	47.0
Hungary	80.4	79.6	77.8	76.5
Poland	57.5	56.1	55.0	52.0
Romania	47.3	49.4	50.7	50.2
Serbia	57.4	57.6	56.8	54.5
Slovakia	60.3	63.0	62.8	61.6
Slovenia	79.8	76.9	74.2	72.3
CEE8 avg	57.3	57.6	57.4	56.0

FX

	current	2021Q4	2022Q1	2022Q2	2022Q3
EURHRK	7.50	7.53	7.53	7.48	7.48
EURCZK	25.32	25.15	24.99	24.89	24.78
EURHUF	357.10	355.00	350.00	350.00	350.00
EURPLN	4.58	4.57	4.54	4.53	4.50
EURRON	4.95	4.98	4.99	5.03	5.05
EURRSD	117.59	117.60	117.55	117.50	117.50
EURUSD	1.16	1.18	1.18	1.18	1.18

Key Interest Rate

	current	2021Q4	2022Q1	2022Q2	2022Q3
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	1.50	2.00	2.25	2.50	2.50
Hungary	1.65	2.10	2.10	2.10	2.10
Poland	0.10	0.10	0.25	0.25	0.50
Romania	1.25	1.50	1.75	2.00	2.00
Serbia	1.00	1.00	1.00	1.00	1.00
Eurozone	0.00	0.00	0.00	0.00	0.00

Average inflation (%)

	2020	2021f	2022f	2023f
Croatia	0.1	2.0	1.8	1.5
Czechia	3.2	3.3	2.9	2.1
Hungary	3.3	4.7	3.5	3.1
Poland	3.4	4.7	4.3	2.9
Romania	2.7	4.3	3.5	2.9
Serbia	1.6	3.0	3.0	2.5
Slovakia	1.9	2.4	2.8	2.3
Slovenia	0.0	1.5	1.7	1.6
CEE8 avg	2.8	4.0	3.5	2.7

C/A (%GDP)

	2020	2021f	2022f	2023f
Croatia	-0.4	0.5	0.3	-0.2
Czechia	3.6	1.5	1.2	0.9
Hungary	-1.6	-0.7	-0.4	-0.2
Poland	3.5	1.6	0.9	0.5
Romania	-5.2	-6.5	-6.1	-5.9
Serbia	-4.3	-3.6	-3.7	-3.4
Slovakia	-2.7	-1.6	-0.9	-1.4
Slovenia	7.0	5.3	4.5	4.3
CEE8 avg	0.8	-0.3	-0.5	-0.7

Unemployment (%)

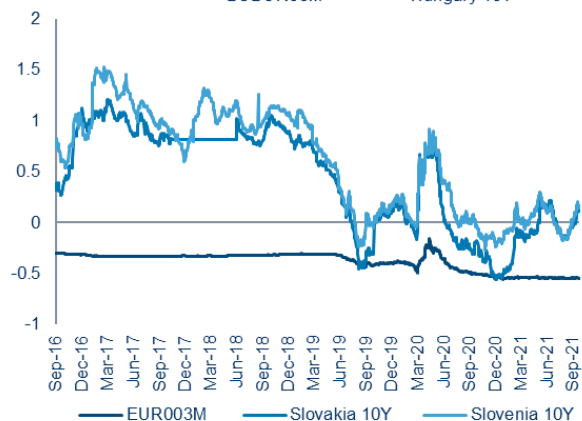
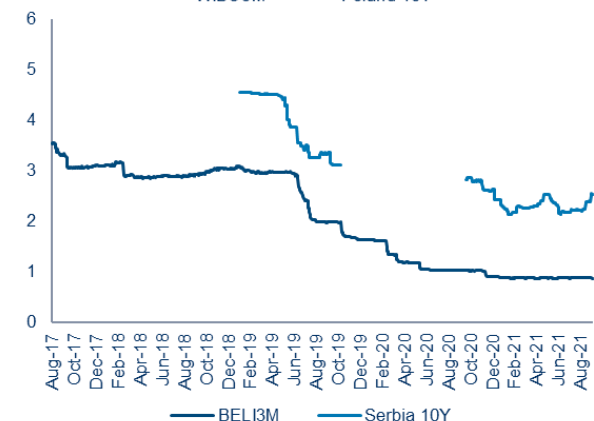
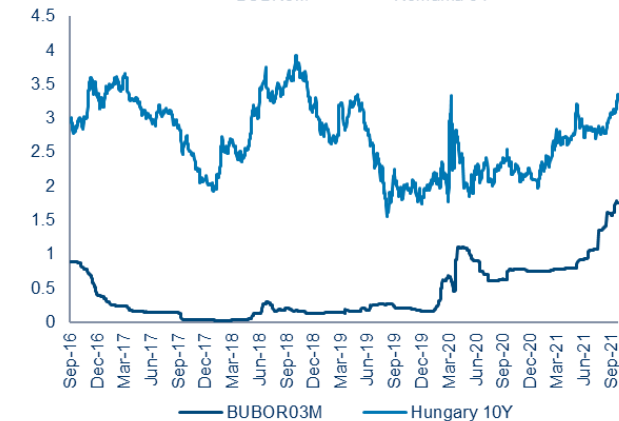
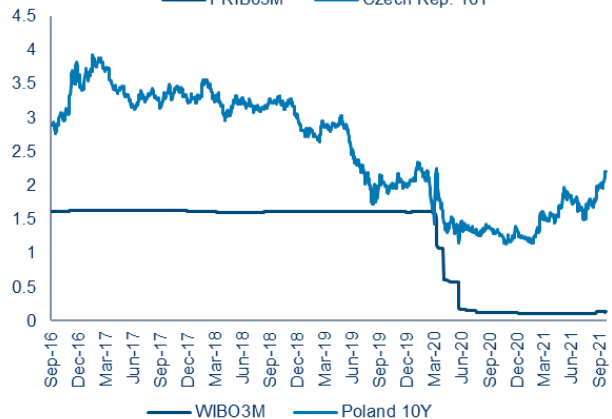
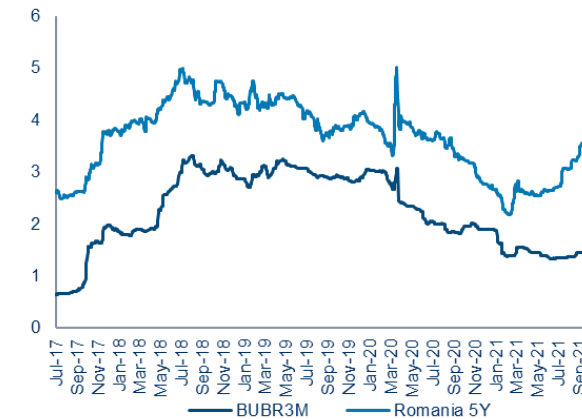
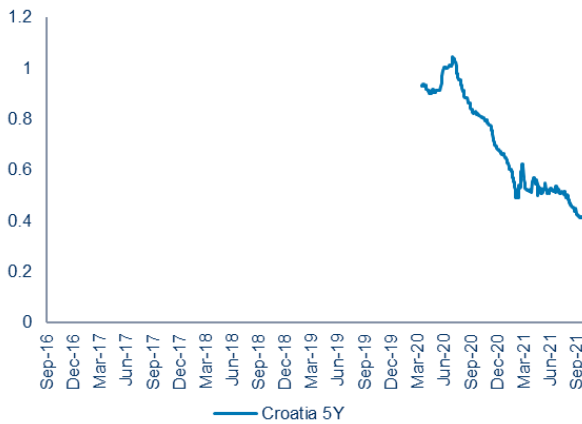
	2020	2021f	2022f	2023f
Croatia	7.5	8.3	7.4	6.1
Czechia	2.6	3.0	2.5	2.4
Hungary	4.2	4.2	3.8	3.5
Poland	5.9	6.0	5.9	5.7
Romania	5.0	5.5	5.4	4.9
Serbia	9.7	11.4	10.6	10.1
Slovakia	6.7	7.0	6.0	5.7
Slovenia	5.0	5.2	4.9	4.6
CEE8 avg	5.2	5.6	5.2	4.9

Budget Balance (%GDP)

	2020	2021f	2022f	2023f
Croatia	-7.4	-4.2	-3.0	-2.0
Czechia	-6.1	-7.2	-4.6	-1.8
Hungary	-8.1	-7.2	-5.8	-4.0
Poland	-7.0	-1.8	-2.5	-3.0
Romania	-9.2	-7.8	-5.4	-4.3
Serbia	-8.0	-6.0	-3.0	-1.5
Slovakia	-6.1	-6.0	-4.0	-2.5
Slovenia	-8.4	-7.0	-4.5	-1.0
CEE8 avg	-7.4	-4.9	-3.9	-2.9

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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