

Correction on bond market

NBP to hold first QE operation this month. So far, PLN 85bn bought within program. No macro release scheduled this week in Poland. Zloty lost most of last week's gains and EURPLN should stay around 4.45.

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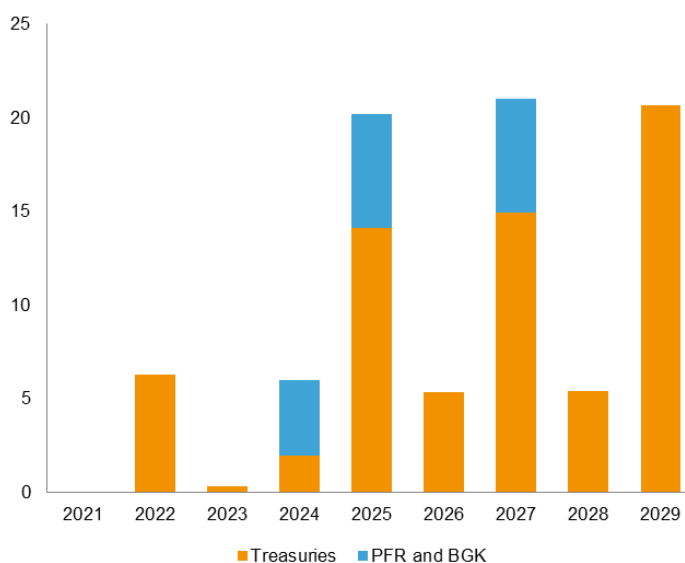
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Watch this week

June 12 | NBP to hold next QE operation

The National Bank of Poland will hold its eighth QE operation this week (a second monthly operation is scheduled for June 24). So far, the NBP has bought PLN 85.4bn, out of which PLN 16.2bn is in BGK and PFR papers. The bond buying program is focused on papers with longer maturity (above 5Y). We expect the central bank to continue buying state-guaranteed papers issued by PFR and BGK.

QE volume by maturity, PLN bn



Source: National Bank of Poland, Erste Group Research

Last week's highlights

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

- Postponed presidential election should take place on June 28.
- According to Ministry of Family, Labor and Social Policy, unemployment rate increased to 6.0% in May from 5.8% in previous month.
- Polish Investment Fund (PFR) issued bonds worth total of PLN 12bn (PLN 10bn in 7Y paper and PLN 2bn in 10Y paper). State-owned BGK sold PLN 8.5bn. Total volume of PFR issuance stands at PLN 62bn. Issuance will be used to finance Financial Shield program, worth PLN 100bn.
- MPC members expressed opinion that space for further rates cut is very limited and rule out scenario of negative rates.

Market developments

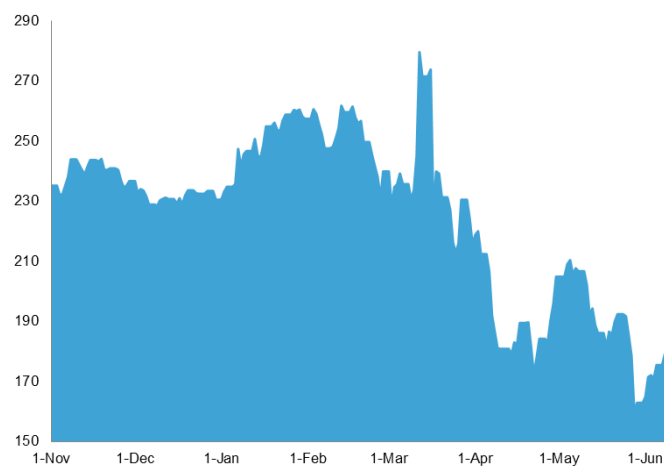
Bond market drivers | Long end of curve corrected

Over the course of the week, the long end of the curve went strongly up by 30bp and returned to levels of around 1.45% seen before the last policy rate cut. The Polish curve followed global developments, as the 10Y German Bund went up by roughly 15bp to -0.3%. As a result, the spread over the 10Y Bund widened towards 180bp. As far as other maturities are concerned, the 2Y yield corrected as well and increased by 20bp towards 0.25%, while the 5Y yield bounced back by roughly 20bp to 0.85%. With no local macro releases scheduled for this week and a national holiday on Thursday, the bond market will likely follow global news. The FOMC meeting could gather some market attention.

FX market drivers | Zloty lost gains

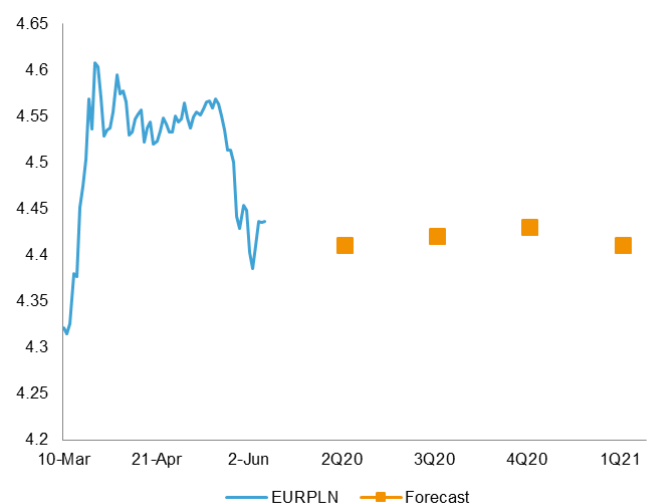
The zloty continued appreciating in the first half of last week, as it went below 4.40 vs. the EUR. However, in the second half of the week it lost its gains and returned to the area of 4.45. We expect the EURPLN to stay between 4.40-4.45 in the coming months. This week, the FOMC meeting will likely be the most important event. The EURUSD could react to specific news on how long interest rates could remain at current levels, and to what extent and how long securities will be bought in the future.

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
09. Jun	8:00	RO	Trade Balance	Apr			-1855.1	
	8:00	RO	GDP (y/y)	1Q P	2.40%	2.4%	2.4%	We expect that retail sales, construction and services to companies helped real GDP expand in 1Q20.
	9:00	HU	CPI (y/y)	May	2.2%	2.30%	2.4%	The 12-month CPI rate might have remained around its April level.
	9:00	HU	CPI (m/m)	May	0.5%	0.60%	-0.6%	Positive correction of fuel prices and seasonal increases in food prices imply relatively high monthly figure for May.
	9:00	HU	Trade Balance	Apr P	85.00	85.00	301.49	Both export and import volumes probably sharply dropped, resulting in a tiny surplus on the trade balance.
	9:00	SK	Trade Balance	Apr		24.00	-331.65	A small surplus could be expected for April, as imports are likely to have been affected slightly more than exports (lower imports for consumption, investment, as part of export-led production).
	10:30	SI	Trade Balance	Apr			0.15	
	11:00	HR	PPI (y/y)	May			-5.9%	
	11:00	HR	Trade Balance	Mar			-6198	
10. Jun		SK	Industrial Production (y/y)	Apr		-38.0%	-19.4%	Due to the restrictions related to the pandemic and substantial decline in production capacity of Slovak car plants, industrial production is expected to have plummeted in April.
	9:00	CZ	CPI (y/y)	May	2.6%	2.80%	3.2%	Slowdown in inflation was caused mainly by the base effect as significant increase in food prices from May 2019 fades away from the y/y figure.
	9:00	CZ	CPI (m/m)	May	0.1%	0.30%	-0.2%	Increase in food and fuel prices are the most important inflationary factors.
	10:30	SI	Industrial Production (y/y)	Apr		-17.00%	-7.6%	Industrial production showing double-digit contraction in April
11. Jun	8:00	RO	Wages (y/y)	Apr			7.12%	
	12:00	RS	Central Bank Rate	Jun		1.25%	1.5%	We pencil in another cut of the key rate due to low inflation and the need to further support economic growth.
12. Jun	08:00	RO	Industrial Production (y/y)	Apr	-32.00%	-35.90%	-14.50%	Industrial production to go much deeper into negative territory in April.
	8:00	RO	CPI (y/y)	May	2.4%	2.4%	2.68%	Annual inflation rate is likely to ease in May, helped by cheaper car fuels and favorable base effect.
	08:00	RO	CPI (m/m)	May		0.15%	0.26%	Food prices to remain a significant source of inflationary pressures.
	09:00	SK	Wages (y/y)	Apr			0.20%	
	12:00	RS	CPI (y/y)	May		0.60%	0.60%	We expect inflation to remain low and well outside the target band due to low commodity prices

Source: Bloomberg, Erste Group Research

Market forecasts

Government bond yields

	current	2020Q3	2020Q4	2021Q1	2021Q2
Croatia 10Y	1.0	1.0	1.0	1.0	-
spread (bps)	129	140	120	110	-
Czechia 10Y	0.9	1.4	1.4	1.4	1.4
spread (bps)	119	175	155	147	144
Hungary 10Y	2.3	2.1	2.2	2.4	2.5
spread (bps)	258	250	240	245	245
Poland 10Y	1.5	1.4	1.5	1.6	1.6
spread (bps)	178	180	165	165	160
Romania 10Y	4.0	3.8	3.7	3.5	3.6
spread (bps)	428	420	385	360	360
Slovakia 10Y	0.1	0.4	0.4	0.4	0.4
spread (bps)	42	75	60	50	42
Slovenia 10Y	0.40	0.60	0.60	0.60	0.60
spread (bps)	69	100	80	70	60
Serbia 5Y	2.6	2.3	2.4	2.2	2.1
spread (bps)	288	265	255	230	210
DE10Y	-0.3	-0.4	-0.2	-0.1	0.0

3M Money Market Rate

	current	2020Q3	2020Q4	2021Q1	2021Q2
Czechia	0.34	0.36	0.36	0.35	0.43
Hungary	0.90	1.00	1.00	1.00	1.00
Poland	0.27	0.28	0.28	0.28	0.28
Romania	2.25	1.75	1.25	1.25	1.50
Serbia	1.17	0.99	0.91	0.91	0.91
Eurozone	-0.37	-0.40	-0.40	-0.40	-0.40

FX

	current	2020Q3	2020Q4	2021Q1	2021Q2
EURHRK	7.56	7.55	7.60	7.55	7.48
forwards		7.57	7.57	7.57	7.57
EURCZK	26.58	26.82	26.45	26.05	25.81
forwards		26.62	26.64	26.64	26.65
EURHUF	343.61	350.00	350.00	345.00	345.00
forwards		344.85	345.69	346.19	347.03
EURPLN	4.43	4.42	4.43	4.41	4.40
forwards		4.45	4.45	4.46	4.47
EURRON	4.84	4.88	4.90	4.92	4.94
forwards		4.89	4.94	4.98	5.02
EURRSD	117.67	117.50	117.70	117.50	117.40
forwards		-	-	-	-
EURUSD	1.13	1.10	1.10	1.12	1.14

Key Interest Rate

	current	2020Q3	2020Q4	2021Q1	2021Q2
Croatia	0.30	0.05	0.05	0.05	0.05
Czechia	0.25	0.25	0.25	0.25	0.25
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	0.10	0.10	0.10	0.10	0.10
Romania	1.75	1.50	1.50	1.50	1.50
Serbia	1.50	1.25	1.25	1.25	1.25
Eurozone	0.00	0.00	0.00	0.00	0.00

Source: Bloomberg, Erste Group Research

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