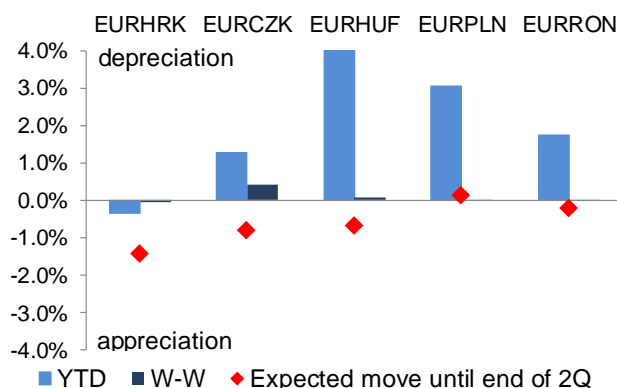




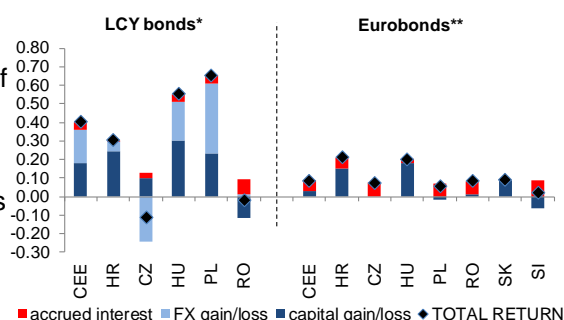
# CEE Market Insights

## Market outlook

Regional currency markets were strongly influenced by international developments last week, which, in the absence of important macro releases, could remain the likely pattern this week as well. The relative weakness of the koruna could continue if the prospects for Brexit and global trade wars do not improve. After the resignation of the British PM, there is potential that Brexit developments could influence regional currency markets this week, too.



Yields mostly followed Bund developments last week and, as macro releases will be relatively scarce this week, international developments could continue to mostly shape local rate and yield developments. The rate decision itself of the Hungarian central bank may be watched by investors, but we do not expect any material change. The statement has some potential to affect markets if there is any reference to the recently weaker HUF. As flash GDP figures were also already released earlier in most CEE countries, we do not expect these to influence regional markets that much either.



## Looking ahead this week:

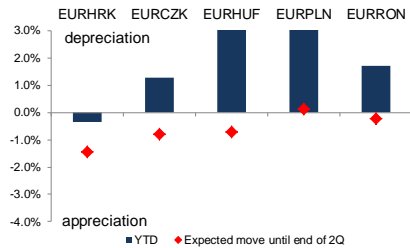
Monday	Tuesday	Wednesday	Thursday	Friday
PL: Unemployment HR: Unemployment, Wages	HU: Target Rate SK: PPI, Current Account	HR: GDP HU: Unemployment	HR: Retail	CZ, PL: GDP HU: GDP; Trade Balance SI: GDP, CPI HR: Industry RS: GDP, Industry, Retail, Trade Balance

We will see final GDP data from many countries that have already released 1Q19 figures, and also from Croatia and Slovenia, which have not yet released their data. All countries will reveal details that are likely to show a strong contribution from private consumption, and in many cases, a substantial contribution from investments, too. It remains to be seen how net exports developed, but against the backdrop of the relatively good flash releases, we think the export performance was likely better than had been expected a few months ago. Already before the release of the detailed figures, we perceive upside risk to our real GDP call for Poland (currently at 4.2%) for 2019, while we will likely revise our growth outlook for Romania from 3.1% to around 4% this week. We have already increased our real GDP forecast for Hungary to 4.5%, from 4.3% for this year. Tuesday's rate decision in Hungary could be in focus of investors, too. Although rates are not expected to change, it could still be interesting to see if the central bank's statement contained any reflection on the recent HUF weakening. The results of the EU elections over last weekend are unlikely to affect CEE macro and markets too much.

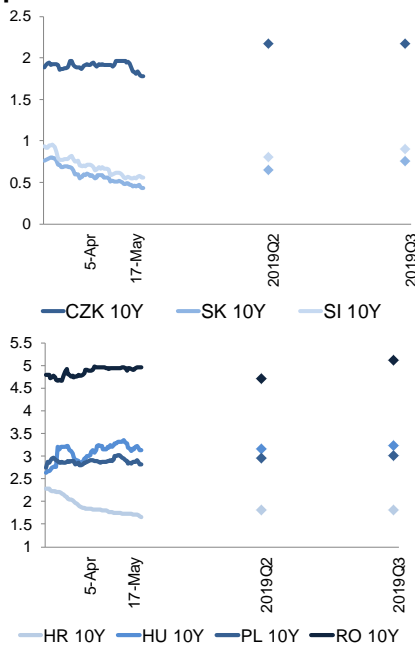
## In case you missed it last week...

- CEE: Our report on possible impact of US tariffs on region (titled '[Delay in US import tariffs on cars from EU](#)')
- PL: [Industry better than expected in April](#) at 9.2% y/y; retail sales at 13.6% y/y, [7-year high](#)
- RO: We will likely revise GDP growth outlook to 4% area from 3.1% for this year
- HU: We revised real GDP growth outlook for this year from 4.3% to 4.5%
- SK: Fitch [confirmed](#) rating at A+ with stable outlook

**YTD change on FX market**



**10Y government bond yields, percent**



Source: Erste Group Research, Bloomberg.

**On global markets:**

GDP data for 1Q will be released this week for both Eurozone countries and the US. As flash estimates have already been issued, the potential for surprises is small, and therefore the impact on the EURUSD likely limited. Markets will still be digesting the resignation of the British prime minister and its consequences.

**CEE currencies:**

Currency markets were strongly influenced by international developments last week, as minutes of the last FOMC meeting reassured investors that it will be patient and no imminent rate tightening should be expected. The subsequent weakening of the US dollar gave a lift to the zloty and the so-far ailing forint, too. The Czech currency was still somewhat weaker last week, however. This had to do with the still negative trade war and Brexit prospects, as well as the increased expectation that Czech rates will not be increased further this week. The overbought koruna (courtesy of the exchange rate regime held between 2013 and 2017) still prevents the CZK from benefitting from the large interest rate differential. If global growth uncertainties tied to Brexit and trade disputes do not improve, then the CZK could remain weak going forward. Elsewhere, currencies are roughly in line with our forecasts.

**CEE rates and yields:**

Yields mostly fell last week in CEE, amid the ongoing decline in German Bunds. As far as short-term rates are concerned, they showed little changes apart from the Czech Republic, where FRAs started to fall, especially on longer tenors (i.e. the 9X12 fell about 10bp last week, and almost 20bp in two weeks). Czech growth prospects could be especially negatively influenced by German industrial woes (as evidenced by last week's still poor sentiment data), and thus investors likely started to price in a lower rate trajectory. We continue to expect no further rate tightening from the current 2% repo rate. Elsewhere, rate markets were relatively calm. This week's Hungarian rate setting meeting has a bit of potential to move rate markets, but inflation releases (throughout the region) have more potential to affect markets. This is due to the fact that, currently, CEE central banks are facing a dilemma between the very strong growth stemming from domestic demand and weak sentiment indicators on important export markets and the still low external inflation environment.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>27-May</b>							
10:00	PL	Unemployment Rate	Apr	5.6%	<b>5.7%</b>	5.9%	Unemployment to remain around recently observed rate.
11:00	HR	Unemployment Rate	Apr			8.6%	
11:00	HR	Wages (y/y)	Mar			2.8%	
<b>28-May</b>							
9:00	SK	PPI (y/y)	Apr		<b>4.5%</b>	4.4%	Rather steady development of producer price is expected for April.
14:00	HU	Target Rate	May 28	0.9%	<b>0.9%</b>	0.9%	May meeting should be 'non event'; more details on normalization of monetary policy could be revealed at June rate setting meeting.
14:30	SK	Current Account Balance	Mar			-157.99	
<b>29-May</b>							
9:00	HU	Unemployment Rate	Apr	3.6%	<b>3.5%</b>	3.6%	Figures might continue to reflect tight labor market conditions.
11:00	HR	GDP (y/y)	1Q p		<b>3.1%</b>	2.26%	GDP growth seen accelerating slightly above 3% mark in 1Q19.
<b>30-May</b>							
11:00	HR	Retail Sales (y/y)	Apr		<b>5.0%</b>	5.7%	Retail trade expected to show vivid growth dynamics going into 2Q19.
<b>31-May</b>							
9:00	CZ	GDP (q/q)	1Q P	0.5%	<b>0.5%</b>	0.5%	Within second estimate, Czech Statistical Office will release figures of GDP components. We expect both domestic as well as foreign demand to remain solid.
9:00	CZ	GDP (y/y)	1Q P	2.50%	<b>2.5%</b>	2.5%	GDP growth is driven mainly by labor market, positive sentiment of households and high investment expenditures of firms into robotization. Contribution of net exports was probably negative in 1Q. Although foreign
9:00	HU	Trade Balance	Mar F			677	
9:00	HU	GDP (y/y)	1Q F	5.3%	<b>5.3%</b>	5.3%	CSO is expected to confirm preliminary GDP figures.
10:00	PL	GDP (y/y)	1Q F		<b>4.6%</b>	4.6%	Domestic demand is expected to remain main growth driver.
10:30	SI	CPI (y/y)	May		<b>1.6%</b>	1.7%	Inflation movements expected to remain stable.
10:30	SI	GDP (y/y)	1Q		<b>3.6%</b>	4.1%	Growth dynamics expected to somewhat decelerate compared to 2018, but remain above 3.5% mark.
11:00	HR	Industrial Production (y/y)	Apr		<b>2.9%</b>	3%	Industrial production seen maintaining mild recovery footprint seen from beginning of year.
12:00	RS	Industrial Production (y/y)	Apr		<b>2.0%</b>	-2.8%	Continuation of relatively weak growth, as negative FCA production outlook weighs on overall headline figure.
12:00	RS	Retail Sales (y/y)	Apr		<b>10.5%</b>	9.5%	We expect another strong figure, notwithstanding high base, due to strong wage numbers and vivid labor market developments. Also, Easter effect should additionally boost April figure.
12:00	RS	Trade Balance	Apr			-507	
12:00	RS	GDP (y/y)	1Q F		<b>2.3%</b>	2.3%	We expect confirmation of flash figure with private consumption being revealed as key factor of growth.

Sources: Bloomberg, Reuters

## Capital market forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia 10Y</b>	1.66	1.80	1.80	1.80	1.90
spread (bps)	178	165	158	152	154
<b>Czech Rep. 10Y</b>	1.78	2.17	2.17	2.33	2.44
spread (bps)	190	202	195	205	208
<b>Hungary 10Y</b>	3.14	3.14	3.23	3.40	3.46
spread (bps)	325	299	301	312	310
<b>Poland 10Y</b>	2.83	2.95	3.00	3.05	3.10
spread (bps)	294	280	278	277	274
<b>Romania10Y</b>	4.95	4.70	5.10	5.20	5.40
spread (bps)	506	455	488	492	504
<b>Slovakia 10Y</b>	0.43	0.65	0.75	0.75	0.85
spread (bps)	54	50	53	47	49
<b>Slovenia 10Y</b>	0.56	0.80	0.90	0.90	1.00
spread (bps)	67	65	68	62	64
<b>Serbia 5Y</b>	3.90	3.96	3.90	3.93	3.95
<b>DE10Y (BBG)*</b>	-0.11	0.15	0.22	0.28	0.36

3M Money Market Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia</b>	0.47	0.50	0.50	0.50	0.50
<b>Czech Republic</b>	2.19	2.18	2.18	2.18	2.24
<b>Hungary</b>	0.20	0.22	0.30	0.45	0.60
<b>Poland</b>	1.72	1.72	1.72	1.72	1.72
<b>Romania</b>	3.28	3.20	3.70	3.60	3.50
<b>Serbia</b>	2.97	2.96	2.98	2.98	2.99
<b>Eurozone</b>	-0.31	-0.30	-0.30	-0.30	-

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>EURHRK</b>	7.43	7.32	7.42	7.45	7.42
forwards		7.43	7.43	7.43	7.43
<b>EURCZK</b>	25.83	25.65	25.51	25.31	25.03
forwards		25.86	25.86	25.86	25.86
<b>EURHUF</b>	326.1	324.0	324.0	324.0	325.0
forwards		329.3	329.3	329.3	329.4
<b>EURPLN</b>	4.30	4.31	4.32	4.29	4.29
forwards		4.30	4.30	4.30	4.30
<b>EURRON</b>	4.76	4.75	4.75	4.77	4.79
forwards		4.76	4.76	4.76	4.76
<b>EURRSD</b>	118.0	117.9	118.0	118.3	118.1
forwards		-	-	-	-
<b>EURUSD</b>	1.12	1.15	1.18	1.18	-

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

## Macro forecasts

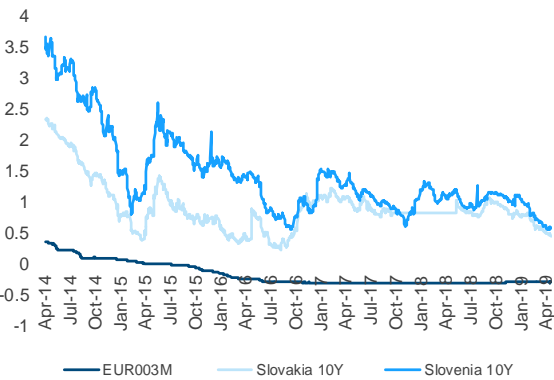
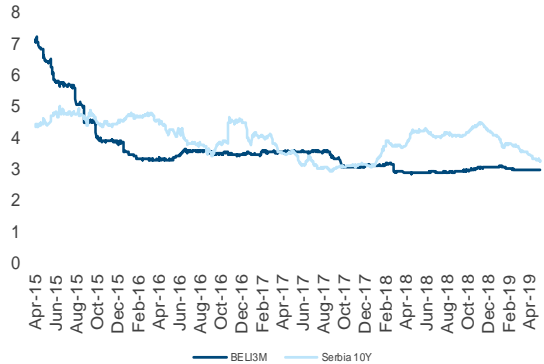
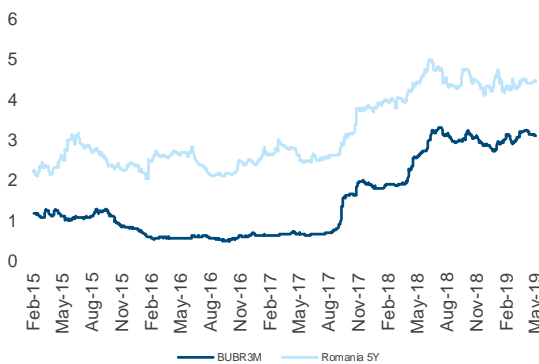
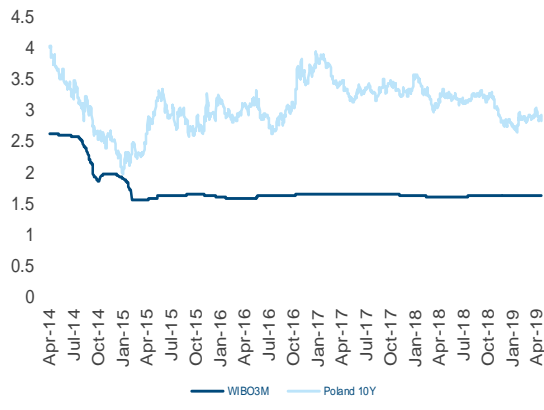
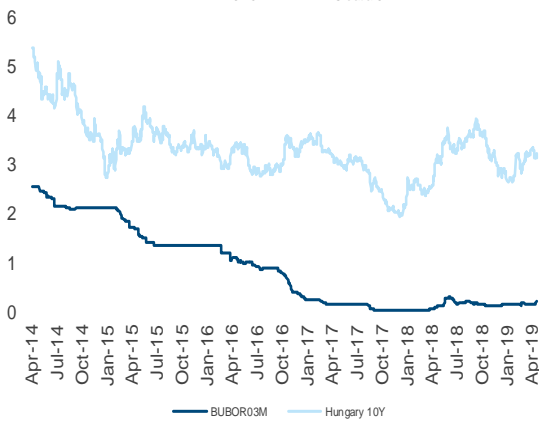
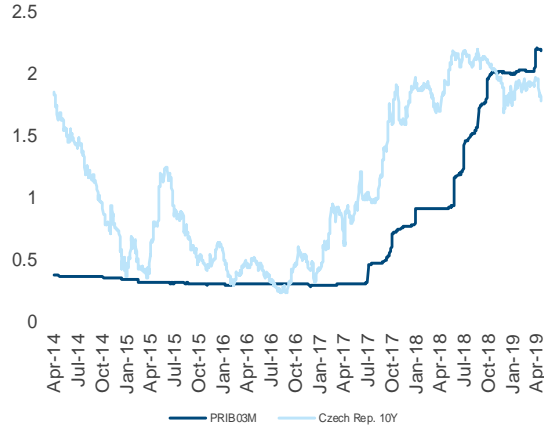
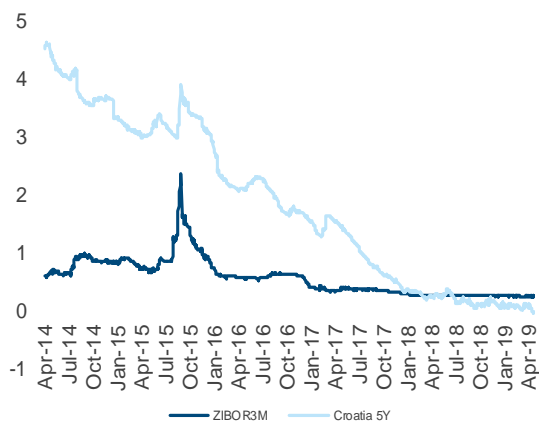
Real GDP growth (%)					Average inflation (%)					Unemployment (%)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	2.9	2.6	2.3	2.3	Croatia	1.1	1.5	1.0	1.2	Croatia	11.3	8.4	7.4	6.4
Czech Republic	4.5	3.0	2.5	2.8	Czech Republic	2.4	2.2	2.3	2.0	Czech Republic	2.4	2.4	2.5	3.0
Hungary	4.1	4.9	4.5	3.2	Hungary	2.4	2.8	3.2	3.0	Hungary	4.2	3.7	3.6	3.5
Poland	4.8	5.1	4.2	3.4	Poland	2.0	1.6	2.4	2.7	Poland	7.3	6.1	6.0	6.4
Romania	7.0	4.1	3.1	3.7	Romania	1.3	4.6	3.6	3.1	Romania	4.9	4.2	3.8	4.0
Serbia	2.0	4.3	3.0	3.3	Serbia	3.0	2.0	2.5	1.8	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
<b>CEE8 average</b>	<b>4.7</b>	<b>4.4</b>	<b>3.6</b>	<b>3.3</b>	<b>CEE8 average</b>	<b>1.9</b>	<b>2.4</b>	<b>2.6</b>	<b>2.5</b>	<b>CEE8 average</b>	<b>6.2</b>	<b>5.3</b>	<b>5.1</b>	<b>5.2</b>

Public debt (% of GDP)					C/A (%GDP)					Budget Balance (%GDP)				
	2017	2018	2019f	2020f		2017	2018	2019f	2020f		2017	2018	2019f	2020f
Croatia	77.8	74.1	71.4	69.3	Croatia	3.7	2.6	1.4	0.5	Croatia	0.9	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	68.4	66.6	Hungary	2.8	0.5	-0.1	0.7	Hungary	-2.2	-2.2	-1.8	-1.8
Poland	50.6	48.9	50.1	49.3	Poland	0.2	-0.7	-0.5	-0.7	Poland	-1.5	-0.4	-1.9	-2.6
Romania	35.2	35.0	35.1	35.3	Romania	-3.2	-4.5	-4.9	-5.3	Romania	-2.7	-3.0	-3.0	-2.5
Serbia	63.3	53.8	51.4	49.4	Serbia	-5.2	-5.2	-5.5	-5.2	Serbia	1.1	0.6	-0.5	-0.5
Slovakia	50.9	48.9	47.7	46.1	Slovakia	-2.0	-2.5	-2.4	-1.2	Slovakia	-0.8	-0.7	-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
<b>CEE8 average</b>	<b>50.4</b>	<b>48.3</b>	<b>47.9</b>	<b>46.9</b>	<b>CEE8 average</b>	<b>0.1</b>	<b>-0.8</b>	<b>-1.0</b>	<b>-1.0</b>	<b>CEE8 average</b>	<b>-1.0</b>	<b>-0.6</b>	<b>-1.3</b>	<b>-1.5</b>

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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27 May 2019

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### **Published by:**

**Erste Group Bank AG**  
**Group Research**  
**1100 Vienna, Austria, Am Belvedere 1**  
**Head Office: Wien**  
**Commercial Register No: FN 33209m**  
**Commercial Court of Vienna**

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