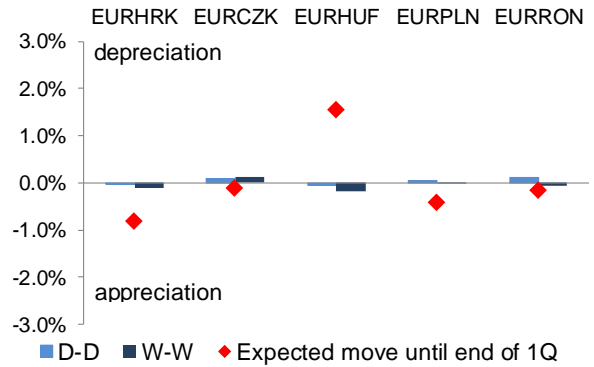




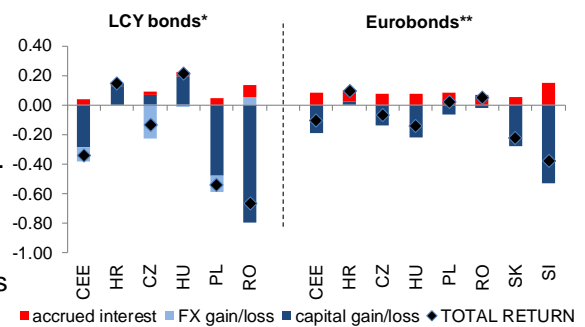
CEE Market Insights

Market Outlook

CEE currencies seem to have remained resilient to the turbulence on some other EMs, triggered around Turkey and Russia lately. Currencies in the region did not move much last week, apart perhaps from Hungary, where the forint gained slightly and the EURHUF approached the 310 level. The EURHUF is getting further away from our end-June call of 315, implying some weakening going forward. In other CEE countries, currencies could gain further or stay roughly around current levels; as for the Romanian leu, we continue to see slight but continuous depreciation throughout the year.



Spreads tightened in CEE vs German Bunds, as the region's bond markets were less impacted by a surge in inflation expectations last week. Slovakia managed to issue bonds in the combined amount of nearly EUR 200mn in 2031 and 2047 bonds, with high demand. Serbia floated the idea to repay part of its outstanding debt denominated in USD worth USD 700mn. Romania could be closely watched on Monday, due to the data to be released about 2017 fiscal numbers and the central bank's step on what to do with the almost RON 19bn mopped up in a 7-day depo facility last week that caused interbank rates to increase.



Looking ahead this week:

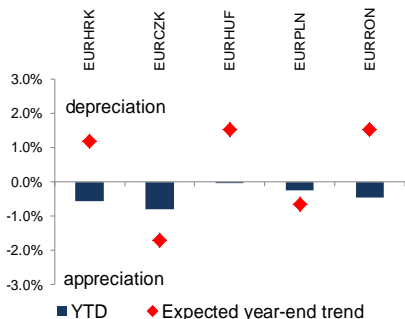
Monday	Tuesday	Wednesday	Thursday	Friday
	HR: CPI	CZ: PPI PL: Wages	RS: Current Account PL: Industry, PPI	SK: Unemployment SI: PPI

All eyes will be on spring notification fiscal figures this week. While we generally expect good news from most countries, Romania could be in a tricky situation, as the figures released earlier indicated that the deficit has been at just 3% of GDP. Anything above 3% could potentially trigger the EDP and intensify the pressure on Romania to start consolidation. As for this year, we see the deficit rising further to 3.4% of GDP. The government, in an attempt to prop up revenues, recently started talking about changing the second pillar of the pension system, potentially channeling cash back into state coffers. There are no details out yet, but the government pledged to come forward with the final version of the new system by end-June. In Poland, there will be retail sales published for March on Monday. This data release will complete the data set of monthly indicators for the first quarter of this year, which will enable us to present our final GDP now-cast later this week.

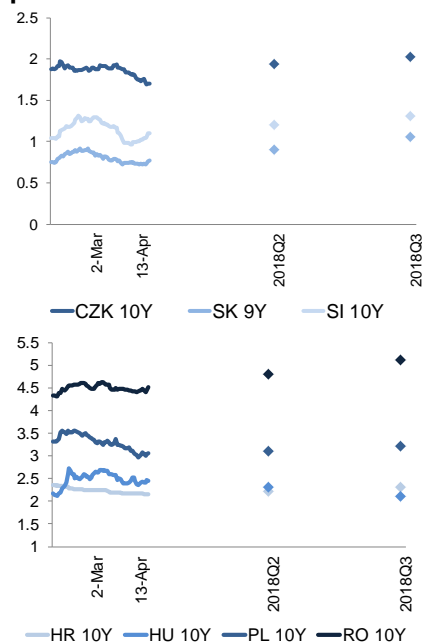
In case you missed it last week...

- **SK:** Slovakia managed to issue nearly EUR 200m in 2031 and 2047 bonds
- **HR:** Croatia reported budget surplus of 0.8% of GDP in 2017; gross public debt fell below 80% of GDP
- **RS:** NBS intervened with EUR 40mn against RSD appreciation
- **PL:** Industrial output growth slowed to 1.8% y/y in March
- **Montenegro:** Successful issue of EUR 500mn in 7Y bonds at yield of 3.625%

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

FX and bond market hold stable in CEE

On global markets:

This week's most important indicators will be the PMIs for the Eurozone and large member countries. Sentiment among survey participants cooled during the first quarter. During the month of April, geopolitical tensions increased again, as the US put sanctions on Russian companies and individuals and the crisis over Syria heated up, which might have weighed additionally on economic sentiment. Also this week, the ECB Council will convene on Thursday. We do not expect any meaningful change in the communication, only the date when the Council will decide on the asset purchases beyond September should become clear.

CEE currencies:

Currencies did not move much the last week, apart slightly from Hungary, where the EURHUF rate got close to breaching the 310 level. With this move, the EURHUF is increasingly moving away from our end-June target, which is at 315, suggesting some weakening for the forint going forward. Elsewhere, currencies are around our end-1H forecast or are slightly weaker than those levels, and therefore, unless there is a more notable change in global sentiment (i.e. increased fears of stronger than anticipated tightening from major central banks), then CEE currencies should stay relatively strong, in our view.

CEE rates and yields

Yields on major markets went up last week, amid some increase in inflation expectations, against the backdrop of recent gains in oil and commodity prices. However, although the German Bund gained almost 10bp between Wednesday and Friday, CEE bond yields either failed to increase to this extent, or even declined further (the latter was true for Croatia and the Czech Republic). Slovakia also enjoyed a decline in spreads vs. German Bunds, amid very strong demand at bond auctions, where the country sold nearly EUR 90mn in very long-dated bonds maturing in 2047, while it sold more than EUR 100mn in 2031 bonds. Yields came in at 1.79% and 1.25%, respectively. This increased the coverage of this year's issuance plan substantially, which stood at around 12% at the end of the first quarter. ECB bond buying and fiscal resilience should continue to give support to Slovak bonds. As for Serbia, recent news indicates that the government may wish to buy back USD 700mn in outstanding debt; details on the funding of this plan remains undisclosed at the moment. The central bank has been fighting with inflows for quite some time, which increases its FX reserves; only last week it intervened by selling dinars in the amount of EUR 40mn. This week could be important for bond markets too, as fiscal notifications for 2017 will be released, uncovering actual shortfall (or in many cases surplus) figures. Romania might not just be watched because of this, but also due to how much the NBR will be rolling over of its liquidity-absorbing deposit facility, which was implemented last Monday in the amount of almost RON 19bn in a 7-day tenor. The shortest duration interbank deposit rates jumped on the news, but moderated somewhat thereafter. The central bank's intention is to bring these closer to the policy rate, which currently stands at 2.25%. We view this as a precursor rather than a replacement of further benchmark rate hikes. We marginally favor a hike scenario at the May meeting in Romania.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
23. Apr.							
10:00	PL	Retail Sales (y/y)	Mar	8.3%	7.1%	7.9%	<i>Retail sales should sustain robust growth</i>
24. Apr.							
14:00	HU	Target Rate	Apr	0.9%	0.9%	0.9%	
14:30	SK	Current Account	Feb			-402.16	
25. Apr.							
10:00	PL	Unemployment Rate	Mar	6.5%	6.6%	6.8%	<i>Unemployment rate to drop further</i>
11:00	HR	Wages (y/y)	Feb			4.5%	
12:00	RS	Wages (y/y)	Feb			4.8%	
26. Apr.							
No release scheduled							
27. Apr.							
9:00	HU	Unemployment Rate	Mar	3.9%		3.8%	
9:00	SK	PPI (y/y)	Mar		3.4%	3.1%	<i>Slight acceleration of producer price growth is anticipated for March</i>

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2018Q2	2018Q3	2018Q4	2019Q1
Croatia 10Y	2.15	2.20	2.30	2.40	2.50
spread (bps)	156	148	149	146	143
Czech Rep. 10Y	1.70	1.93	2.02	2.17	2.25
spread (bps)	111	121	121	123	118
Hungary 10Y	2.45	2.30	2.10	2.00	2.05
spread (bps)	186	158	129	106	98
Poland 10Y	3.06	3.10	3.20	3.40	3.50
spread (bps)	247	238	239	246	243
Romania10Y	4.66	4.80	5.10	5.40	5.40
spread (bps)	407	408	429	446	433
Slovakia 10Y	0.77	0.90	1.05	1.25	1.45
spread (bps)	18	18	24	31	38
Slovenia 10Y	1.10	1.20	1.30	1.40	1.40
spread (bps)	51	48	49	46	33
Serbia 5Y	4.05	4.20	4.30	4.40	4.50
DE10Y (BBG)*	0.59	0.72	0.81	0.94	1.07

3M Money Market Rate					
	current	2018Q2	2018Q3	2018Q4	2019Q1
Croatia	0.49	0.50	0.50	0.50	0.60
Czech Republic	0.90	0.90	0.97	1.11	1.19
Hungary	0.03	0.02	0.02	0.02	0.02
Poland	1.70	1.72	1.73	1.73	1.73
Romania	2.13	2.45	2.70	2.75	2.80
Serbia	2.87	2.90	3.00	3.00	3.20
Eurozone	-0.33	-0.30	-0.30	-0.30	-0.30

FX					
	current	2018Q2	2018Q3	2018Q4	2019Q1
EURHRK	7.41	7.35	7.45	7.50	7.45
forwards		7.41	7.41	7.41	7.41
EURCZK	25.34	25.30	25.20	24.90	24.80
forwards		25.37	25.37	25.37	25.37
EURHUF	310.5	315.0	315.0	315.0	315.0
forwards		313.6	313.6	313.6	313.6
EURPLN	4.17	4.15	4.18	4.14	4.12
forwards		4.17	4.17	4.17	4.17
EURRON	4.66	4.65	4.70	4.73	4.74
forwards		4.66	4.66	4.66	4.66
EURRSD	118.2	117.5	117.3	118.0	118.5
forwards		-	-	-	-
EURUSD	1.23	1.15	1.14	1.13	-

Key Interest Rate					
	current	2018Q2	2018Q3	2018Q4	2019Q1
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	0.75	0.75	0.75	1.00	1.00
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.50
Romania	2.25	2.50	2.75	2.75	2.75
Serbia	3.00	3.00	3.00	3.00	3.20
Eurozone	0.00	0.00	0.00	0.00	0.00

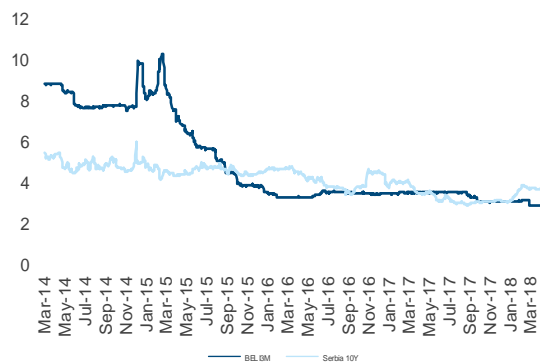
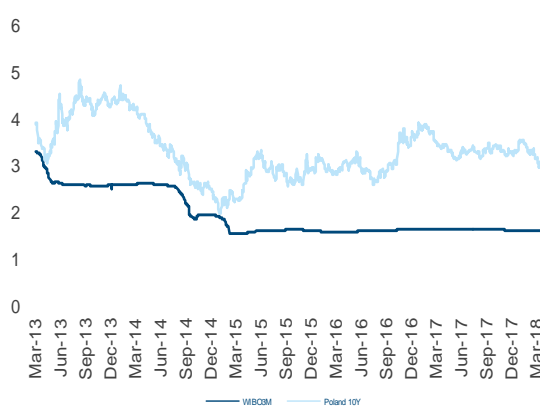
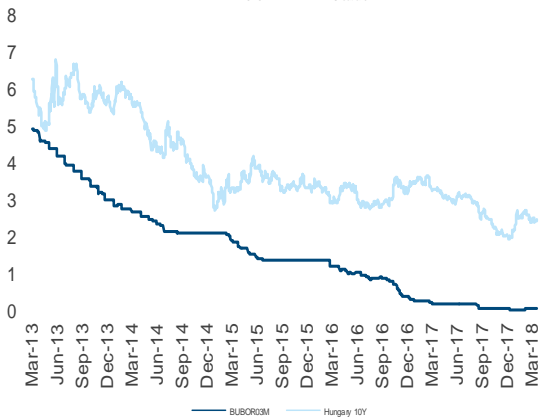
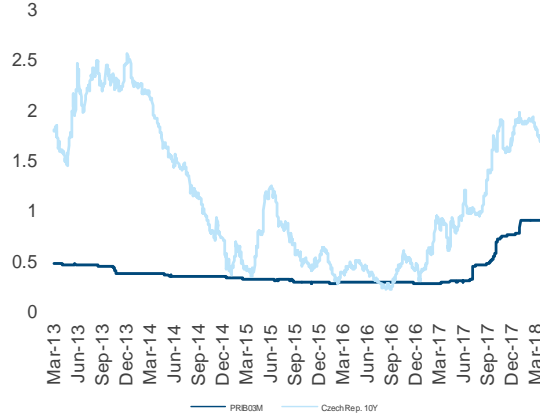
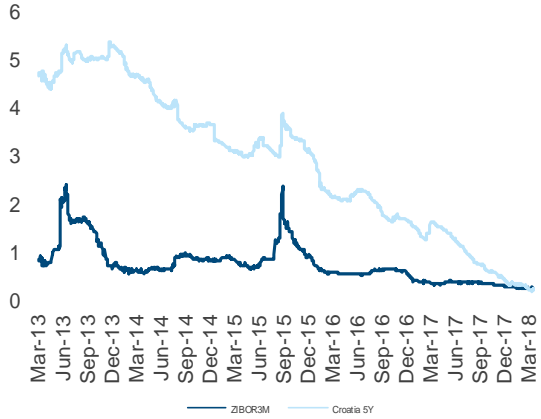
Macro forecasts

Real GDP growth (%)	2016	2017f	2018f	2019f	Average inflation (%)	2016	2017f	2018f	2019f	Unemployment (%)	2016	2017f	2018f	2019f
Croatia	3.2	2.8	2.8	2.7	Croatia	-1.1	1.1	1.4	1.9	Croatia	13.1	11.3	10.1	9.2
Czech Republic	2.5	4.6	3.4	2.9	Czech Republic	0.7	2.5	2.1	1.9	Czech Republic	3.6	2.4	2.6	3.1
Hungary	2.2	4.0	3.7	3.3	Hungary	0.4	2.4	2.4	3.5	Hungary	5.1	4.2	3.9	3.9
Poland	2.9	4.6	4.2	3.3	Poland	-0.6	2.0	1.7	2.2	Poland	8.9	7.2	6.5	6.7
Romania	4.8	6.9	4.7	3.0	Romania	-1.5	1.3	4.6	2.8	Romania	5.9	4.9	4.9	5.0
Serbia	2.8	1.9	2.8	3.0	Serbia	1.6	3.0	2.9	3.6	Serbia	15.3	13.2	11.6	11.1
Slovakia	3.3	3.4	3.9	4.2	Slovakia	-0.5	1.3	2.2	2.3	Slovakia	9.6	8.1	7.2	6.6
Slovenia	3.1	5.0	4.5	4.1	Slovenia	-0.1	1.4	1.5	1.8	Slovenia	8.0	6.8	6.3	5.8
CEE8 average	3.1	4.7	4.0	3.2	CEE8 average	-0.4	1.9	2.4	2.4	CEE8 average	7.6	6.2	5.7	5.7

Public debt (% of GDP)	2016	2017f	2018f	2019f	C/A (%GDP)	2016	2017f	2018f	2019f	Budget Balance (%GDP)	2016	2017f	2018f	2019f
Croatia	82.7	78.7	75.2	72.1	Croatia	2.5	3.6	2.6	1.8	Croatia	-0.9	0.3	0.0	-0.5
Czech Republic	36.8	34.6	33.4	32.6	Czech Republic	1.1	1.1	0.9	0.7	Czech Republic	0.7	1.6	0.3	0.3
Hungary	73.9	72.0	70.7	69.7	Hungary	6.0	2.9	2.4	2.1	Hungary	-1.8	-2.0	-2.5	-2.5
Poland	54.2	50.6	50.2	52.9	Poland	-0.3	0.3	-0.3	-0.9	Poland	-2.4	-1.5	-2.5	-2.3
Romania	37.6	35.2	34.8	35.4	Romania	-2.1	-3.4	-4.1	-4.5	Romania	-3.0	-3.0	-3.4	-2.9
Serbia	71.9	61.3	58.4	55.2	Serbia	-4.2	-4.7	-5.3	-6.6	Serbia	-1.3	1.2	-0.5	-0.5
Slovakia	51.8	51.1	50.0	47.5	Slovakia	-1.5	-2.1	-1.0	-0.4	Slovakia	-2.2	-1.5	-1.0	-0.6
Slovenia	78.3	72.8	71.5	67.7	Slovenia	5.2	6.5	6.7	6.5	Slovenia	-1.8	0.0	-0.3	0.0
CEE8 average	53.4	50.2	49.2	49.4	CEE8 average	0.4	0.2	-0.3	-0.7	CEE8 average	-1.8	-1.1	-1.8	-1.6

Note: *Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

Appendix



Note: *Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

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23 April 2018

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