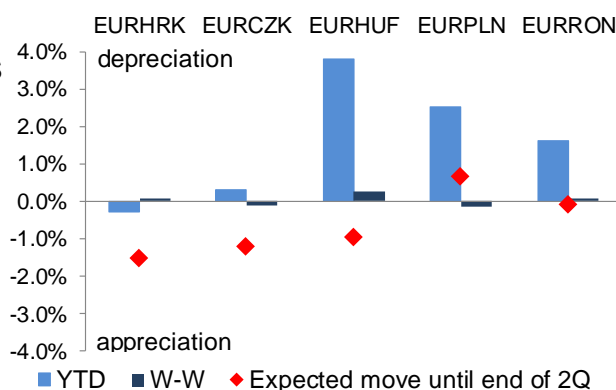


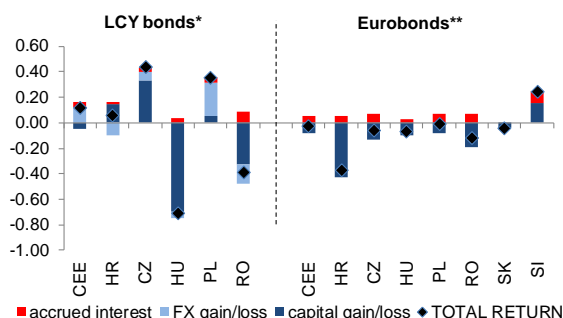
CEE Market Insights

Market outlook

The zloty stood out slightly from the CEE pack with a mild appreciation last week vs. the euro. For the short term, we do not see domestic factors as supporting the PLN. The US dollar fell last week, however, which is usually beneficial for the zloty. The Romanian leu and Hungarian forint fell against the euro last week. Inflation is running highest in these two countries in the region, while central banks are hesitant to tighten in a more pronounced way. The NBR's tight liquidity management could prevent abrupt leu depreciation in the short run. The forint could also remain relatively stable in the absence of major external market moves, as there are not many important releases until the next monetary meeting to be held on April 30.



As we have discussed earlier, Czech yield spreads seem a bit too high vs. German Bunds; the recent narrowing of the 10Y spread thus matches our view. On the other hand, Hungarian 10Y spreads went up further. Swap curves also show a notable increase, while this has been more muted in other countries, or there was none at all, last week. It will be very interesting to see the FX swap tender this Monday, as the 3M BUBOR has so far failed to increase to the extent (+10bp) the MNB was communicating after its rate setting meeting.



Looking ahead this week:

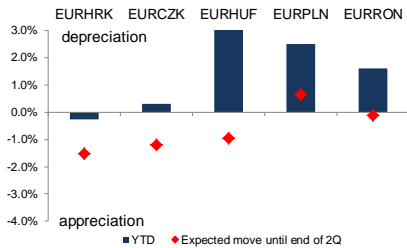
Monday	Tuesday	Wednesday	Thursday	Friday
SK, PL: CPI	CZ: PPI HR: CPI	RS: Current Account PL: Wages	SK: Unemployment PL: Industry, PPI	SI: PPI

This week should be relatively calm in CEE, due to the Easter Holidays and lack of data releases. Croatia and Slovakia will conclude the string of March inflation releases, which have been pointing to higher inflation everywhere. This trend is expected to continue in Slovakia (increase to 2.6%, from 2.3% in February) and Croatia (increase to 0.7-0.8%, from 0.5% in February), although the levels are not as elevated as in the Czech Republic, Hungary and Romania, where inflation is already well above the central bank's target or even outside the tolerance band. This could have an impact on tightening of monetary conditions via a rate hike (the Czech Republic) or tightening of liquidity (Hungary, Romania). Hungarian FX swap tenders could be especially important on Monday in this regard. Poland will also disclose its March inflation data, but that should just be a confirmation of its earlier published flash estimate (1.7%).

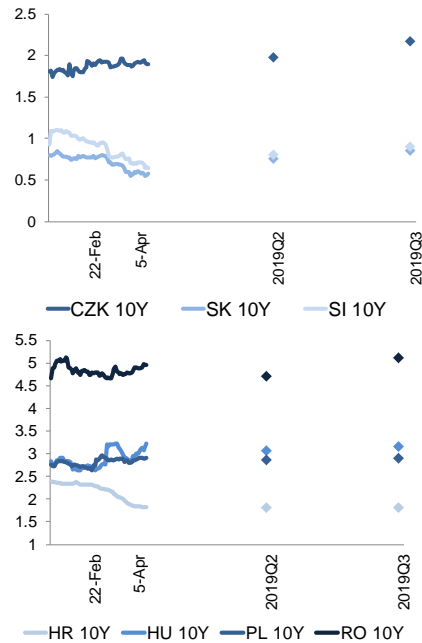
In case you missed it last week...

- CZ: [Inflation came to upper bound of the tolerance band \(3%\) in March](#)
- HU: March inflation surprised on upside (3.7% vs. 3.1% in February)
- RO: [Inflation rose to 4% y/y in March, well above upper limit of NBR's targeted band of 3.5%](#)
- RS: [March inflation accelerated to 2.8% y/y, from 2.4% y/y in February](#)
- RS: Serbian central bank kept rates unchanged at 3% at its MPC meeting
- PL: [S&P affirmed Polish rating at A- with stable outlook](#)

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

This week, important economic data for both the US and Eurozone are scheduled, which should give EURUSD direction. On Wednesday, the purchasing manager indices for the Eurozone and major countries will be released. Markets will be looking especially at whether the manufacturing indices have stabilized after a long decline. For the US, retail sales will be released the same day, showing how all important consumer spending is evolving.

CEE currencies:

Currencies did not show any spectacular moves last week in CEE. The zloty stood out slightly from the pack with a mild appreciation. For the short term, we do not see domestic factors as supporting the PLN – rate stability is expected, despite increased inflation and fiscal easing. The US dollar fell last week, however, which is usually beneficial for the zloty. We see sustainable zloty appreciation only in the longer run as more likely. The Romanian leu and Hungarian forint fell last week against the euro, however. Inflation is running highest in these two countries in the region, partially underpinning this weakening, as central banks are hesitant to tighten in a more pronounced way, given that the external environment is cooling off. As for the leu, the NBR’s tight liquidity management could prevent abrupt depreciation in the short run. However, for the longer run, the sizable current account shortfall could put pressure on the leu. As for the forint, the current account position is better, but Hungarian central bankers are pursuing a much more dovish policy than their Romanian counterparts. Still, we see that the currency could remain relatively stable in the coming weeks (in the absence of major external market moves), as there are not many important releases until the next monetary meeting to be held on April 30.

CEE rates and yields:

Yields went up last week on the German Bund market, but not all countries in CEE followed these developments. As we have discussed earlier, Czech yield spreads seem a bit too high vs. German Bunds; the recent narrowing of the 10Y spread thus matches our view. Croatian and Polish spreads also decreased further. On the other hand, Hungarian 10Y yields went up further, and to a much larger extent than Bunds. Swap curves also show a notable increase across all tenors above 1-2 years in Hungary w/w, while this has been more muted in other countries (i.e. Romania, which is also facing high inflation), or there was no change at all (i.e. in Poland), on a weekly basis. The Hungarian central bank can still maintain loose conditions at short maturities, but developments on longer tenors could indicate that markets are starting to bet on higher inflation. The developments are somewhat odd nevertheless, as last Monday’s higher than expected reduction in extra liquidity (provided through FX swaps) would need to work in the other direction. It will be very interesting to see the FX swap tender this Monday, as the 3M Bubor has so far failed to increase to the extent (+10bp) the MNB was communicating after its rate setting meeting.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
15-Apr							
9:00	SK	CPI (y/y)	Mar		2.6%	2.3%	<i>Inflation thought to have been driven by food, services and energy prices.</i>
9:00	SK	CPI (m/m)	Mar		0.5%	0.2%	<i>Pace of inflation expected to have increased in March.</i>
10:00	PL	CPI (y/y)	Mar F		1.7%	1.7%	<i>We expect flash figure to be confirmed.</i>
10:00	PL	CPI (m/m)	Mar F			0.3%	
16-Apr							
9:00	CZ	PPI (y/y)	Mar	3.6%	3.4%	3.6%	<i>Energy prices are most important reason behind relatively high PPI inflation. Similarly to CPI, we expect PPI inflation to slow down in coming months.</i>
11:00	HR	CPI (y/y)	Mar			0.5%	
11:00	HR	CPI (m/m)	Mar			0.2%	
17-Apr							
	RS	Current Account Balance	Feb			-147.6	
10:00	PL	Wages (y/y)	Mar	7.3%	7.3%	7.6%	<i>Wage growth should sustain solid dynamics.</i>
18-Apr							
	SK	Unemployment Rate	Mar		5.1%	5.16%	<i>Mild decrease in unemployment rate anticipated.</i>
10:00	PL	Industrial Production (y/y)	Mar	4.3%	4.1%	6.9%	<i>Negative calendar effect (-1 working day) might downplay performance of industry.</i>
10:00	PL	PPI (y/y)	Mar	2.60%	2.7%	2.9%	<i>Price pressure remains subdued.</i>
19-Apr							
10:30	SI	PPI (y/y)	Mar			1.2%	

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia 10Y	1.82	1.80	1.80	1.80	1.90
spread (bps)	179	152	145	135	141
Czech Rep. 10Y	1.90	1.97	2.17	2.33	2.44
spread (bps)	186	169	182	188	195
Hungary 10Y	3.22	3.05	3.15	3.25	3.45
spread (bps)	318	277	280	280	296
Poland 10Y	2.91	2.85	2.90	3.00	3.10
spread (bps)	287	257	255	255	261
Romania10Y	4.95	4.70	5.10	5.20	5.30
spread (bps)	492	442	475	475	481
Slovakia 10Y	0.58	0.75	0.85	0.85	0.95
spread (bps)	55	47	50	40	46
Slovenia 10Y	0.65	0.80	0.90	0.90	1.00
spread (bps)	62	52	55	45	51
Serbia 5Y	3.91	3.96	3.90	3.93	3.95
DE10Y (BBG)*	0.03	0.28	0.35	0.45	0.49

3M Money Market Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.47	0.50	0.50	0.50	0.50
Czech Republic	2.02	2.08	2.18	2.18	2.24
Hungary	0.16	0.22	0.30	0.45	0.60
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.38	2.80	3.20	3.40	3.40
Serbia	2.95	2.96	2.98	2.98	2.99
Eurozone	-0.31	-0.30	-0.30	-0.30	-

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
EURHRK	7.44	7.32	7.42	7.45	7.42
forwards		7.44	7.44	7.44	7.44
EURCZK	25.62	25.30	25.10	24.80	24.65
forwards		25.65	25.65	25.65	25.65
EURHUF	322.2	319.0	320.0	322.0	322.0
forwards		325.4	325.4	325.4	325.4
EURPLN	4.28	4.31	4.32	4.29	4.29
forwards		4.28	4.28	4.28	4.28
EURRON	4.76	4.75	4.75	4.77	4.78
forwards		4.76	4.76	4.76	4.76
EURRSD	118.0	117.5	117.9	118.2	118.0
forwards		-	-	-	-
EURUSD	1.13	1.15	1.18	1.18	-

Key Interest Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.75	1.75	2.00	2.00	2.00
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.50
Romania	2.50	2.50	2.50	2.50	2.50
Serbia	3.00	3.00	3.00	3.00	3.00
Eurozone	0.00	0.00	0.00	0.00	-

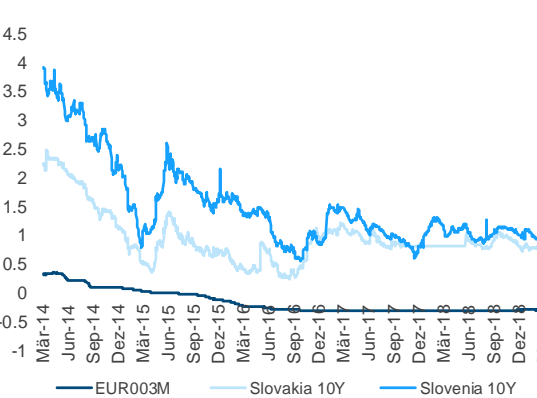
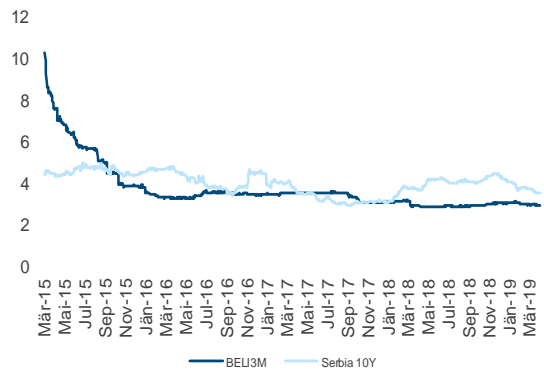
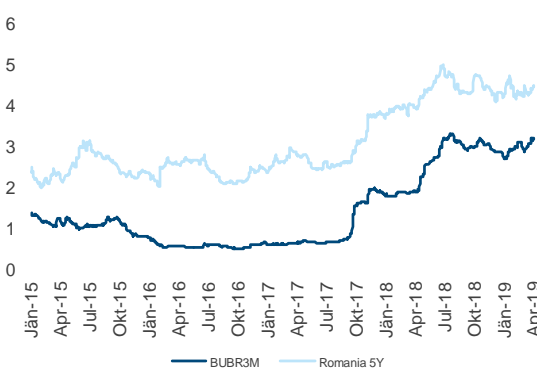
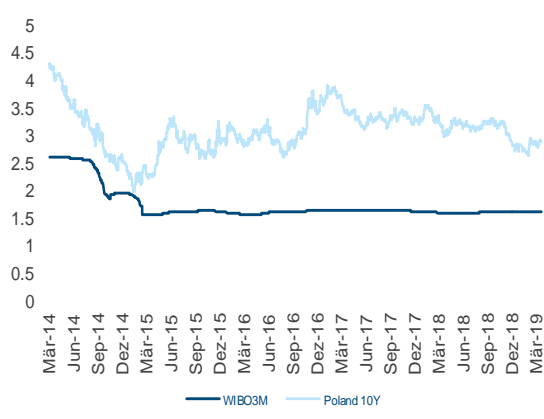
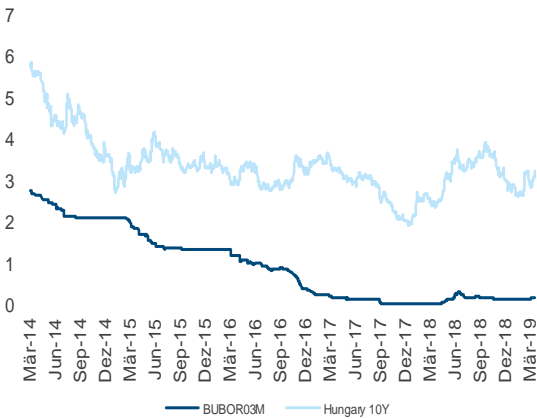
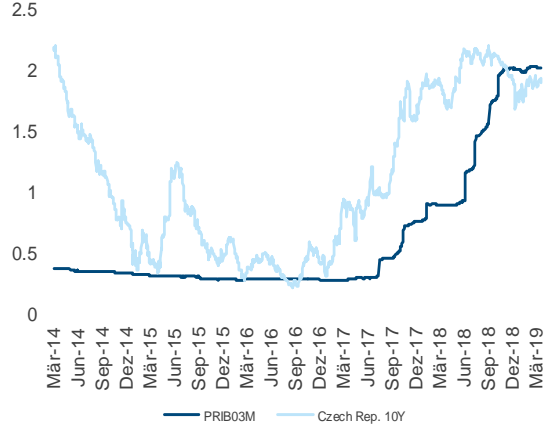
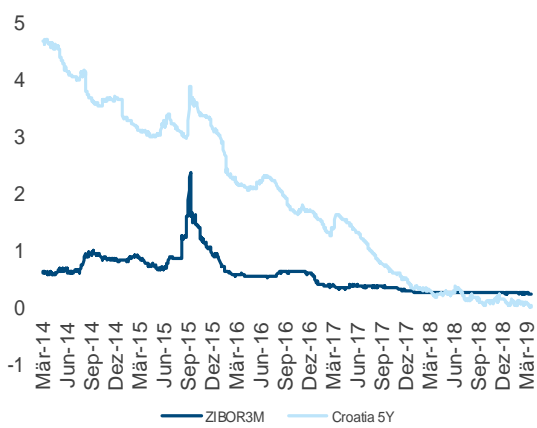
Macro forecasts

Real GDP growth (%)	2017	2018f	2019f	2020f	Average inflation (%)	2017	2018f	2019f	2020f	Unemployment (%)	2017	2018f	2019f	2020f
Croatia	2.9	2.6	2.3	2.3	Croatia	1.1	1.5	1.0	1.2	Croatia	11.3	8.6	7.8	7.3
Czech Republic	4.5	3.0	2.5	2.8	Czech Republic	2.4	2.2	2.3	2.0	Czech Republic	2.4	2.4	2.5	3.0
Hungary	4.1	4.9	3.8	2.9	Hungary	2.4	2.8	2.9	3.1	Hungary	4.2	3.7	3.8	3.9
Poland	4.8	5.1	4.2	3.4	Poland	2.0	1.6	1.7	2.4	Poland	7.2	6.1	6.3	6.4
Romania	7.0	4.1	3.1	2.7	Romania	1.3	4.6	3.6	2.8	Romania	4.9	4.2	3.8	4.0
Serbia	2.0	4.3	3.3	2.9	Serbia	3.2	2.0	2.2	2.4	Serbia	13.5	12.7	12.2	11.7
Slovakia	3.2	4.1	3.4	3.6	Slovakia	1.3	2.5	2.5	2.5	Slovakia	8.1	6.5	6.3	5.8
Slovenia	4.9	4.5	3.2	3.1	Slovenia	1.4	1.7	1.3	1.5	Slovenia	6.6	5.1	4.2	3.7
CEE8 average	4.7	4.4	3.5	3.1	CEE8 average	1.9	2.4	2.3	2.4	CEE8 average	6.2	5.3	5.2	5.3

Public debt (% of GDP)	2017	2018f	2019f	2020f	C/A (%GDP)	2017	2018f	2019f	2020f	Budget Balance (%GDP)	2017	2018f	2019f	2020f
Croatia	77.5	74.1	71.4	69.3	Croatia	4.0	2.3	1.6	0.5	Croatia	0.8	0.2	0.0	-0.5
Czech Republic	34.7	33.2	32.1	31.4	Czech Republic	1.1	0.6	0.5	0.6	Czech Republic	1.5	1.5	1.1	0.9
Hungary	73.4	70.8	68.8	66.8	Hungary	2.8	0.5	-0.1	0.7	Hungary	-2.2	-2.2	-1.8	-1.8
Poland	50.6	49.9	50.1	49.3	Poland	0.2	-0.4	-0.5	-0.7	Poland	-1.4	-0.4	-1.9	-2.6
Romania	35.2	35.1	35.9	36.6	Romania	-3.2	-4.7	-5.0	-4.8	Romania	-2.9	-3.0	-3.0	-2.5
Serbia	57.9	53.8	51.4	49.3	Serbia	-5.2	-5.2	-5.5	-5.2	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	49.1	48.3	46.6	Slovakia	-2.0	-1.5	-0.9	0.2	Slovakia	-0.8	-0.8	-0.7	-0.4
Slovenia	72.4	67.0	63.8	60.8	Slovenia	7.2	7.3	6.5	5.8	Slovenia	0.0	0.0	0.50	0.3
CEE8 average	50.2	48.7	48.1	47.2	CEE8 average	0.2	-0.7	-0.9	-0.8	CEE8 average	-1.0	-0.6	-1.3	-1.5

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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15 April 2019

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