

CEE Market Insights

How much has market sentiment worsened?

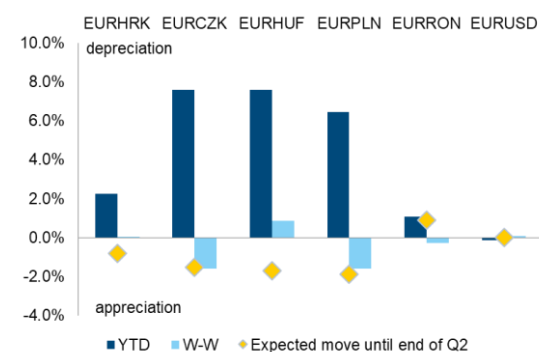
This week in CEE

Market sentiment data will be in focus this week – and the only question is by how much sentiment has worsened in March. Due to the dynamically changing situation, the February retail sales or industry releases that are scheduled across the region will be seen as already out of date. Therefore, the release of Economic Sentiment Indicators on Monday and PMIs on Wednesday will be more informative as far as the economic outlook is concerned. The market sentiment data will be the first real indicators after the introduction of preventive measures. A sharp drop of the PMI in the Eurozone can only indicate where PMIs in the region could move. As the Eurozone is expected to shrink 3.5% this year, we have revised our CEE growth forecast accordingly and sadly we expect recession in all countries in the region.

Monday	Tuesday	Wednesday	Thursday	Friday
HR: Retail sales	PL SI: CPI	CZ HU PL: PMI	RO: PPI	RO HU SK: Retail sales
CEE: ESI sentiment	HR RS: Industry RS: Retail sales, Trade	RO: Unemployment HU: Trade		
SK: 2028, 2030, 2047 Bonds PL: Bills	HU: Bills	CZ: 2021, 2023, 2025 Bonds	PL: Bonds RS: 2023 Bonds	

FX market

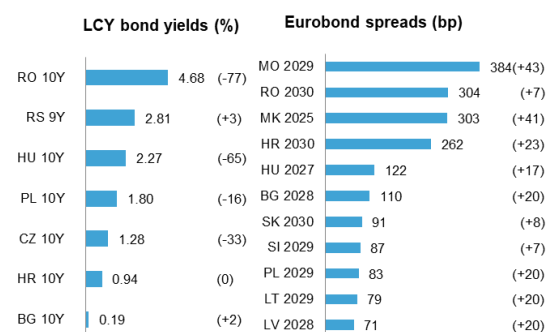
FX market developments



Source: Bloomberg, Erste Group Research

The HUF fell the most last week among CEE currencies, as the central bank announced that it would scrap reserve requirements and introduced a long-term lending facility to incentivize banks to buy government bonds. Currencies mostly weakened elsewhere, too, but to a lesser extent. The Serbian dinar is relatively strong, due to local factors and the NBS looking after the market. The HRK stabilized after weeks of depreciation, as the CNB demonstrated its willingness and has sufficient firepower to keep the Croatian kuna stable. While the Czech central bank cut more than expected, the CZK still did not weaken too extremely. CEE currencies could remain volatile as news about the coronavirus situation can change market sentiment quickly and substantially.

LCY yields, Eurobonds spreads Bond market developments



Source: Bloomberg, Erste Group Research

Regional central banks put their arsenal in place, which, on top of announcements from major central banks, managed to stabilize the bond market. In Romania, the NBR said last Friday that it is ready to buy government bonds on the secondary market, which pulled yields down substantially. In Hungary, after the MNB announced that it would provide long-term collateralized lending for banks in an unlimited amount, yields dropped and the government was able to sell bonds at its auction. The Polish NBP purchased nearly PLN 19bn of POLGBs on the secondary market in the previous two weeks, which also kept yields in check. Thanks to central bank action, we think that yields in CEE can be kept under control, even if a substantial increase in the supply of government bonds occurs.

In case you missed

CZ: Czech National Bank [cut rates](#) further by 75bp, easing cycle likely to continue.

HU: Hungarian central bank kept policy rate unchanged but announced [liquidity-supporting measures](#). Moody's affirmed the 'Baa3' rating with stable outlook.

PL: [Economy](#) expected to contract 3.7% this year. Fitch kept rating unchanged at 'A-' with stable outlook.

RO: [Growth forecast](#) revised downward to -4.7% in 2020

RS: Fitch affirmed rating at 'BB+' with stable outlook.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
30. Mar	12:00	HR	Retail Sales (y/y)	Feb		5.50%	6.2%	Following robust January 6.2% y/y increase, we see February figure also showing positive pattern
31. Mar		HR	Current Account Balance (quarterly)	4Q			4567.6	
	9:00	CZ	GDP (y/y)	4Q F	1.8%		1.8%	
	9:00	HU	PPI (y/y)	Feb			3.8%	
	10:00	PL	CPI (y/y)	Mar P	4.40%	4.5%	4.7%	Inflation to likely ease due to sharp drop in oil prices. Food prices might pose upward risks to our forecast..
	10:30	SI	CPI (y/y)	Mar		1.70%	2%	We see CPI moving few notches below 2% mark in March (vs. 2% y/y in Feb-20), with corona virus impact being visible in following months
	12:00	HR	Industrial Production (y/y)	Feb		-4.0%	-5.5%	Industrial production expected to show another strong contraction in February
	12:00	RS	Industrial Production (y/y)	Feb		4.0%	6.3%	We expect another solid print, as momentum in early year was strong, and February should still exclude any disruptions from COVID-19 outbreak.
	12:00	RS	Retail Sales (y/y)	Feb		9.5%	10.9%	Given strong wage dynamics and labor market in early 2020, we expect February print to bring another strong figure.
	12:00	RS	Trade Balance	Feb			-466.5	
01. Apr		RO	Unemployment Rate	Feb			2.98%	
	9:00	HU	Manufacturing PMI	Mar	48.5		50.1	
	9:00	PL	Manufacturing PMI	Mar	46		48.2	
	9:00	HU	Trade Balance	Jan F			433.33	
	9:30	CZ	Manufacturing PMI	Mar	42.5		46.5	
02. Apr	8:00	RO	PPI (y/y)	Feb			4.74%	
03. Apr	8:00	RO	Retail Sales (y/y)	Feb		8.6%	9.4%	We see retail sales growth moderating to 8.6% y/y in February, amid softer consumer confidence.
	9:00	HU	Retail Sales (y/y)	Feb	6.3%		7.6%	
	9:00	SK	Retail Sales (y/y)	Feb		1.2%	-1%	Retail sales should have marked an improvement in February, aided by base effects and keeping in mind this was before the COVID-19 countermeasures were imposed in March.

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

Forecasts

Government bond yields

	current	2020Q2	2020Q3	2020Q4	2021Q1
Croatia 10Y	0.9	1.4	1.4	1.2	1.0
spread (bps)	141	190	180	140	110
Czechia 10Y	1.3	1.1	1.2	1.3	1.6
spread (bps)	175	159	163	153	166
Hungary 10Y	2.3	2.4	2.5	2.5	2.7
spread (bps)	275	290	285	270	275
Poland 10Y	1.8	1.9	1.9	1.8	1.8
spread (bps)	228	240	225	200	190
Romania 10Y	4.7	3.8	3.7	3.5	3.6
spread (bps)	515	430	405	370	370
Slovakia 10Y	0.4	0.7	0.9	0.9	-
spread (bps)	85	115	125	105	-
Slovenia 10Y	0.37	0.50	0.40	0.40	0.30
spread (bps)	85	100	80	60	40
Serbia 5Y	2.3	2.4	2.3	2.4	2.2
spread (bps)	279	285	265	255	230
DE10Y	-0.5	-0.5	-0.4	-0.2	-0.1

3M Money Market Rate

	current	2020Q2	2020Q3	2020Q4	2021Q1
Czechia	1.08	0.98	0.95	0.95	1.01
Hungary	0.45	0.50	0.50	0.50	0.55
Poland	1.17	1.17	0.70	0.70	0.70
Romania	2.57	1.75	1.25	1.25	1.50
Serbia	1.34	1.30	1.30	1.00	1.00
Eurozone	-0.35	-0.50	-0.50	-0.50	-0.50

Real GDP growth (%)

	2018	2019f	2020f	2021f
Croatia	2.7	2.9	-7.5	5.8
Czechia	2.8	2.4	-6.7	3.0
Hungary	5.1	4.9	-4.2	4.6
Poland	5.1	4.1	-3.7	3.5
Romania	4.4	4.1	-4.7	3.9
Serbia	4.4	4.2	-2.3	4.7
Slovakia	4.0	2.3	-5.0	4.5
Slovenia	4.1	2.4	-6.6	4.1
CEE8 avg	4.4	3.7	-4.7	3.8

Public debt (% of GDP)

	2018	2019f	2020f	2021f
Croatia	74.7	71.5	83.3	80.5
Czechia	32.5	30.8	37.0	38.2
Hungary	70.2	66.4	72.7	66.6
Poland	48.9	46.5	55.0	51.0
Romania	34.7	35.4	41.5	44.2
Serbia	53.7	52.0	59.5	58.2
Slovakia	49.4	48.2	56.6	55.6
Slovenia	70.4	66.7	76.4	75.8
CEE8 avg	48.3	46.3	53.9	51.9

FX

	current	2020Q2	2020Q3	2020Q4	2021Q1
EURHRK	7.61	7.55	7.55	7.60	7.55
forwards		7.61	7.61	7.61	7.61
EURCZK	27.37	26.95	26.82	26.45	26.05
forwards		27.44	27.48	27.51	27.48
EURHUF	356.86	350.00	345.00	340.00	335.00
forwards		357.21	357.87	358.47	358.73
EURPLN	4.54	4.45	4.50	4.40	4.35
forwards		4.56	4.57	4.58	4.59
EURRON	4.84	4.88	4.88	4.90	4.92
forwards		4.88	4.91	4.96	5.01
EURRSD	116.98	117.60	117.50	117.70	117.50
forwards		-	-	-	-
EURUSD	1.11	1.08	1.12	1.15	1.15

Key Interest Rate

	current	2020Q2	2020Q3	2020Q4	2021Q1
Croatia	0.30	0.30	0.30	0.30	-
Czechia	1.00	0.75	0.75	0.75	0.75
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.00	1.00	0.50	0.50	0.50
Romania	2.00	1.50	1.00	1.00	1.25
Serbia	1.75	1.75	1.75	1.50	1.50
Eurozone	0.00	0.00	0.00	0.00	0.00

Average inflation (%)

	2018	2019f	2020f	2021f
Croatia	1.5	0.8	0.2	1.0
Czechia	2.2	2.8	2.6	0.5
Hungary	2.8	3.4	3.1	3.2
Poland	1.6	2.3	3.6	2.2
Romania	4.6	3.8	2.8	3.4
Serbia	2.0	1.9	1.0	1.7
Slovakia	2.5	2.7	2.3	2.0
Slovenia	1.7	1.6	0.4	1.0
CEE8 avg	2.4	2.7	2.8	2.1

C/A (%GDP)

	2018	2019f	2020f	2021f
Croatia	1.9	2.8	-3.3	2.5
Czechia	0.3	-0.1	-4.1	-0.9
Hungary	-0.6	-0.6	-0.8	0.0
Poland	-1.0	1.1	-1.7	0.5
Romania	-4.4	-4.7	-3.5	-3.1
Serbia	-4.8	-7.1	-6.6	-5.0
Slovakia	-2.6	-2.9	-4.5	-2.3
Slovenia	5.7	6.6	1.5	2.5
CEE8 avg	-1.2	-0.5	-2.6	-0.6

Unemployment (%)

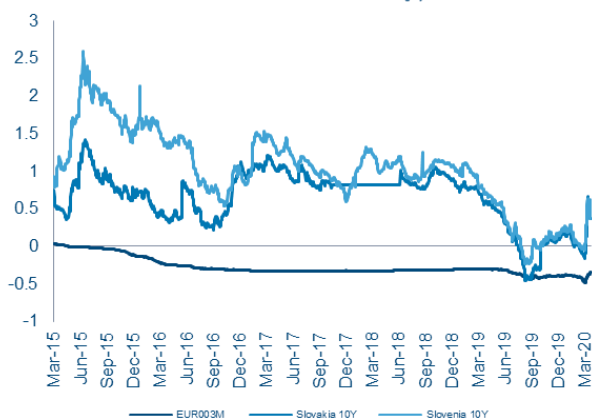
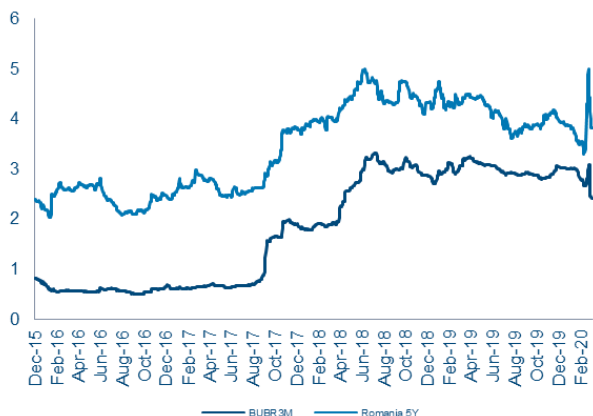
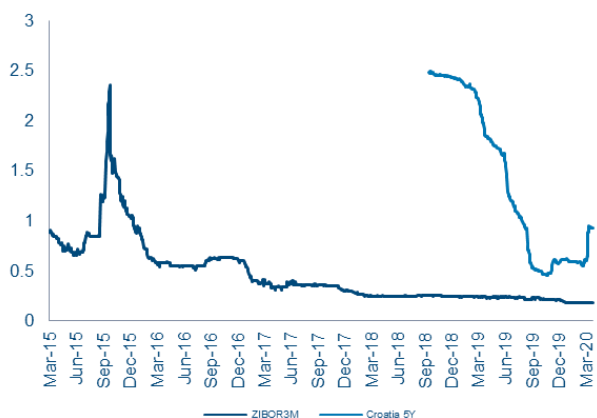
	2018	2019f	2020f	2021f
Croatia	8.4	6.6	9.9	13.4
Czechia	2.3	2.1	3.0	4.8
Hungary	3.7	3.4	6.6	5.8
Poland	6.1	5.4	7.6	6.8
Romania	4.2	3.9	10.9	6.3
Serbia	12.7	10.4	12.3	10.4
Slovakia	6.6	5.8	7.8	7.5
Slovenia	5.2	4.4	6.9	7.4
CEE8 avg	5.2	4.6	7.5	6.7

Budget Balance (%GDP)

	2018	2019f	2020f	2021f
Croatia	0.3	0.0	-6.5	-3.0
Czechia	1.1	0.6	-3.4	-1.8
Hungary	-2.3	-2.0	-5.2	-2.8
Poland	-0.2	-0.7	-7.7	-2.2
Romania	-2.9	-4.6	-7.3	-3.8
Serbia	0.6	-0.2	-5.0	-0.5
Slovakia	-1.1	-1.1	-7.5	-2.8
Slovenia	0.8	0.0	-5.0	-2.0
CEE8 avg	-0.6	-1.2	-6.4	-2.5

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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