

# MPC to remain on hold

After rate cut in March, we expect MPC to keep target rate unchanged at 1.0%. Further easing is likely this year. Unemployment rate for March should be released by Ministry of Family, Labor and Social Policy. Markets continue to watch COVID-19 developments.

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## Watch this week

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### April 8 | Monetary policy to remain stable

After an emergency 50bp cut delivered on March 17, we expect the central bank to remain on hold and keep the policy rate stable at 1.0%. We believe that the central bank is likely to pause with further easing until the new growth projection is available (due in July). It will be, however, important to see how the expectations of the MPC regarding the economic outlook have changed to determine the likelihood of further easing. If recession is anticipated sooner than July, we cannot exclude the central bank taking action prior to July. The central bank might discuss the details of the QE program during the press conference, as no information on duration or size is available.

### April 6-10 | Unemployment rate for March

In the upcoming week, the Ministry of Family, Labor and Social Policy will release the unemployment data for March. We expect the unemployment rate to sharply increase to above 7% due to the lockdown of the economy.

### April 10 | S&P to review Polish rating

Last week, Fitch confirmed the sovereign rating at 'A-' with stable outlook and outlined possible risks related to the spread of COVID-19. Therefore, we expect S&P to follow with a similar decision and to confirm the Polish rating at 'A-' with stable outlook.

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Note: Past performance is not necessarily indicative of future results.

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## Last week's highlights

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- Discussion over whether to hold presidential elections on May 10 continues. Parliament scheduled to vote on postal vote proposal on Monday.
- Poland backed EU plan on issuing coronavirus bonds.
- Manufacturing PMI for March dropped to 42.4 compared to 48.2 in previous month.

## Market developments

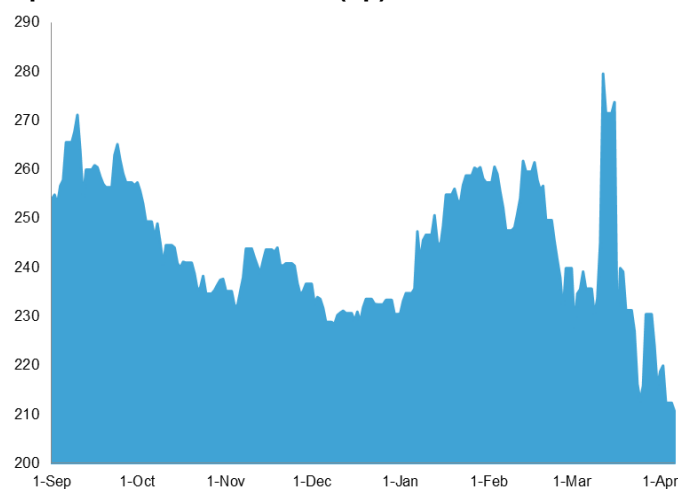
### Bond market drivers | Yields remain broadly unchanged

Over the course of the week, the 10Y LCY yield moved within a band of 1.65-1.8%, while the 10Y German Bund increased from -0.55% to -0.4%. As a result, the spread narrowed further, toward 205bp. The 2Y and 5Y yields remain stable around recent levels of 0.9% and 1.3%, respectively. The MinFin held a T-bill auction on Monday, April 6, and sold PLN 2.9bn of T-bills maturing in 19W and 51W. As far as this week's central bank meeting is concerned, the markets are pricing in further 25-50bp cuts within a 12-month horizon, which is consistent with our expectations.

### FX market drivers | Zloty stabilized somewhat

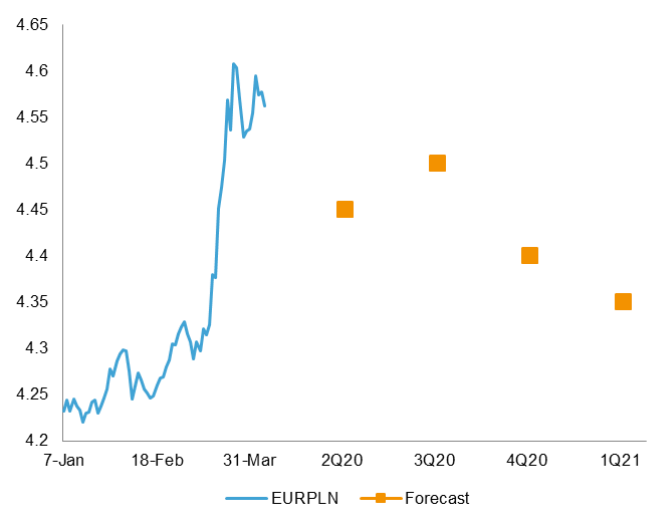
In the first half of the week, the zloty lost some of its recent gains and depreciated back towards 4.60 vs. the EUR. Afterwards, the EURPLN firmed around 4.57. As the US dollar continues to appreciate, it puts pressure on the zloty. The central bank meeting and the discussion regarding the presidential elections in Poland could attract some market attention this week and influence the EURPLN. However, global factors and the development of COVID-19 remain the key driver.

### Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

### EURPLN



Source: Bloomberg, Erste Group Research

## Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
06. Apr	9:00	CZ	Industrial Production (y/y)	Feb	-0.5%	<b>-0.1%</b>	-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	<b>13.5</b>	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%	<b>4.30%</b>	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. Industry might have stagnated in February, before drops expected from March
	9:00	CZ	Retail Sales (y/y)	Feb	4.5%	<b>4.4%</b>	4.9%	
	9:00	HU	Industrial Production (y/y)	Feb	0.6%	<b>0.5%</b>	2.74%	
	12:00	RS	PPI (y/y)	Mar			0.5%	
08. Apr		PL	Central Bank Rate	Apr	1.0%	<b>1.0%</b>	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%	<b>3.6%</b>	3.0%	
	9:00	HU	CPI (y/y)	Mar	3.6%	<b>3.6%</b>	4.4%	
	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		<b>-1.4</b>	-1323	Trade deficit still high in February, but steep economic contraction in 2Q20 to bring an adjustment. Net wages were already on a slowing path when the coronavirus crisis struck. 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.
	8:00	RO	Wages (y/y)	Feb		<b>8.4%</b>	8.62%	
	9:00	SK	Industrial Production (y/y)	Feb		<b>0.8%</b>	0.3%	
	9:00	SK	Trade Balance	Feb		<b>194</b>	27.57	
	10:30	SI	Trade Balance	Feb			0.21	
	12:00	RS	Central Bank Rate	Apr		<b>1.75%</b>	1.75%	
10. Apr	8:00	RO	CPI (y/y)	Mar	2.6%	<b>2.90%</b>	3.05%	Annual inflation rate is expected to inch down in March, helped by favorable base effect. More expensive food, tobacco and weaker RON will push m/m CPI rate higher in March. Weakened industrial production momentum seen extending also in February, although still not reflecting COVID-19 negative impact.
	8:00	RO	CPI (m/m)	Mar		<b>0.3%</b>	0.25%	
	10:30	SI	Industrial Production (y/y)	Feb		<b>-0.2%</b>	0.3%	

Source: Bloomberg, Erste Group Research

## Market forecasts

### Government bond yields

	current	2020Q2	2020Q3	2020Q4	2021Q1
<b>Croatia 10Y</b>	0.9	1.4	1.4	1.2	1.0
spread (bps)	137	190	180	140	110
<b>Czechia 10Y</b>	1.3	1.1	1.2	1.3	1.6
spread (bps)	177	159	163	153	166
<b>Hungary 10Y</b>	2.8	2.4	2.5	2.5	2.7
spread (bps)	319	290	285	270	275
<b>Poland 10Y</b>	1.7	1.8	1.8	1.8	1.7
spread (bps)	210	225	220	195	180
<b>Romania 10Y</b>	4.9	3.8	3.7	3.5	3.6
spread (bps)	532	430	405	370	370
<b>Slovakia 10Y</b>	0.6	0.6	0.7	0.7	0.7
spread (bps)	103	107	110	90	80
<b>Slovenia 10Y</b>	0.49	0.50	0.60	0.60	0.60
spread (bps)	93	100	100	80	70
<b>Serbia 5Y</b>	2.4	2.4	2.3	2.4	2.2
spread (bps)	284	285	265	255	230
<b>DE10Y</b>	-0.4	-0.5	-0.4	-0.2	-0.1

### 3M Money Market Rate

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

### FX

	current	2020Q2	2020Q3	2020Q4	2021Q1
<b>EURHRK</b>	7.63	7.52	7.52	7.60	7.55
forwards		7.63	7.63	7.63	7.63
<b>EURCZK</b>	27.68	26.95	26.82	26.45	26.05
forwards		27.73	27.75	27.74	27.77
<b>EURHUF</b>	363.82	350.00	345.00	340.00	335.00
forwards		365.08	366.46	367.76	368.87
<b>EURPLN</b>	4.57	4.48	4.52	4.45	4.40
forwards		4.58	4.59	4.60	4.61
<b>EURRON</b>	4.83	4.88	4.88	4.90	4.92
forwards		4.88	4.92	4.97	5.02
<b>EURRSD</b>	117.51	117.50	117.50	117.70	117.50
forwards		-	-	-	-
<b>EURUSD</b>	1.08	1.08	1.12	1.15	1.15

### Key Interest Rate

	current	2020Q2	2020Q3	2020Q4	2021Q1
<b>Croatia</b>	0.30	0.05	0.05	0.05	0.05
<b>Czechia</b>	1.00	0.75	0.75	0.75	0.75
<b>Hungary</b>	0.90	0.90	0.90	0.90	0.90
<b>Poland</b>	1.00	1.00	0.50	0.50	0.50
<b>Romania</b>	2.00	1.50	1.00	1.00	1.25
<b>Serbia</b>	1.75	1.75	1.75	1.50	1.50
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

Source: Bloomberg, Erste Group Research

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