

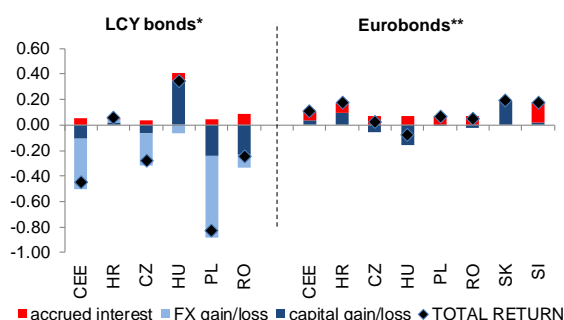
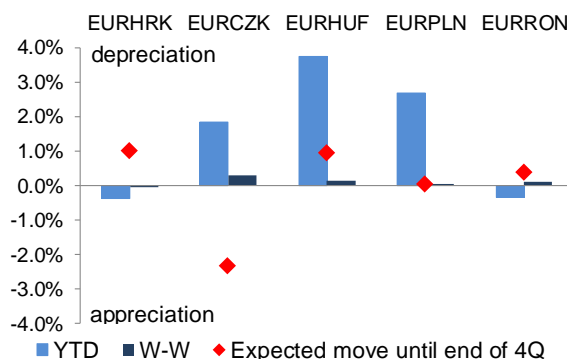


CEE Market Insights

Market outlook

Regional currencies fell somewhat last week vs. the euro, with the largest decline occurring at the Polish zloty. Polish markets were shaken by the scandal around the financial watchdog and banks. While the EURPLN does not look greatly mis-priced currently, we cannot rule out further bouts of volatility until the scandal settles. In the Czech Republic, the currency also remained rather weak, especially after the slight negative surprise in GDP numbers, which could reinforce views that the central bank might wait with a continuation of the hawkish policy. Fundamentals would still underpin a stronger currency, in our view.

Yields mostly fell last week in the CEE region, apart from Poland, where the scandal around the financial authority and Getin have unnerved investors. In addition, however, the latest NBP inflation projection points to CPI rising to 3.2% on average next year, due to an increase in energy prices. We are much more sceptical about this, with core inflation just at 0.9% y/y at the moment. We are therefore also less certain about any unorthodox monetary policy measures, as in our view, the low inflation does not underpin any hasty monetary tightening, be it a rate increase, or a more unorthodox measure.



Looking ahead this week:

Monday	Tuesday	Wednesday	Thursday	Friday
PL: Wages SK: Unemployment	HU: Target Rate PL: Industry, PPI RS: GDP	SI: PPI	PL: Retail Sales	

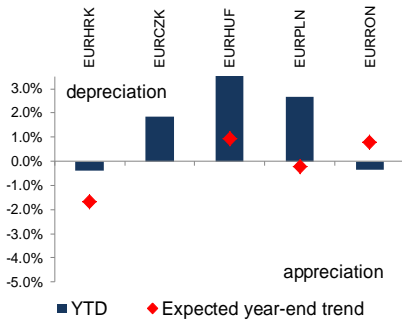
After the last week full of data releases, the calendar will be relatively empty this week. The most interesting event will be the MPC meeting in Hungary, which will take place on Tuesday. After the quite strong flash estimate of GDP growth (4.3% y/y in 3Q) published last week and high inflation (3.8% in October) published two weeks ago, the central bank will try to downplay any expectation of a rate hike, arguing that the high inflation is a result of volatile prices and the core inflation was not too strong. At the end of the week, Moody's might decide on Hungary's credit rating. While we do not expect any rating upgrade, Moody's may follow S&P and Fitch and move the outlook to positive. This week, there will be intensive budget discussion in Romania, as the country with the highest expected deficit in the EU28 (according to the EC's Autumn Forecasts) is about to try to do some last-minute reshuffles in spending and attempt to collect some extra revenues. There is a growing list of state-owned enterprises that will be asked to disburse a special dividend payment to the government. It will be interesting to follow the political situation in the Czech Republic and Slovakia, as Czech Prime Minister Babis and Head of the Slovak Parliament Danko have come under pressure to resign.

In case you missed it last week...

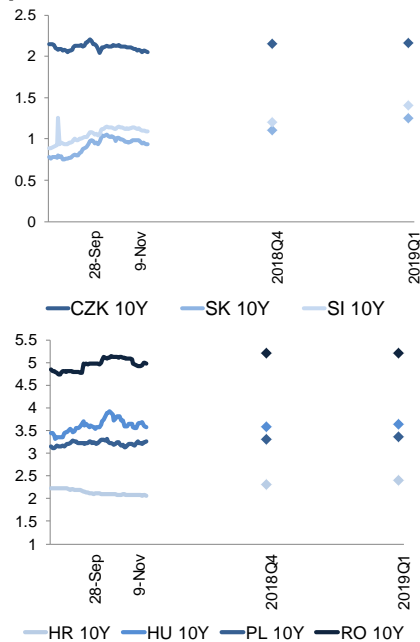
- CEE:** Flash GDP growth estimates surprised to upside in all CEE countries but Czech Republic
- PL:** Polish economy expanded 5.1% y/y in 3Q18; we will revise our forecast once breakdown is out
- HU:** Hungarian economy grew 4.3% y/y in 3Q18; we have increased our full-year 2018 forecast to 4.6%
- SK:** Slovak economy expanded 4.6% y/y in 3Q18; we have revised our full-year forecast to 4.6%
- RO:** Growth surprised to upside (4.3%); full-year growth may be slightly above 4% (rather than 3.8%)
- CZ:** Czech economy grew only 2.3% y/y in 3Q18, our FY forecast could be cut from 3.5% closer to 3%

FX and bond market stable in CEE

YTD change on FX market



10Y government bond yields, percent



Source: Erste Group Research, Bloomberg.

On global markets:

From a fundamental point of view, the most important release for the EURUSD will be PMI indices for the Eurozone and major member countries. However, for markets, the political debate around Brexit and the risks of a hard Brexit will likely be in the foreground. The agreement between the UK and EU announced last week is only a stage in the divorce process and not more. It is far from over. The outcome remains completely open, especially as a majority in the British Parliament for the negotiated package is very doubtful from today's point of view. At the same time, however, this is only a snapshot. There is probably a month left before the vote. What will be decisive is how the public debate goes up to that point. Everything seems possible, from a majority vote to the resignation of Theresa May. The intensity of the reaction in the United Kingdom - various ministers and state secretaries have resigned and Theresa May's own party is working on a motion of censure - is an indication to us, however, that a hard Brexit has become more likely since last week. If a hard Brexit becomes foreseeable, we would lower our forecasts for yields on German government bonds at least for the first half of next year. Furthermore, the dollar would probably strengthen more against the euro than we currently expect.

CEE currencies:

Regional currencies fell somewhat last week vs. the euro, with the largest decline occurring at the Polish zloty. In particular, Polish lenders were hit after Financial Supervision Authority Chairman Chrzanowski resigned, following a Gazeta Wyborcza report claiming that he had made an attempt to offer help to Getin Noble Bank (which was at the time under a supervised recovery program) in exchange for a PLN 40mn bribe. Market turbulence intensified on Friday after NBP Governor Glapinski had to refuse allegations that he is planning to step down due to poor health. While the Polish zloty is likely to be hit by this scandal, the combined message of a high inflation forecast from the NBP with comments that the central bank may be looking for unconventional means of curbing inflation instead of hiking the policy rate could also have contributed. Although the PLN does not seem greatly mispriced, volatility could remain somewhat high in the coming time period. In the Czech Republic, the currency also remained rather weak, especially after the slight negative surprise in GDP numbers, which could reinforce views that the central bank might wait with a continuation of the hawkish policy. Fundamentals would still underpin a stronger currency in our view.

CEE rates and yields:

Yields mostly fell last week in the CEE region, apart from Poland, where the scandal around the financial authority and Getin have unnerved investors. In addition, however, the latest NBP inflation projection point to CPI rising to 3.2% on average next year, due to an increase in energy prices. We are much less sceptical about this, with core inflation just at 0.9% y/y at the moment. We are therefore also less certain about any unorthodox monetary policy measures, as in our view, the low inflation does not underpin any hasty monetary tightening, be it a rate increase, or a more unorthodox measure. Elsewhere, as mentioned, yields rather edged down than up, while for short-term rates, Hungarian ones went slightly down, similarly to the Czech Republic, while Romanian rates went up only a tiny bit.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
19-Nov							
	SK	Unemployment Rate	Oct			5.4%	
10:00	PL	Employment (y/y)	Oct	3.2%		3.2%	
10:00	PL	Wages (y/y)	Oct	6.6%	6.8%	6.7%	Wage growth to keep up solid pace
20-Nov							
	HR	Unemployment Rate	Oct			8.4%	
10:00	PL	Industrial Production (y/y)	Oct	6.8%	6.5%	2.8%	Calendar effect (+1 working day) to support performance of industry
10:00	PL	PPI (y/y)	Oct	3.0%	2.9%	2.9%	Price pressure to remain limited
12:00	RS	GDP (y/y)	3Q F			3.7%	
14:00	HU	Overnight Deposit Rate	Nov	-0.15%		-0.15%	
14:00	HU	Target Rate	Nov	0.9%	0.9%	0.9%	No relevant information on normalization is expected to be revealed before December rate setting monetary meeting
21-Nov							
10:30	SI	PPI (y/y)	Oct			2.2%	
22-Nov							
9:00	HU	Wages (y/y)	Oct	10.0%		10.1%	Wage growth to keep up solid pace
10:00	PL	Retail Sales (y/y)	Oct	7.3%	8.1%	5.6%	Favorable situation on labor market supports level of private spending

Sources: Bloomberg, Reuters

Capital market forecasts

Government bond yields					
	current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia 10Y	2.07	2.30	2.40	2.40	2.50
spread (bps)	170	175	174	162	164
Czech Rep. 10Y	2.05	2.15	2.16	2.20	2.26
spread (bps)	169	160	150	142	140
Hungary 10Y	3.57	3.58	3.63	3.73	3.75
spread (bps)	320	303	297	295	289
Poland 10Y	3.27	3.30	3.35	3.40	3.50
spread (bps)	291	275	269	262	264
Romania10Y	4.98	5.20	5.20	5.40	5.40
spread (bps)	462	465	454	462	454
Slovakia 10Y	0.93	1.10	1.25	1.27	1.30
spread (bps)	57	55	59	49	44
Slovenia 10Y	1.09	1.20	1.40	1.50	1.50
spread (bps)	72	65	74	72	64
Serbia 5Y	3.45	3.60	3.60	3.60	3.70
DE10Y (BBG)*	0.36	0.55	0.66	0.78	0.86

3M Money Market Rate					
	current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia	0.49	0.50	0.50	0.60	0.70
Czech Republic	2.00	1.91	1.92	1.97	2.11
Hungary	0.13	0.18	0.45	0.55	0.75
Poland	1.72	1.73	1.73	1.73	1.73
Romania	3.22	2.80	3.10	3.30	3.30
Serbia	3.01	2.95	2.95	3.05	3.20
Eurozone	-0.32	-0.30	-0.30	-0.30	-0.10

FX					
	current	2018Q4	2019Q1	2019Q2	2019Q3
EURHRK	7.43	7.50	7.45	7.30	7.45
forwards		7.43	7.43	7.43	7.43
EURCZK	25.99	25.40	24.95	24.70	24.60
forwards		26.01	26.01	26.01	26.01
EURHUF	321.6	325.0	325.0	325.0	325.0
forwards		324.8	324.8	324.8	324.8
EURPLN	4.31	4.29	4.30	4.28	4.26
forwards		4.31	4.31	4.31	4.31
EURRON	4.66	4.68	4.69	4.70	4.75
forwards		4.67	4.67	4.67	4.67
EURRSD	118.2	118.5	118.5	118.5	118.5
forwards		-	-	-	-
EURUSD	1.13	1.11	1.10	1.12	1.14

Key Interest Rate					
	current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.75	1.75	1.75	1.75	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	2.75	3.00	3.00
Serbia	3.00	3.00	3.00	3.00	3.00
Eurozone	0.00	0.00	0.00	0.00	0.00

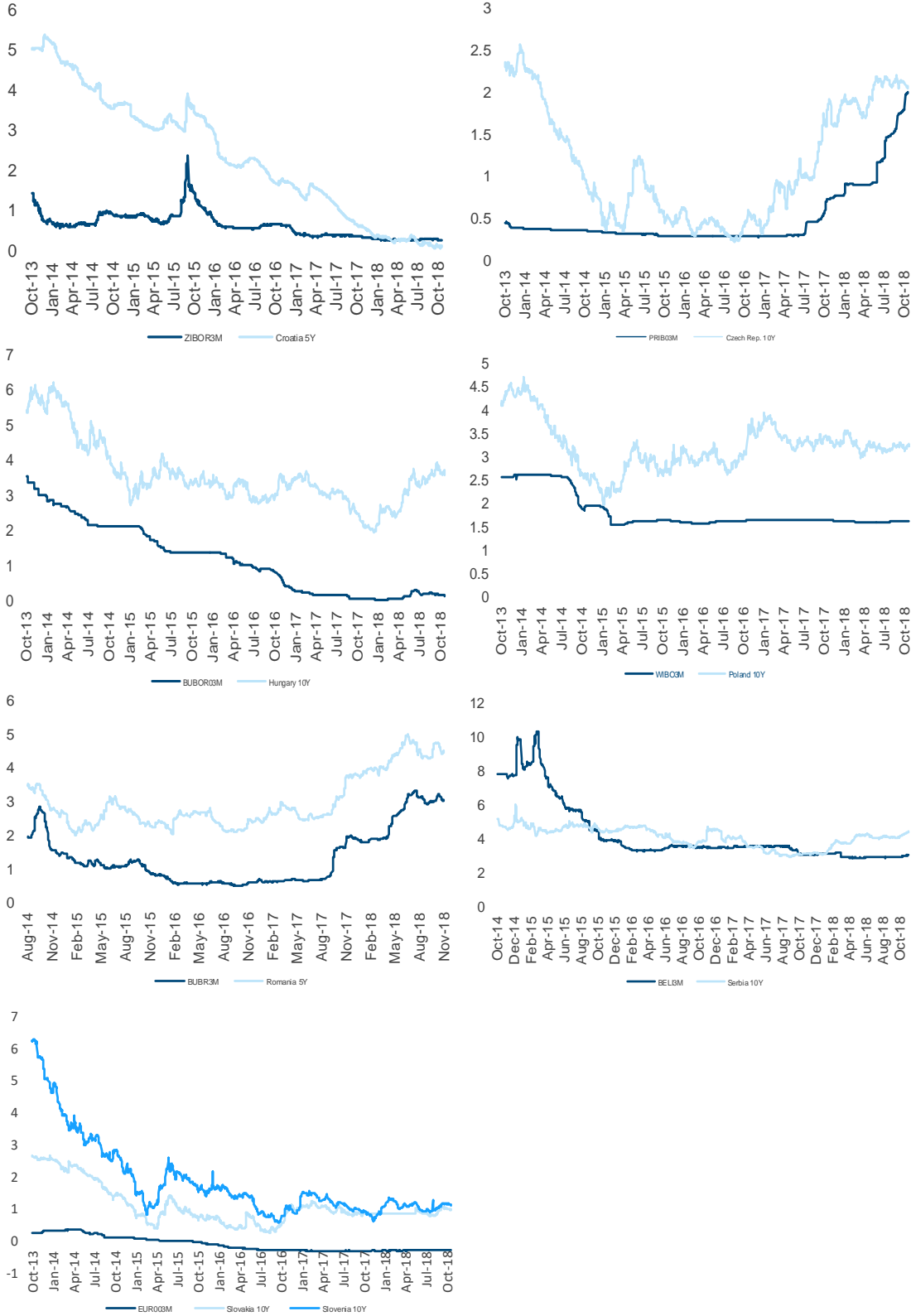
Macro forecasts

Real GDP growth (%)	2017	2018f	2019f	2020f	Average inflation (%)	2017	2018f	2019f	2020f	Unemployment (%)	2017	2018f	2019f	2020f
Croatia	2.9	2.8	2.7	2.6	Croatia	1.1	1.6	1.4	1.6	Croatia	11.3	8.8	7.8	7.3
Czech Republic	4.5	3.5	3.0	2.9	Czech Republic	2.4	2.3	2.1	1.9	Czech Republic	2.4	2.4	2.8	3.2
Hungary	4.1	4.6	3.5	2.8	Hungary	2.4	2.9	3.3	3.1	Hungary	4.2	3.7	3.9	3.9
Poland	4.6	4.9	3.8	3.4	Poland	2.0	1.7	2.2	2.4	Poland	7.2	6.4	6.2	6.0
Romania	7.3	3.8	3.4	3.9	Romania	1.3	4.7	3.3	2.9	Romania	4.9	4.6	4.8	5.0
Serbia	1.9	4.3	3.7	3.4	Serbia	3.0	2.0	2.4	3.2	Serbia	13.2	12.7	11.7	10.2
Slovakia	3.2	4.3	4.3	3.6	Slovakia	1.3	2.6	2.5	2.5	Slovakia	8.1	6.8	6.3	5.8
Slovenia	4.9	4.2	3.8	3.3	Slovenia	1.4	1.7	1.9	2.2	Slovenia	6.6	5.5	4.9	4.7
CEE8 average	4.7	4.3	3.6	3.3	CEE8 average	1.9	2.5	2.5	2.5	CEE8 average	6.2	5.5	5.4	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	73.8	70.7	68.1	Croatia	3.9	2.7	2.0	1.2	Croatia	0.8	0.2	0.0	-0.5
Czech Republic	34.6	32.6	30.8	28.9	Czech Republic	1.1	0.7	0.6	0.4	Czech Republic	1.5	0.3	0.4	0.3
Hungary	73.6	72.8	70.9	69.0	Hungary	3.2	1.9	1.4	1.2	Hungary	-2.0	-2.3	-2.3	-2.5
Poland	50.6	50.4	50.5	49.7	Poland	0.2	-0.1	-0.4	-0.7	Poland	-1.7	-1.5	-1.9	-2.1
Romania	35.0	35.2	35.8	35.8	Romania	-3.2	-3.8	-4.1	-4.0	Romania	-2.9	-3.3	-3.0	-2.5
Serbia	61.3	54.8	52.0	49.3	Serbia	-5.6	-5.2	-4.8	-4.4	Serbia	1.2	0.5	-0.5	-0.5
Slovakia	50.9	48.8	47.6	45.9	Slovakia	-2.1	-1.2	-0.5	0.4	Slovakia	-0.8	-0.8	-0.7	-0.4
Slovenia	72.4	69.2	66.6	63.3	Slovenia	7.2	7.9	7.6	6.9	Slovenia	0.0	0.0	0.0	0.0
CEE8 average	50.3	49.1	48.2	46.9	CEE8 average	0.2	-0.2	-0.4	-0.5	CEE8 average	-1.1	-1.3	-1.5	-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



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Published by:

Erste Group Bank AG
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Erste Group Homepage: www.erstegroup.com