

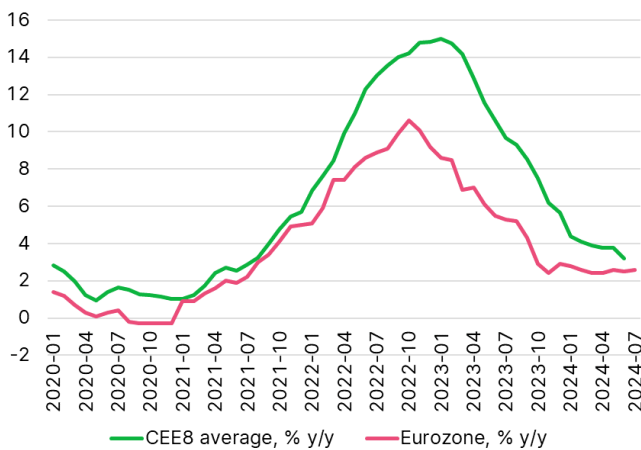
CEE MACRO AND FI DAILY

Inflation paths diverge in the EU

On the Radar

- Inflation rate in Poland increased to 4.2% y/y in July that is less than anticipated by the market consensus.
- Flash estimate of July's inflation in Croatia arrived at 2.3% y/y while in Slovenia at 1.3% y/y.
- 2Q24 GDP in Serbia landed at solid 4.2% y/y.
- Retail sales growth accelerates to 7.2% y/y while industry expanded 2.0% y/y in July in Serbia.
- In Romania unemployment rate increased to 5.5% in June.
- PMI index dropped to 47.8 in July in Romania, while in Poland the index rose for the first time in four months from 45.0 in June to 47.3 in July.

Inflation rate, % y/y

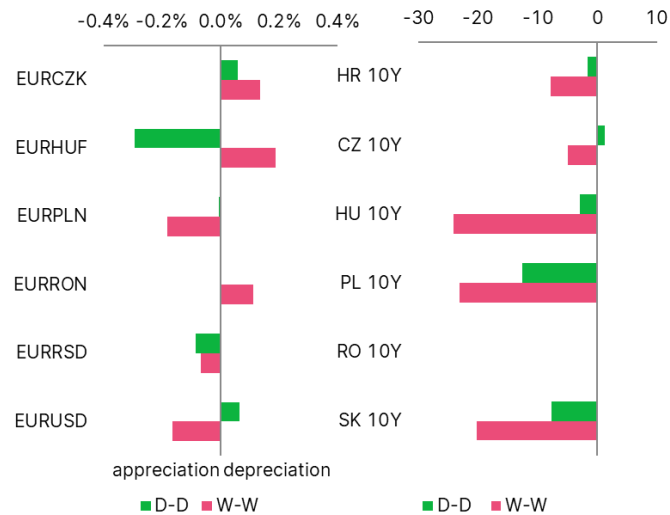


Source: Erste Group Research

Economic developments

On Wednesday, the flash estimate of Eurozone annual inflation in July ticked up to 2.6% from 2.5% in June. Looking at the main components of Euro area inflation, services are expected to have the highest annual rate in July (4.0%, compared with 4.1% in June), followed by food, alcohol & tobacco, and energy. As far as the region is concerned, flash estimates for July for several countries show a mixed bag. In Croatia and Slovenia, July's inflation rate eased to 2.3% y/y and 1.3% y/y, respectively, while in Slovakia (HICP release), it increased to 2.9% y/y from 2.4% y/y in June. In Poland, July's inflation increase was hefty as it arrived at 4.2% y/y (translating into a 1.4% monthly CPI increase) as opposed to June's figure of 2.6% y/y. The jump happened primarily due to the deregulation of energy prices. The annual inflation rate was 0.2pp below consensus, with our projection being marginally lower than the flash estimate at 4.0%. Post July's inflation jump, price growth is projected to rise towards 5% y/y, mainly due to the unfavorable base effect. In the remainder of the year, apart from Poland, we will see elevated inflation in other countries such as Czechia or Hungary.

Market performance



Source: Erste Group Research

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Market developments

Today, the Czech central bank holds a rate-setting meeting, and a 25 basis point cut is broadly expected. Although some central bankers said they would consider a bigger rate cut as June's inflation surprised to the downside visibly, the anticipated increase towards the end of the year will keep the Board on the cautious side in our view. All in all, we expect the key interest rate to be at 4.5% after today's meeting. The EURCZK is holding slightly higher this week at 25.42. The other currencies in the region have also weakened since the beginning of the year. The long-term yields have moved lower more visibly this week as markets are positioning for the rate cut in the US in September. In the US, the key interest rates were left unchanged at the meeting of the FOMC on Wednesday. However, according to Powell, if the data continues to be good, a rate cut in September would be on the table.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
01. Aug	08:00	RO	Unemployment Rate	Jun			5.4%
	08:30	HU	Trade Balance	May F			1146.00
	14:30	CZ	Central Bank Rate	Aug 24		4.50%	4.75%
02. Aug	08:00	RO	PPI (y/y)	Jun			-1.03%
	10:30	SI	Trade Balance	Jun			-0.54

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	25.41	0.1	0.1
EUR/HUF	393.76	-0.3	0.2
EUR/PLN	4.29	0.0	-0.2
EUR/RON	4.97	0.0	0.1
EUR/RSD	116.86	-0.1	-0.1
EUR/USD	1.08	0.1	-0.2

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	4.52	-1	-5
HUF	6.56	-2	-8
PLN	5.86	0	0
RON	5.80	0	0
RSD	5.18	0	-1
EUR	3.65	2	-5

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	3.72	1	-5
HU 10Y	6.20	-3	-24
PL 10Y	5.33	-13	-23
RO 10Y	6.75	0	0
HR 10Y	3.25	-2	-8
SK 10Y	3.31	-8	-20

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