

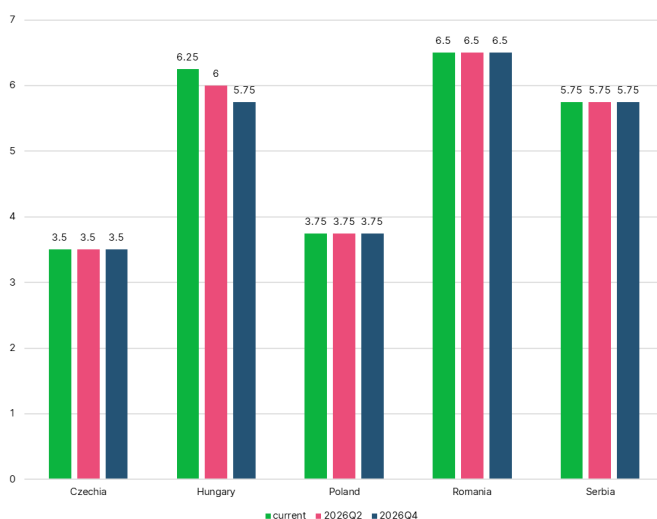
CEE MACRO AND FI DAILY

# Will monetary cautiousness spread to the region?

## On the Radar

- The ECB decided to raise key interest rates by 25bp.
- Serbia's central bank left the key policy rate unchanged
- Today, Romania will release inflation rate in May and wage growth at 8 AM CET
- In Czechia current account data is due, while in Croatia producer prices will be published
- Serbia will release May's inflation at noon CET
- In the afternoon, Poland releases trade data

## Interest rate forecast, % y/y



Source: Erste Group Research

## Economic developments

The ECB decided to raise key interest rates by 25bp. The deposit rate, which is the most important monetary policy rate, thus rises to 2.25%. The war in the Middle East is creating inflationary pressure, and the ECB views the decision to raise interest rates as justified based on various scenarios illustrating the potential evolution of the shock and its implications for the euro area. The ECB emphasized the uncertainty surrounding the outlook, with upside risks to inflation and downside risks to the economy. So far in the central banks in the region have chosen to wait through the global turmoil. On Thursday, Serbia held the central bank meeting and decided to keep the policy rate at 5.75%. Prior to Serbia's central bank, Poland also had supported stability of rates scenario. In the upcoming weeks, central banks in Czechia and Hungary will decide on key policy rate. While in Hungary we expect the opposite scenario to the ECB's decision, Czechia seems to be at the crossroad between stability of rates and interest rate hike i.e the ECB's path of monetary tightening. Although inflation has eased in May, wage growth remains strong in Czechia. Markets at the moment see probability of rate hike slightly higher than rates stability. We believe that central banks should not rush with monetary tightening as inflation eased in May and demand pressure has been contained so far.

## Market performance



Source: Erste Group Research

## Market developments

1 Apart from central banks decision in Eurozone (interest rate hike) and in Serbia (stability of rates), global developments such as President Trump cancelling the strikes against Iran and insisting the peace deal is close shape the FX and bond market in the region. CEE currencies have strengthened with EURCZK at 24.16 and EURHUF moving down toward 353. EURPLN holds close to 4.25. Long-term yields have declined slightly. Brent price of oil dropped below USD 90 per barrel for the first time since March. Romania sold government papers maturing in 2027 worth RON 847.5 million. As far as political scene is concerned Romania's National Liberal Party (PNL) has decided not to support the investiture of the government to be proposed by PM-designate Eugen Tomac. The political uncertainty remains elevated with high stakes in form of access to EU funds if reforms are not completed in the absence of the functioning government.

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## Upcoming releases in CEE

Date	Q	Country	Indicator	Period	Survey	Erste Est.	Prev.
12. Jun	8:00	RO	CPI (y/y)	May	10.65%	10.8%	10.7%
	8:00	RO	CPI (m/m)	May	0.32%	0.6%	0.8%
	8:00	RO	Wages (y/y)	Apr			4.3%
	9:00	SK	Wages (y/y)	Apr			2.5%
	11:00	HR	PPI (y/y)	May			7.0%
	12:00	RS	CPI (y/y)	May		3.7%	3.3%
	12:00	RS	CPI (m/m)	May			0.8%
	14:00	PL	Trade Balance	Apr	-836.80		-497.0

## FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	24.13	-0.2	-0.2
EUR/HUF	352.98	-0.9	-0.2
EUR/PLN	4.25	-0.1	0.3
EUR/RON	5.24	0.0	-0.4
EUR/RSD	117.17	-0.1	-0.1
EUR/USD	1.16	0.4	-0.3

## 3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	3.62	1	3
HUF	5.96	-1	-3
PLN	3.86	-2	-1
RON	5.84	0	0
RSD	4.70	0	0
EUR	2.40	0	9

## 10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	4.84	-4	5
HU 10Y	5.45	-6	-5
PL 10Y	5.66	-4	-2
RO 10Y	6.95	5	8
HR 10Y	3.41	0	-1
SK 10Y	3.72	-4	4

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