

CEE Market Insights

March unemployment is due in Poland and Czechia

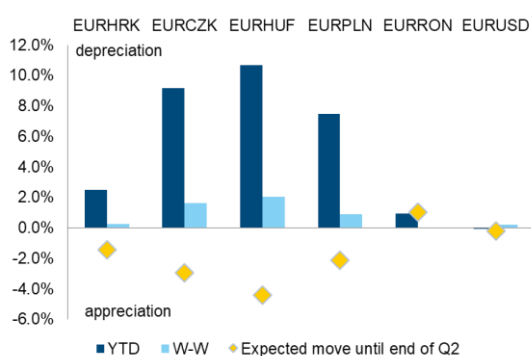
This week in CEE

Determining the probable impact of the coronavirus on the economy is the main news topic at the moment. Over the weekend, Hungary announced the fiscal package and more details should be delivered at the beginning of the week. As for other events, the central bank meetings in Poland and Serbia will be the most important. Both banks have already delivered a 50bp emergency cut and they are expected to pause at this meeting, although it is likely to be a close call in Serbia. To determine the likelihood of further easing in Poland, it will be important to see how expectations regarding the economic outlook have changed. Our scenario assuming a deeper recession is consistent with another rate cut(s) in Poland and in Serbia we also expect monetary easing down the road. The March unemployment rate in Czechia is another release to watch and an increase to 3.6% is expected (local methodology). Also, the Polish Ministry of Family, Labor and Social Policy will release the March unemployment rate and an increase is also a likely scenario.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ: Industry, Trade, Wages	CZ: Retail	PL: Central bank	RS: Central bank	RO: CPI
	HU: Industry	HU: CPI, Trade	SK: Industry, Trade	SI: Industry
	RO: Final 4Q GDP	CZ: Unemployment	RO: Trade, Wages	
SK: Bills			CZ: Bills	
RO: 2022 Bonds			RO: 2025 Bonds	

FX market

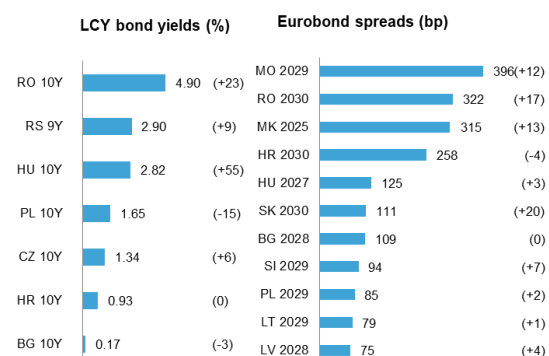
FX market developments



Source: Bloomberg, Erste Group Research

The Hungarian forint continued to weaken and visibly decoupled from peers by Wednesday. This triggered rate tightening by the central bank as it reactivated its 1-week depo facility at 0.9% vs. the previously available -0.05% in the O/N deposit. This halted the rout in the forint, but the currency remained weak. All eyes are on the government's package that is to be announced early this week. The PLN and CZK fell to a much lesser extent than the forint. In Croatia, the CNB continued to intervene massively on the market, but we expect the situation to ease by the summer months and the EURHRK could fall to around 7.60. The Romanian leu is kept under tight management. Keeping the currency, the bond and the money market functioning without disruptions is possible only for a limited period of time. Meanwhile, the pressure is visible in the big jump in implied FX forward yields. The Serbian dinar continues to remain very stable.

LCY yields, Eurobonds spreads Bond market developments



Source: Bloomberg, Erste Group Research

The bond market performance was mixed across the region. In Czechia, investors jumped on government bonds, which allowed for very heavy issuance, and kept yields low as well. In Poland, yields also stayed low amid NBP activism. The Polish central bank plans to conduct purchases two times this month on the secondary market, while the MinFin said that PLN 100bn of additional issuance could be necessary due to the fiscal package. In Romania, the NBR also started its purchases, but this could not prevent yields from increasing further. The strongest yield increase at the 10Y segment took place in Hungary, however, albeit in a very illiquid market. Also, the increase was not that extreme at the 3Y and 5Y segments where the MNB's new repo facility could boost demand for govies. Short-term rates also jumped in Hungary after the tightening from the MNB. Hungarian 2Y swap rates exceed both Polish and Czech peers' for the first time since 2015.

In case you missed

CEE: [Market sentiment](#) worsened visibly in region, confirming upcoming recession.

HR: [Fitch affirmed BBB- rating](#), but changed outlook to stable. [Retail trade](#) remained solid, while [industry](#) contracted in February.

HU: PM Orban announced first details of fiscal package. [Central bank](#) raised short-term rates.

RO: [Retail sales](#) still strong in February.

RS: Serbia announced [fiscal package](#) worth 11% of GDP. [Real economic](#) activity was strong before March.

SK: [Retail trade](#) numbers improved before coronavirus outbreak.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
06. Apr	9:00	CZ	Industrial Production (y/y)	Feb	-0.5%	-0.1%	-1.4%	In February, industrial production was supported by improved development in Germany and it grew favorably in m/m terms. However, the March figure, which will be published in May, will Trade balance continued in favorable development in February. The figure was also affected by a positive seasonal effect and lower oil prices.
	9:00	CZ	Trade Balance	Feb	15.3	13.5	16.3	
	9:00	CZ	Wages (y/y)	1Q	2.9%		3.6%	
07. Apr	8:00	RO	GDP (y/y)	4Q F	4.3%	4.30%	4.27%	Gross fixed capital formation probably increased strongly in 4Q19 against the backdrop of an important rise in public CAPEX in November and December. Domestic demand remained sound in February. Moreover, households increased demand for food and beverages, which also supported sales.
	9:00	CZ	Retail Sales (y/y)	Feb	4.5%	4.4%	4.9%	
	9:00	HU	Industrial Production (y/y)	Feb	0.6%	0.5%	2.74%	Industry might have stagnated in February, before drops expected from March
	12:00	RS	PPI (y/y)	Mar			0.5%	
08. Apr		PL	Central Bank Rate	Apr	1.0%	1.0%	1.0%	Central bank will likely keep rates stable and will wait to see the impact of current measures. Realization of recession scenario is consistent with further rate cuts in our view.
	9:00	CZ	Share of unemployed	Mar	3.6%	3.6%	3.0%	
	9:00	HU	CPI (y/y)	Mar	3.6%	3.6%	4.4%	Supportive base effect coupled with decline of fuel prices are the main reasons behind the expected slowdown.
	9:00	HU	Trade Balance	Feb P			423.06	
	11:00	HR	PPI (y/y)	Mar			0.9%	
09. Apr	8:00	RO	Trade Balance	Feb		-1.4	-1323	Trade deficit still high in February, but steep economic contraction in 2Q20 to bring an adjustment.
	8:00	RO	Wages (y/y)	Feb		8.4%	8.62%	
	9:00	SK	Industrial Production (y/y)	Feb		0.8%	0.3%	Industrial production is likely to have posted a mild increase in February, though bearing in mind this was before the COVID-19 countermeasures hit Slovakia. Foreign trade dynamics are expected to have remained good in February, as it is before the COVID-19 countermeasures hit Slovakia.
	9:00	SK	Trade Balance	Feb		194	27.57	
	10:30	SI	Trade Balance	Feb			0.21	
	12:00	RS	Central Bank Rate	Apr		1.75%	1.75%	After the 50bp cut in March, the CB could now take time to assess ongoing effects although it is a close call. We do expect more easing this year, but further down the road.
10. Apr	8:00	RO	CPI (y/y)	Mar	2.6%	2.90%	3.05%	Annual inflation rate is expected to inch down in March, helped by favorable base effect.
	8:00	RO	CPI (m/m)	Mar		0.3%	0.25%	
	10:30	SI	Industrial Production (y/y)	Feb		-0.2%	0.3%	Weakened industrial production momentum seen extending also in February, although still not reflecting COVID-19 negative impact.

Source: Erste Group Research

Analyst:

Katarzyna Rzentarzewska
+43 5 0100 17356
katarzyna.rzentarzewska@erstegroup.com

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)	137	190	180	140	110
Czechia 10Y	1.3	1.1	1.2	1.3	1.6
spread (bps)	178	159	163	153	166
Hungary 10Y	2.8	2.4	2.5	2.5	2.7
spread (bps)	326	290	285	270	275
Poland 10Y	1.7	1.8	1.8	1.8	1.7
spread (bps)	210	225	220	195	180
Romania 10Y	4.9	3.8	3.7	3.5	3.6
spread (bps)	535	430	405	370	370
Slovakia 10Y	0.6	0.6	0.7	0.7	0.7
spread (bps)	106	107	110	90	80
Slovenia 10Y	0.49	0.50	0.60	0.60	0.60
spread (bps)	93	100	100	80	70
Serbia 5Y	2.4	2.4	2.3	2.4	2.2
spread (bps)	285	285	265	255	230
DE10Y	-0.4	-0.5	-0.4	-0.2	-0.1

3M Money Market Rate

	current	2020Q2	2020Q3	2020Q4	2021Q1
Czechia	1.01	0.98	0.95	0.95	1.01
Hungary	0.92	0.50	0.50	0.50	0.55
Poland	1.17	1.17	0.70	0.70	0.70
Romania	2.55	1.75	1.25	1.25	1.50
Serbia	1.33	1.30	1.30	1.00	1.00
Eurozone	-0.34	-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	70.0
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	52.3

FX

	current	2020Q2	2020Q3	2020Q4	2021Q1
EURHRK	7.63	7.52	7.52	7.60	7.55
forwards		7.63	7.63	7.63	7.63
EURCZK	27.71	26.95	26.82	26.45	26.05
forwards		27.76	27.79	27.77	27.80
EURHUF	364.97	350.00	345.00	340.00	335.00
forwards		366.38	367.66	369.18	370.13
EURPLN	4.59	4.48	4.52	4.45	4.40
forwards		4.60	4.61	4.62	4.63
EURRON	4.83	4.88	4.88	4.90	4.92
forwards		4.88	4.92	4.97	5.02
EURRSD	117.66	117.50	117.50	117.70	117.50
forwards		-	-	-	-
EURUSD	1.08	1.08	1.12	1.15	1.15

Key Interest Rate

	current	2020Q2	2020Q3	2020Q4	2021Q1
Croatia	0.30	0.05	0.05	0.05	0.05
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	3.4	1.8
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	2.7	1.9

C/A (%GDP)

	2018	2019f	2020f	2021f
Croatia	1.9	2.9	-3.2	2.6
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	-5.8	-6.2
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	-0.7

Unemployment (%)

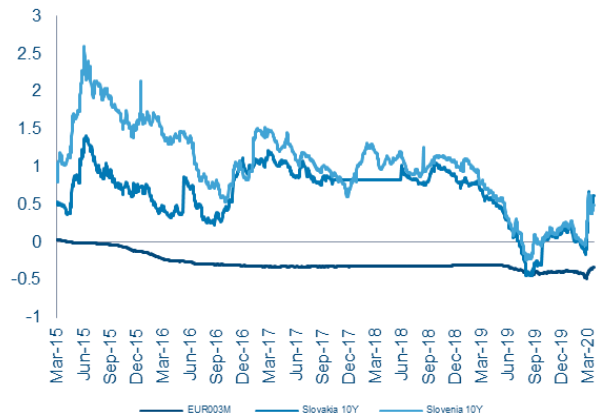
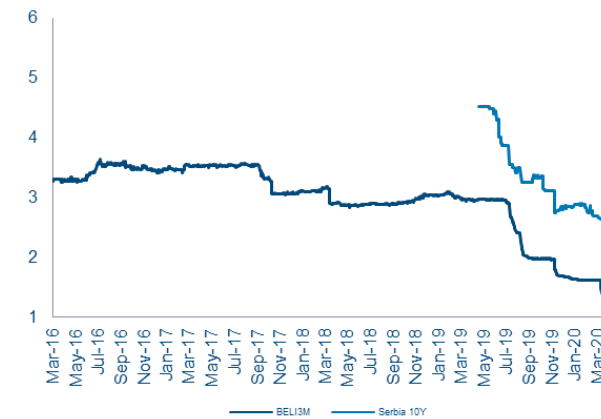
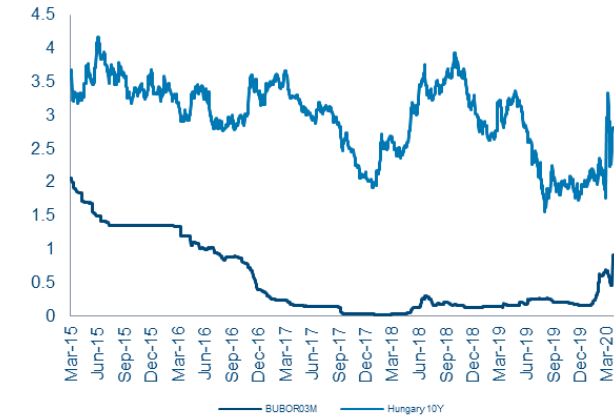
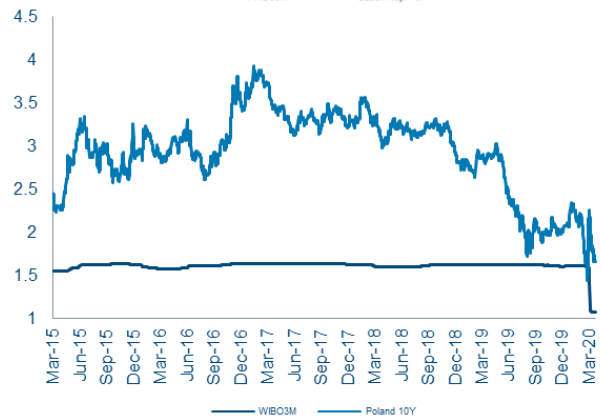
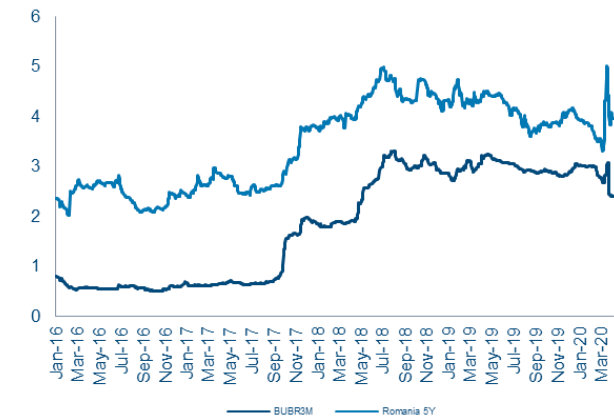
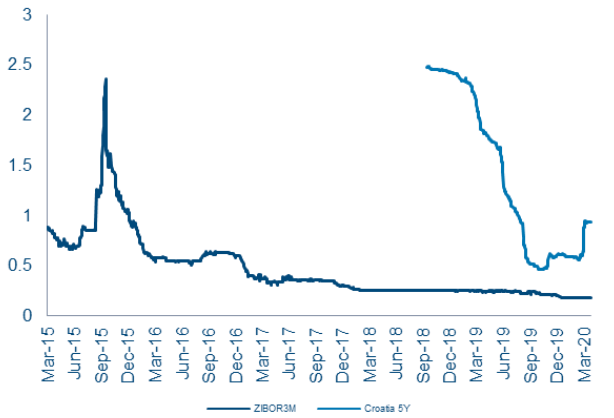
	2018	2019f	2020f	2021f
Croatia	8.4	6.6	9.9	13.3
Czechia	2.3	2.1	3.0	4.8
Hungary	3.7	3.4	6.6	5.8
Poland	6.1	5.4	7.6	6.8
Romania	4.2	3.9	10.9	6.3
Serbia	12.7	10.4	12.3	10.4
Slovakia	6.6	5.8	7.8	7.5
Slovenia	5.2	4.4	6.9	7.4
CEE8 avg	5.2	4.6	7.5	6.7

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

Contacts

Group Research

Head of Group Research
Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Zoltan Arokszállasi, CFA (Fixed income) +361 373 2830
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
Malgorzata Krzywicka (Fixed income, Poland) +43 (0)5 0100 17338

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172
Nicole Gawlasova +420 956 765 456

Hungary
Orsolya Nyeste +361 268 4428

Romania
Ciprian Dascalu (Head) +40 3735 10108
Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research
Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
Ralf Burchert, CEFA (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povazsai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA +43 (0)5 0100 17906
Nora Nagy (Telecom) +43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Anto Augustinovic +385 72 37 2833
Magdalena Dolenc +385 72 37 1407
Davor Spoljar, CFA +385 72 37 2825

Czech Republic
Petr Bartek (Head) +420 956 765 227
Marek Dongres +420 956 765 218
Jan Safranek +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA +361 235 5135

Poland
Tomasz Duda (Head) +48 22 330 6253
Cezary Bernatek +48 22 538 6256
Konrad Grygo +48 22 330 6254
Michal Pilch +48 22 330 6255
Emil Poplawski +48 22 330 6252
Marcin Gornik +48 22 330 6251

Romania
Caius Rapanu +40 3735 10441

Turkey
Gizem Akkan +90 2129120445
Berke Gümüs +90 2129120445

Treasury – Erste Bank Vienna

Group Markets Retail and Agency Business
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT
Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Institutional Distribution non CEE
Head: Margit Hraschek +43 (0)5 0100 84117
Karin Rattay +43 (0)5 0100 84118
Christian Kienesberger +43 (0)5 0100 84323
Bernd Bollhof +49 (0)30 8105800 5525
Rene Klasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800 5523
Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
Bernd Thaler +43 (0)5 0100 84119

Bank Distribution
Head: Marc Frieberthshäuser +49 (0)711 810400 5540
Sven Kienzle +49 (0)711 810400 5541
Michael Schmotz +43 (0)5 0100 85542
Ulrich Inhofner +43 (0)5 0100 85544
Klaus Vosseler +49 (0)711 810400 5560
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562

Institutional Distribution CEE
Head: Jaromir Malak +43 (0)5 0100 84254

Institutional Distribution PL and CIS
Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

Institutional Distribution Slovakia
Head: Sarlota Sipulova +421 2 4862 5619
Monika Smelikova +421 2 4862 5629

Institutional Distribution Czech Republic
Head: Ondrej Cech +420 2 2499 5577
Milan Bartos +420 2 2499 5562
Barbara Suvadova +420 2 2499 5590

Institutional Asset Management Czech Republic
Head: Petr Holecek +420 956 765 453
Martin Perina +420 956 765 106
Petr Valenta +420 956 765 140
David Petracek +420 956 765 809
Blanca Weinerova +420 956 765 317

Institutional Distribution Croatia
Head: Antun Buric +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Natalija Zujic +385 (0)7237 1638

Institutional Distribution Hungary
Head: Peter Csizmadia +36 1 237 8211
Gabor Balint +36 1 237 8205

Institutional Distribution Romania and Bulgaria
Head: Ciprian Mitu +43 (0)50100 85612
Crisitan Adascalita +40 373 516 531

Group Institutional Equity Sales
Head: Brigitte Zeitberger-Schmid +43 (0)50100 83123
Werner Fürst +43 (0)50100 83121
Josef Kerekes +43 (0)50100 83125
Cormac Lyden +43 (0)50100 83120

Business Support
Bettina Mahoric +43 (0)50100 86441

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