

CEE Macro/Fixed Income Daily - 17-Nov-14

Analysts' Views:

CEE Looking Ahead This Week: After last week's very dense macro calendar, this week will be less exciting as far as macro releases are concerned. Besides a few labour market statistics (unemployment rates in TR today, in SI tomorrow, in HR on Friday; wage growth in PL on Wednesday) and the Polish industrial data (Thursday), the Turkish central bank's rate setting meeting should be in focus on Thursday. The decline in long-term yields and fall of the oil price would normally be enough to force the CBT to cut the policy rate by 25 bps already this week. However, a recent data release shows that inflation expectations have not abated in Turkey, which leads us to bet on a rate reduction only in December. In Hungary, additional news may emerge regarding the interest rate level on new HUF loans being converted from FX loans, made possible by the FX provided by the central bank last week.

RO Politics: The presidential election trend took an unexpected U-turn yesterday, when center-right leaning Klaus Werner Iohannis managed to secure a ringing victory over his leftist opponent PM Victor Ponta. Shortly after the first exit polls results, Ponta conceded defeat. The latest results released by the Electoral Bureau (after a vote count in 76.5% of the precincts) show that Iohannis has a strong lead of 54.8% over Ponta. Although Ponta announced that he will retain his position as PM, one should not rule out a political fracas in the period going forward and, possibly, a readjustment of the leftist parties' strategies in the Parliament. The top priority of the government is to come up with a 2015 draft budget which should prove how the populist measures taken prior to elections are going to be covered by budget revenues. In the short-term we do not expect a higher volatility on the domestic financial markets, but things might change depending on the political developments which might include over the next 6 months even a redesign of the Parliamentary majority leading to a new government of a different political color. For the time being, we see 5-year ROMGB yields at 2.9% in early 2015.

CEE GDP Releases: CEE GDP releases for 3Q14 came in as a positive surprise on average on Friday. The strongest positive surprise came from Romania where the economy grew by an astounding 1.9% q/q (3.2% y/y). The breakdown is not available yet, but we think that households' consumption and exports contributed positively. At the same time, investments probably fell less than in the past. There are now strong upside risks to our full-year growth forecast (1.8%) in Romania. As for Poland (3.3% y/y vs. our 2.7% expectation) and Hungary (3.2% vs. our 3.0% assumption), we also saw positive surprises, while in Slovakia, the release was broadly in-line with expectations (2.4% vs. our 2.3% forecast). In the Czech Republic, the outcome (2.3%) was worse than we had anticipated (2.7%). Without details, we cannot really tell the cause of this surprise but we want to highlight that in the last few quarters the Czech Stats Office has usually significantly revised flash estimates later on.

Traders' Comments:

CEE Fixed Income: G-20 leaders agreed to take measures that would boost their economies by USD 2 trillion by 2018 but as one pundit put it the plan "is long on ambition but short on specifics". Asian stocks reacted understandably downbeat to the surprise recession in Japan and any positive impact of the G-20 communique was hard to discern. US stocks also struggled on Friday in spite of some positive economic data and the yield on the 10y UST has fallen this morning. In fact, the friction amongst the G-20 leaders and the Russian President, Vladimir Putin, took center stage and, after making no headway, the EU is now weighing further sanctions. Overall, we start this week with a continuation of the trends that point toward low growth and disinflation in Western Europe with greater growth potential in CEE. Russian CDS widened substantially on Friday but cash CEE corporates were still in high demand.

FX and MM rates

Exchange rates	spot	% change (close)	
		d/d	w/w
EUR/CZK	27.68	0.2	0.3
EUR/HUF	306.3	0.2	-0.3
EUR/PLN	4.227	-0.2	0.2
EUR/RON	4.425	-0.1	0.0
EUR/HRK	7.671	0.0	0.1
EUR/RSD	119.83	-0.4	-0.1
USD/TRY	2.230	-0.5	-1.3
EUR/USD	1.253	0.4	0.9

Note: negative changes mean appreciation of LCY

3M offer rate (fixing)	last	change (bps)	
		d-d	w-w
CZK	0.34	0	0
HUF	2.10	0	0
PLN	1.94	0	1
RON	1.57	2	-1
HRK	0.85	0	-3
TRY	10.09	0	-5
EUR	0.08	0	0

Bond Yields and CDS spreads

YTM (mid)	current	d-d	w-w
CZ3YGB	0.11	-2	1
CZ5YGB	0.43	-2	-7
SK3YGB	0.16	0	0
SK5YGB	0.50	0	-3
HU3YGB	2.76	-3	-20
HU10YGB	3.51	0	-22
PL2YGB	1.82	10	-1
PL9YGB	2.46	9	-6
RO4YGB	2.52	0	0
HR2YGB	2.34	0	-15
HR6YGB	3.67	0	0

Source: Bloomberg

CDS (bid, bps)	current	d-d	w-w
Czech Republic	47	0	2
Hungary	175	0	5
Poland	65	0	0
Romania	150	0	5
Croatia	265	0	10
Slovakia	50	0	5
Turkey	175	5	0

Source: Bloomberg (Intra LN)

Selected government bonds

Benchmark bonds	Domestic					Eurobond					
	Rating	Description	Current (mid)	change (bps)		Rating	Description		Current (mid)	change (bps)	
				d-d	w-w					d-d	w-w
Czech Republic	AA	CZGB 3.4 09/01/15	0.01	-1	-3						
	AA	CZGB 4 04/11/17	0.11	-2	1	AA-	CZECH 5 06/11/18	EUR	0.24	0	-5
	AA	CZGB 3.85 09/29/21	0.43	-2	-7	AA-	CZECH 3 7/8 05/24/22	EUR	1.01	0	-4
Slovakia						A	SLOVAK 4 3/8 01/21/15	EUR	0.13	0	1
	A	SLOVGB 3 1/2 02/24/16	0.16	0	0	A	SLOVAK 4 3/8 05/15/17	EUR	0.17	0	0
	A	SLOVGB 4 04/27/20	0.50	0	-3						
Hungary	BB	HGB 7 3/4 08/24/15	1.55	0	-4						
	BB	HGB 5 1/2 12/20/18	2.76	-3	-20						
	BB	HGB 6 11/24/23	3.51	0	-22	BB	REPHUN 4 3/8 07/04/17	EUR	1.47	2	-9
						BB	REPHUN 5 3/4 06/11/18	EUR	1.79	2	-17
Poland						BB	REPHUN 3 7/8 02/24/20	EUR	2.22	0	-10
	A	POLGB 0 01/25/16	1.82	10	-1						
	A	POLGB 2 1/2 07/25/18	2.00	11	-3	A-	POLAND 3 3/4 03/29/17	EUR	0.20	1	-1
	A	POLGB 4 10/25/23	2.46	9	-6	A-	POLAND 4.2 04/15/20	EUR	0.60	0	-3
Romania						A-	POLAND 5 1/4 01/20/25	EUR	1.63	-1	-5
	BBB-	ROMGB 4 3/4 08/29/16	1.93	1	-3						
	BBB-	ROMGB 5.6 11/28/18	2.52	0	0	BBB-	ROMANI 6 1/2 06/18/18	EUR	1.35	-1	-5
Croatia	BBB-	ROMGB 5.85 04/26/23	3.70	1	2	BBB-	ROMANI 4 5/8 09/18/20	EUR	2	-0.4	-5
	BB	CROATE 5 1/4 12/15/15	1.69	0	-20	BB	CROATI 6 1/2 01/05/15	EUR	0.31	0	-15
	BB	CROATE 5 3/4 07/22/16	2.34	0	-15	BB	CROATI 5 7/8 07/09/18	EUR	2.48	5	-5
	BB	CROATE 6 1/4 11/25/17	3.13	0	-15	BB	CROATI 3 7/8 05/30/22	EUR	3.45	0	-12
	BB	CROATE 6 3/4 03/05/20	3.67	0	0						

Please refer to www.erstegroup.com for the current list of specific disclosures and the breakdown of Erste Group's investment recommendations. Read the disclaimer on page 4 of this document.

Contacts

Group Research

Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 11902

Major Markets & Credit Research

Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
 Ralf Burchert (Agency Analyst) +43 (0)5 0100 16314
 Hans Engel (Senior Analyst International Equities) +43 (0)5 0100 19835
 Christian Enger, CFA (Covered Bonds) +43 (0)5 0100 84052
 Margarita Grushanina (Economist AT, CHF) +43 (0)5 0100 11957
 Alihan Karadagoglu (Senior Analyst Corporate Bonds) +43 (0)5 0100 19633
 Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
 Stephan Lingnau (International Equities) +43 (0)5 0100 16574
 Rainer Singer (Senior Economist Euro, US) +43 (0)5 0100 17331
 Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
 Gerald Walek, CFA (Economist Euro) +43 (0)5 0100 16360
 Katharina Böhm-Klamt (Quantitative Analyst Euro) +43 (0)5 0100 19632

Macro/Fixed Income Research CEE

Head CEE: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
 Zoltan Arokszaallasi (Fixed income) +43 (0)5 0100 18781
 Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356

CEE Equity Research

Head: Henning Eßkuchen +43 (0)5 0100 19634
 Chief Analyst: Günther Artner, CFA (CEE Equities) +43 (0)5 0100 11523
 Günter Hohberger (Banks) +43 (0)5 0100 17354
 Franz Hörl, CFA (Basic Resources) +43 (0)5 0100 18506
 Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
 Thomas Unger, CFA (Insurance, Miscellaneous) +43 (0)5 0100 17344
 Vera Sutedja, CFA (Telecom) +43 (0)5 0100 11905
 Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
 Martina Valenta, MBA (Real Estate) +43 (0)5 0100 11913

Editor Research CEE

Brett Aarons +420 956 711 014
 Deniz Gurgun +90 212 371 2538

Research Croatia/Serbia

Head: Mladen Dodig (Equity) +381 11 22 09 178
 Head: Alen Kovac (Fixed income) +385 72 37 1383
 Anto Augustinovic (Equity) +385 72 37 2833
 Ivana Rogic (Fixed income) +385 72 37 2419
 Milan Deskar-Skrbic (Fixed income) +385 72 37 1349
 Davor Spoljar, CFA (Equity) +385 72 37 2825

Research Czech Republic

Head: David Navratil (Fixed income) +420 224 995 439
 Head: Petr Bartek (Equity) +420 224 995 227
 Vaclav Kminek (Media) +420 224 995 289
 Jiri Polansky (Fixed income) +420 224 995 192
 Dana Hajkova (Fixed income) +420 224 995 172
 Martin Krajhanzl (Equity) +420 224 995 434
 Lubos Mokras (Fixed income) +420 224 995 456
 Jan Sedina (Fixed income) +420 224 995 391

Research Hungary

Head: József Miró (Equity) +361 235 5131
 Gergely Gabler (Fixed income) +361 373 2830
 András Nagy (Equity) +361 235 5132
 Vivien Berczel (Fixed income) +361 373 2026
 Tamás Pletser, CFA (Oil&Gas) +361 235 5135

Research Poland

Head: Magdalena Komaracka, CFA (Equity) +48 22 330 6256
 Marek Czachor (Equity) +48 22 330 6254
 Tomasz Duda (Equity) +48 22 330 6253
 Adam Rzepecki (Equity) +48 22 330 6252
 Ludomir Zalewski (Equity) +48 22 330 6251

Research Romania

Chief Economist, Director: Radu Craciun +40 3735 10424
 Head: Mihai Caruntu (Equity) +40 3735 10427
 Head: Dumitru Dulgheru (Fixed income) +40 3735 10433
 Chief Analyst: Eugen Sinca (Fixed income) +40 3735 10435
 Dorina Cobiscan (Fixed Income) +40 3735 10436
 Raluca Florea, CFA (Equity) +40 3735 10428
 Marina Alexandra Spataru (Equity) +40 3735 10429

Research Turkey

Head: Can Yurtcan +90 212 371 2540
 Evrim Dairecioglu (Equity) +90 212 371 2535
 M. Gökem Göker (Equity) +90 212 371 2534
 Sezai Saklaroglu (Equity) +90 212 371 2533
 Nilufer Sezgin (Fixed income) +90 212 371 2536
 Ilknur Unsal (Equity) +90 212 371 2531

Research Slovakia

Head: Maria Valachyova, (Fixed income) +421 2 4862 4185
 Katarina Muchova (Fixed income) +421 2 4862 4762

Treasury - Erste Bank Vienna

Saving Banks & Sales Retail

Head: Thomas Schaulfler +43 (0)5 0100 84225

Equity Retail Sales

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

Fixed Income & Certificate Sales

Head: Uwe Kolar +43 (0)5 0100 83214

Treasury Domestic Sales

Head: Markus Kaller +43 (0)5 0100 84239

Corporate Sales AT

Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income & Credit Institutional Sales

Institutional Sales

Head: Manfred Neuwirth +43 (0)5 0100 84250

Bank and Institutional Sales

Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Sales AT, GER, LUX, CH

Head: Thomas Almen +43 (0)5 0100 84323
 Bernd Bollhof +49 (0)30 8105800 5525
 Rene Klasen +49 (0)30 8105800 5521
 Marc Pichler +43 (0)5 0100 84118
 Dirk Seefeld +49 (0)30 8105800 5523
 Charles-Henry de Fontenilles +43 (0)50100 84115

Bank and Savingsbanks Sales

Head: Marc Friebertshäuser +49 (0)711 810400 5540
 Mathias Gindele +49 (0)711 810400 5562
 Andreas Goll +49 (0)711 810400 5561
 Ulrich Inhofner +43 (0)50100 85544
 Sven Kienzle +49 (0)711 810400 5541
 Manfred Meyer +43 (0)5 0100 83213
 Jörg Moritzen +49 (0)30 8105800 5581
 Michael Schmotz +43 (0)5 0100 85542
 Bernd Thaler +43 (0)5 0100 85583
 Klaus Vosseler +49 (0)711 810400 5560

Institutional Sales CEE and International

Head: Jaromir Malak +43 (0)50100 84254

Central Bank and International Sales

Head: Margit Hraschek +43 (0)5 0100 84117
 Daniel Kihak Na +852 2105 0392
 Fiona Chan +852 2105 0396
 Christian Kössler +43 (0)5 0100 84116

Institutional Sales PL and CIS

Pawel Kielek +48 22 544 5610

Institutional Sales Slovakia

Head: Peter Kniz +421 2 4862 5624
 Sarlota Sipulova +421 2 4862 5629

Institutional Sales Czech Republic

Head: Ondrej Cech +420 2 2499 5577
 Milan Bartos +420 2 2499 5562
 Radek Chupik +420 2 2499 5565
 Pavel Zdichynec +420 2 2499 5590

Institutional Sales Croatia

Head: Antun Buric +385 (0)7237 2439
 Natalija Zujic +385 (0)7237 1638

Institutional Sales Hungary

Norbert Siklosi +36 1 2355 842
 Attila Hollo +36 1 2355 846

Institutional Sales Romania

Head: Ciprian Mitu +40 373 516 532

Institutional Solutions and PM

Head: Zachary Carvell +43 (0)50100 83308
 Brigitte Mayr +43 (0)50100 84781
 Mikhail Roshal +43 (0)50100 84787
 Christopher Lampe-Traupe +49 (0)30 8105800 5507

Erste Group Bank AG
1010 Wien, Börsegasse
Telefon: +43 (0)5 0100 - interior 11902
14/DG1

Disclaimer

This publication has been prepared by EG Research. This report is for information purposes only.

Publications in the United Kingdom are available only to investment professionals, not private customers, as defined by the rules of the Financial Services Authority. Individuals who do not have professional experience in matters relating to investments should not rely on it.

The information contained herein has been obtained from public sources believed by EGB to be reliable, but which may not have been independently justified. No guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose.

This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument or any other action and will not form the basis or a part of any contract.

Neither EGB nor any of its affiliates, its respective directors, officers or employers accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. Any opinion, estimate or projection expressed in this publication reflects the current judgement of the author(s) on the date of this report. They do not necessarily reflect the opinions of EGB and are subject to change without notice. EGB has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results.

EGB, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. EGB may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment banking services for those companies. EGB AG may act upon or use the information or conclusion contained in this report before it is distributed to other persons.

This report is subject to the copyright of EGB. No part of this publication may be copied or redistributed to persons or firms other than the authorised recipient without the prior written consent of EGB.

By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.

Copyright: 2013 EGB AG. All rights reserved.