

Outlook for the CEE Countries

- Second wave, new lockdown and risks

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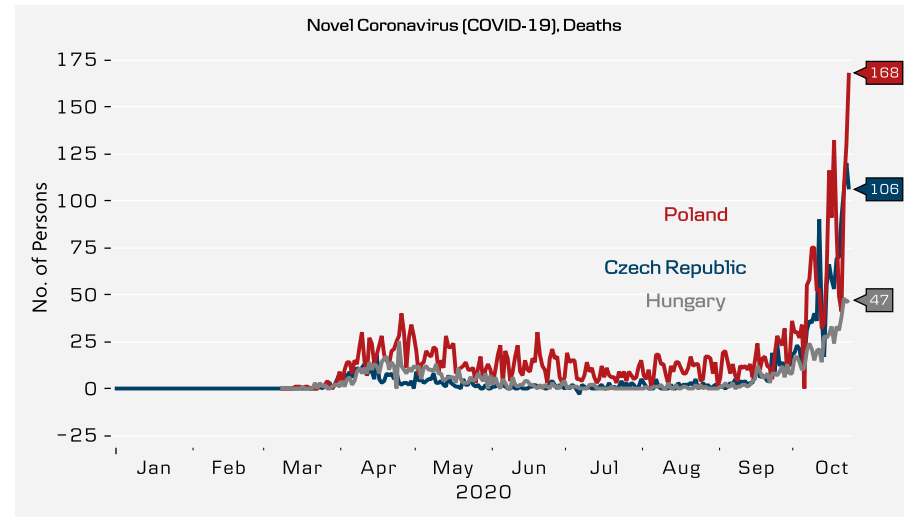
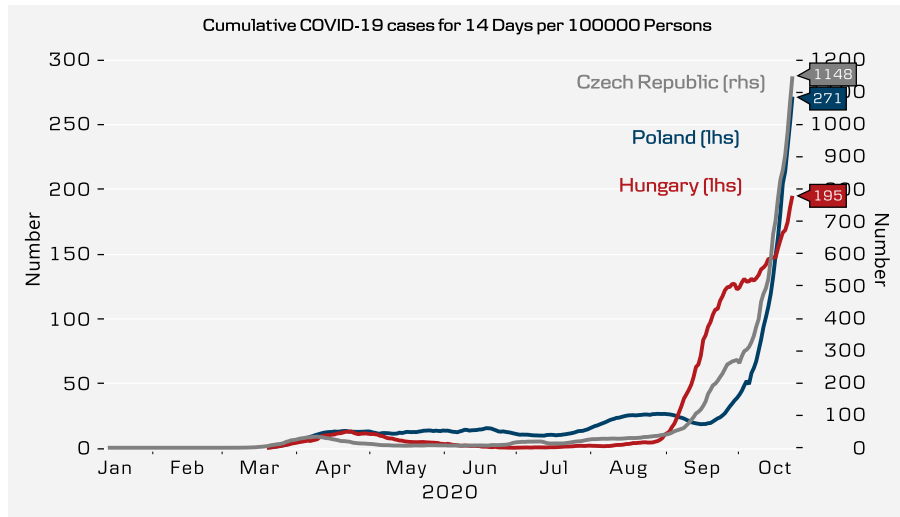
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Key points

- The **second COVID-19 wave is much worse** (especially Czech Rep.) than the first (unlike in the Nordic countries) with higher numbers of deaths.
- Authorities have been **slower to react and impose lockdowns** this time.
- **The new lockdowns will hurt primarily the service sector** while external demand is supporting the manufacturing sectors.
- **The CEE economies will see a solid recovery in 2021** after the recession in 2020, supported by fiscal expansion, but the new COVID-19 wave creates downside risks.
- **The crisis is relieving pressures in the labour market.**
- **However, inflation is surprisingly stubborn**, but central banks are more focused on keeping economies afloat.
- **As a result, interest rates will remain low (and highly negative in real terms)** until at least end-2021.
- **CEE FX has been hurt** by the surge in virus cases, expectations of loose monetary policy and geopolitical risks relating to Russia.
- **We expect some recovery in the currencies** but not until the virus is under control again and global risk sentiment is stronger, hopefully on the back of the US election.

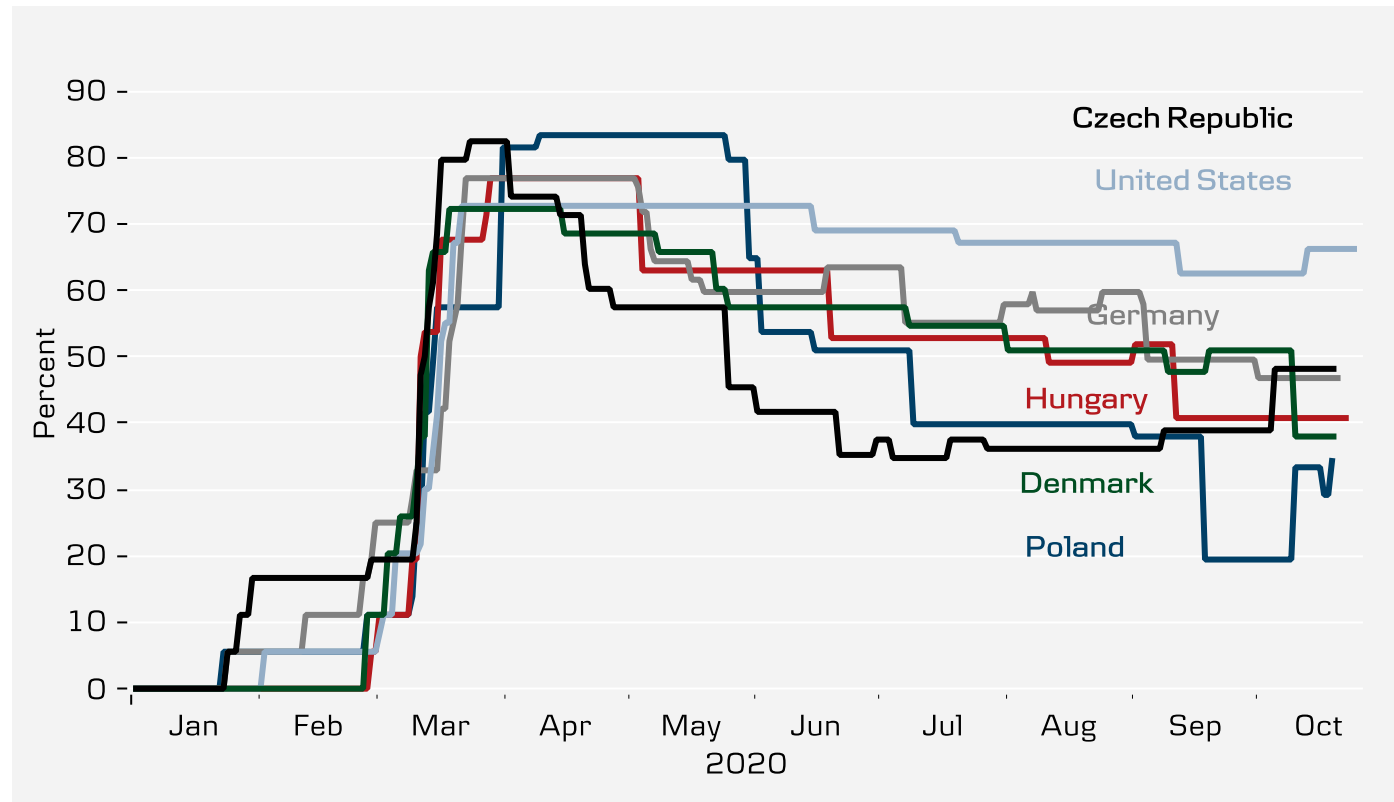
CEE and COVID-19: the second wave is much worse than the first wave in spring

- CEE countries are seeing much higher deaths toll from COVID-19 than in the spring.
- This is in stark contrast with western European countries, which are seeing much lower death rates.
- Czech Republic appears to be suffering from a surge in cases.



Source (both charts): European Centre for Disease prevention

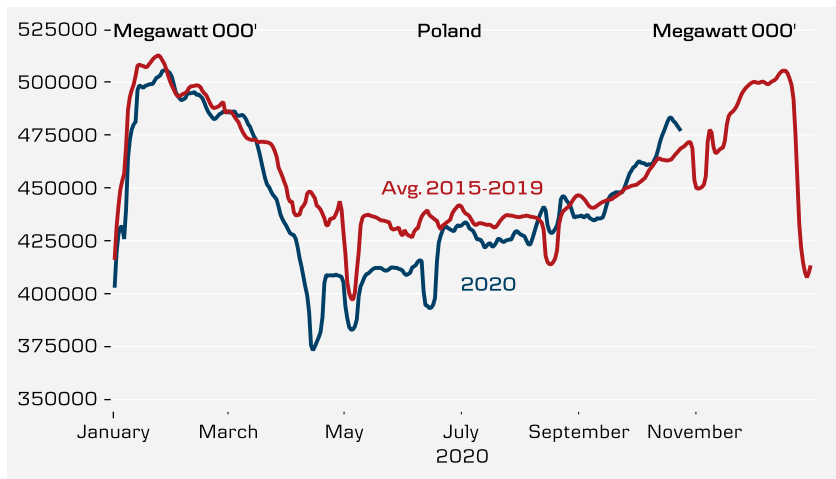
CEE countries are slower to act this time



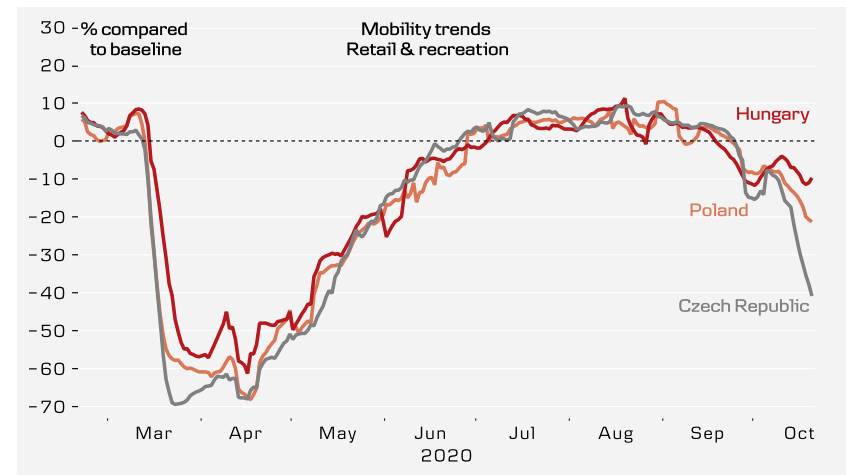
Source: Oxford University, Macrobond Financial

Service sector is starting to suffer under new restrictions

The light is still on in the Polish economy, but service sector activity across the CEE is weakening amid new restrictions and fear of the virus



Source: ENTSO

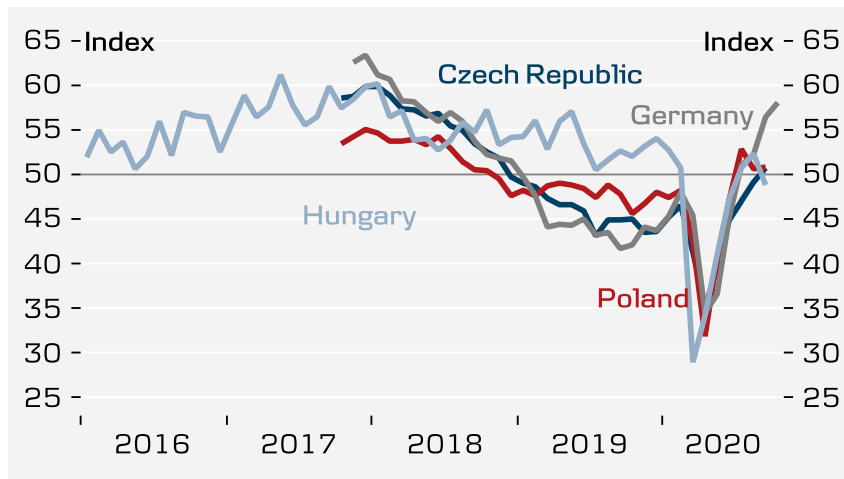


Note: The above shows mobility trends for places such as restaurants, cafes, shopping centres, theme parks, museums, libraries and cinemas

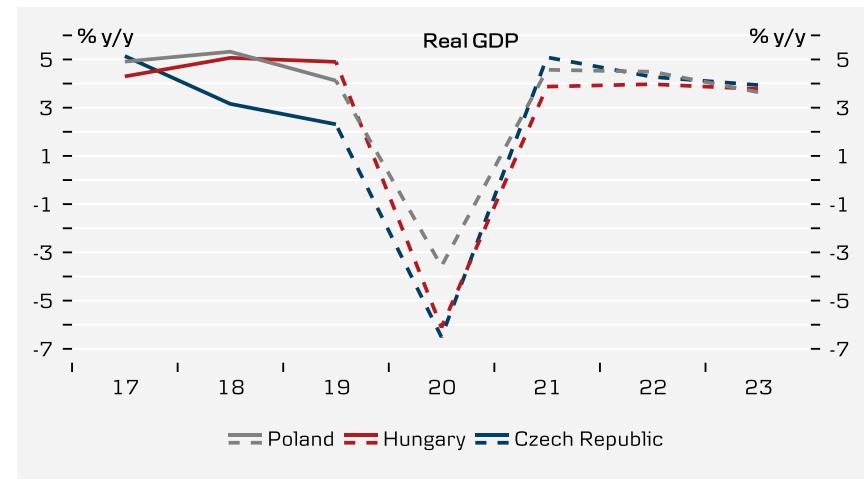
Source: Google Mobility, Danske Bank

The second wave may limit recovery in 2021

Muted manufacturing recovery in CEE compared to Germany



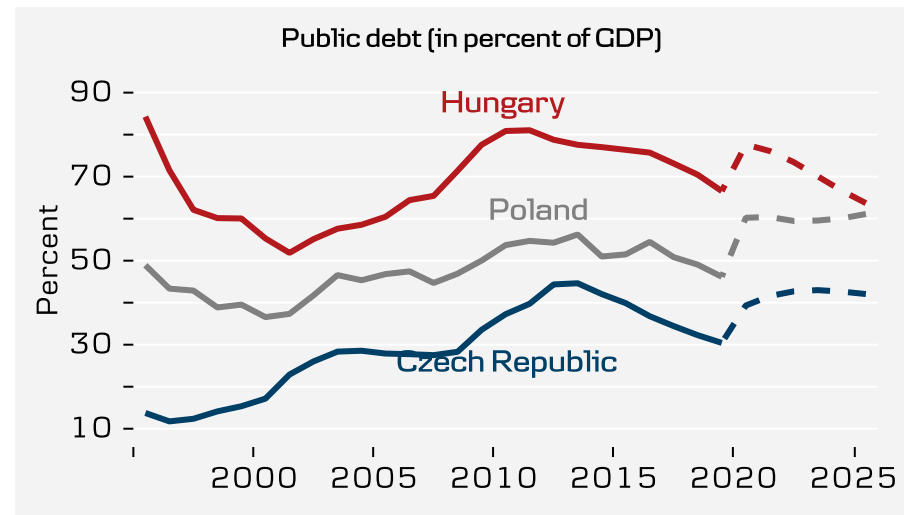
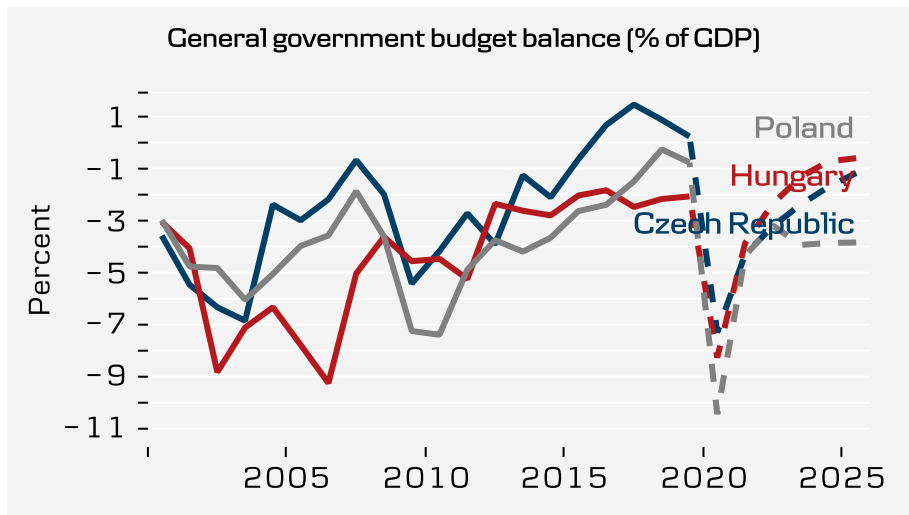
Poland is expected to see the smallest slump in 2020, while all economies are set to recover fairly strongly in 2021



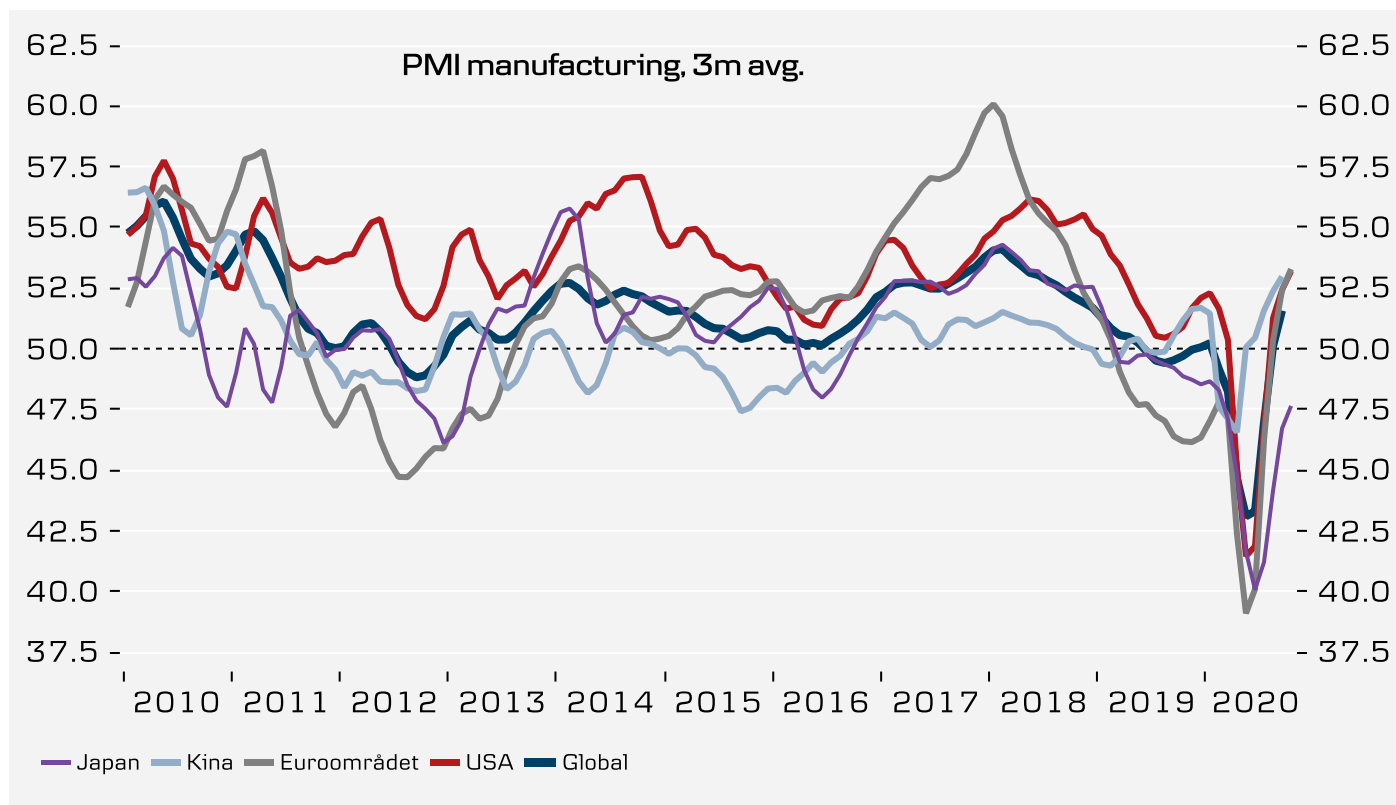
Source (both charts): IMF WEO, Macrobond Financial, Danske Bank

Fiscal policy has mitigated the downturn so far with public debt at reasonable levels

- All three countries have provided sizable fiscal support to their economies, notably Poland, where the fiscal deficit is expected to be 10.5% of GDP in 2020 from almost balancing in 2019.
- Both Poland and the Czech Republic have room to stimulate their economies further given the low levels of public debt and low interest rates. Hungary has more limited room.

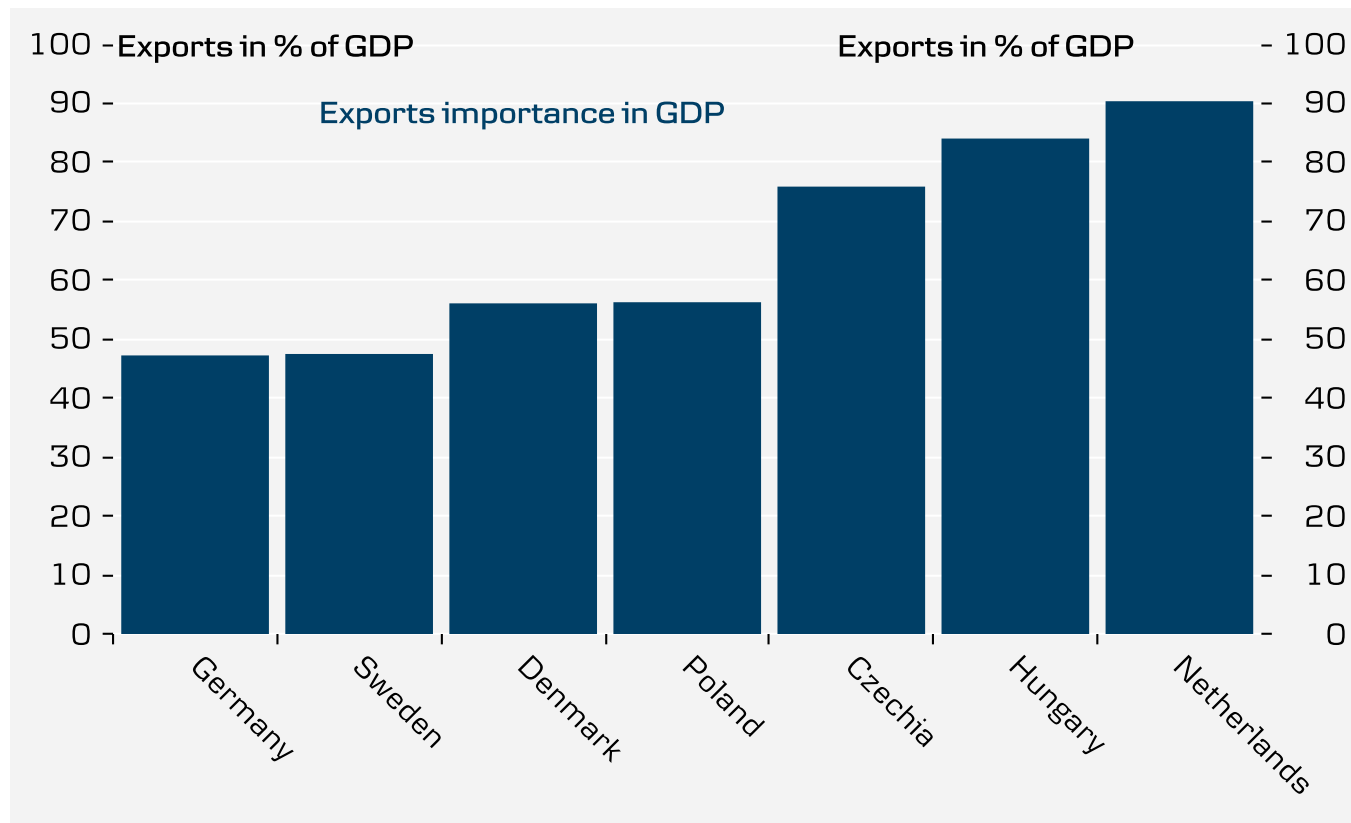


Global economy recovering led by China and the US, supporting external demand in CEE...



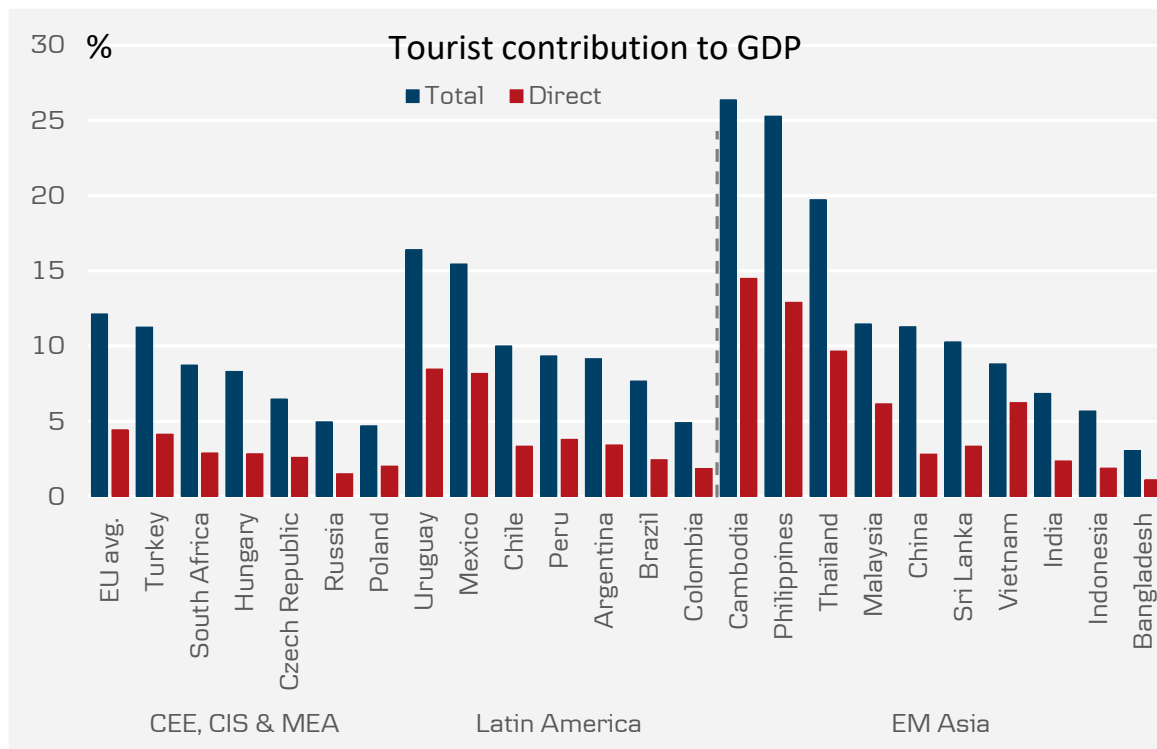
Source: HIS Markit, Macrobond Financial

...especially in Hungary and Czech Republic which are the most dependent on trade



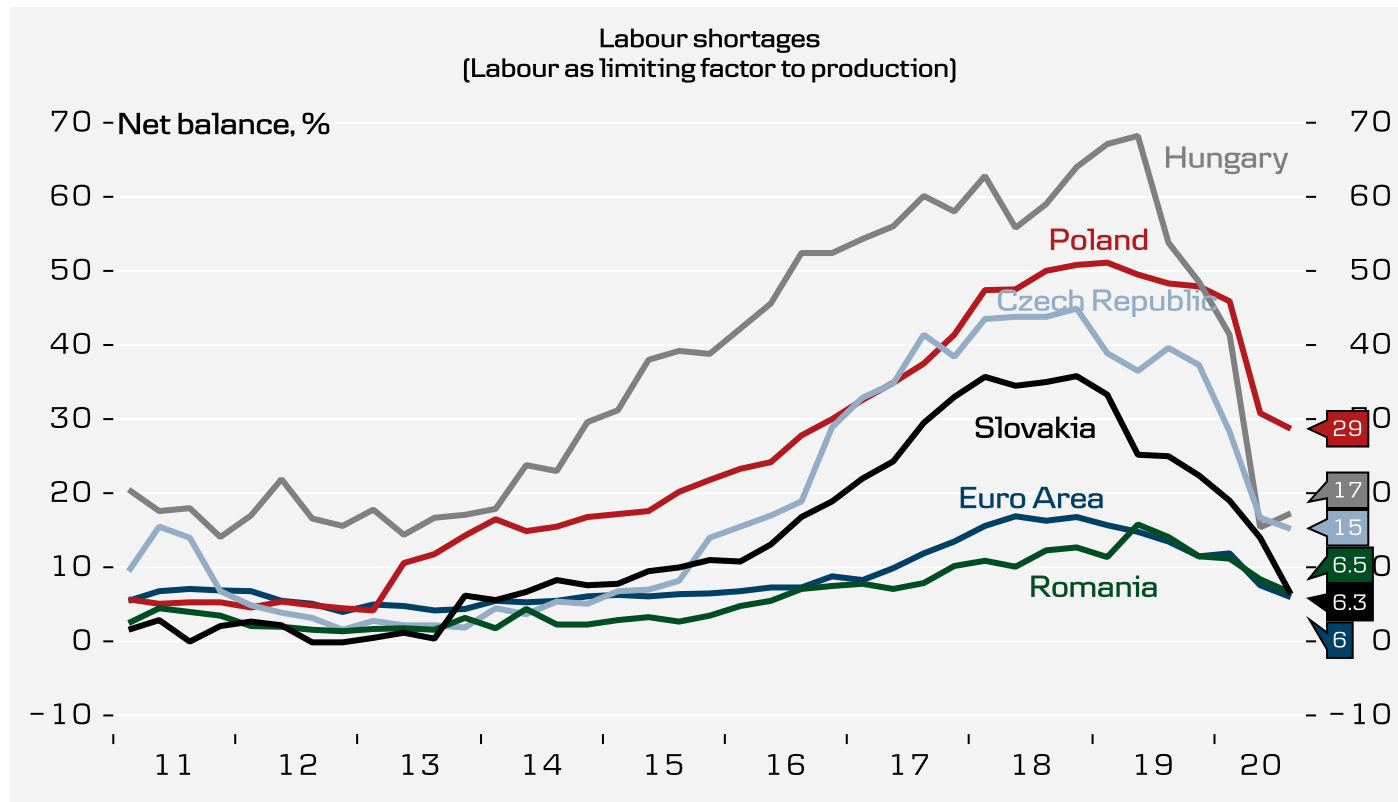
Source: Unctad, Danske Bank

CEE countries (especially Poland) are less vulnerable to a decline in global tourism



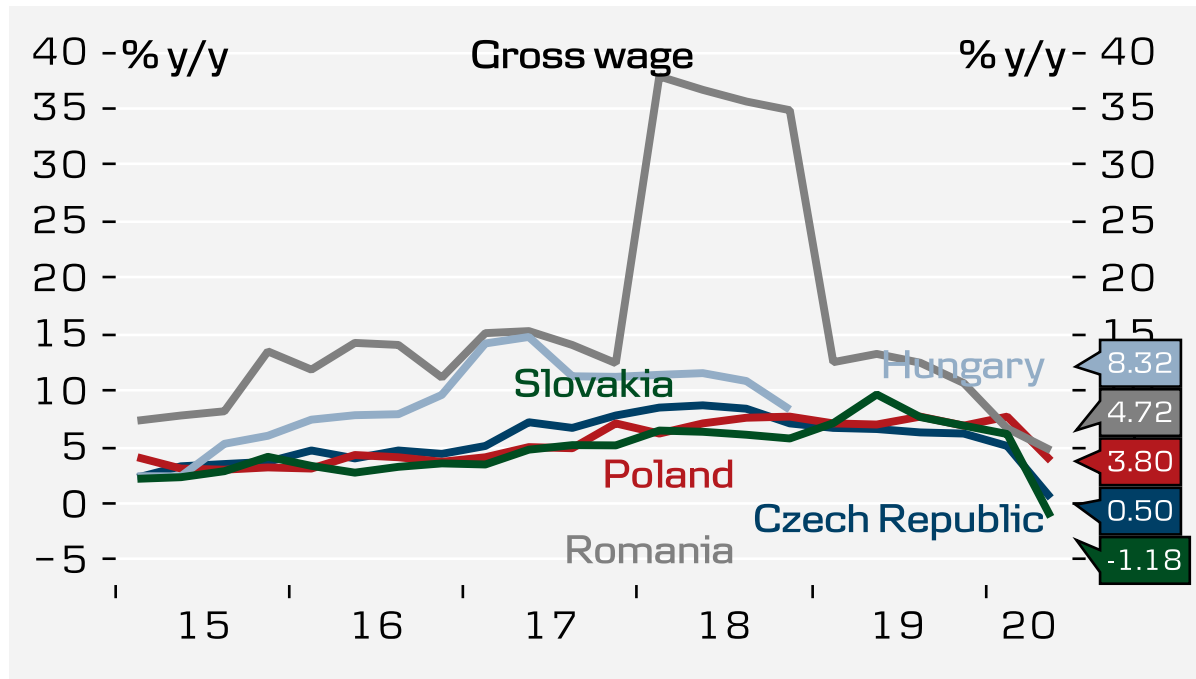
Source: WTTC, Danske Bank

With moderation in growth, labour shortages easing significantly



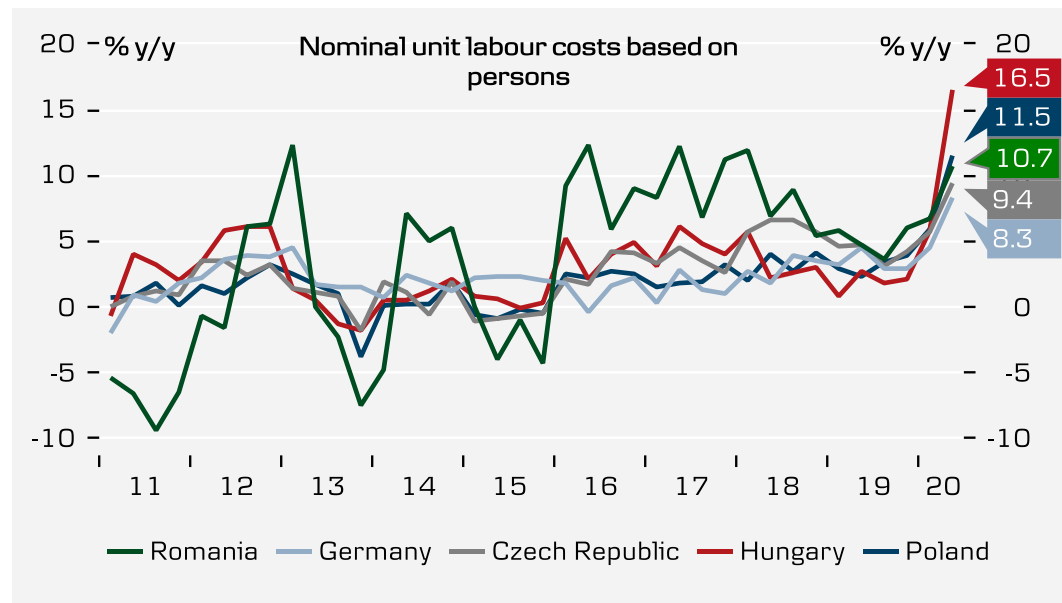
Source: Macrobond Financial, Danske Bank

...and wage growth is also moderating



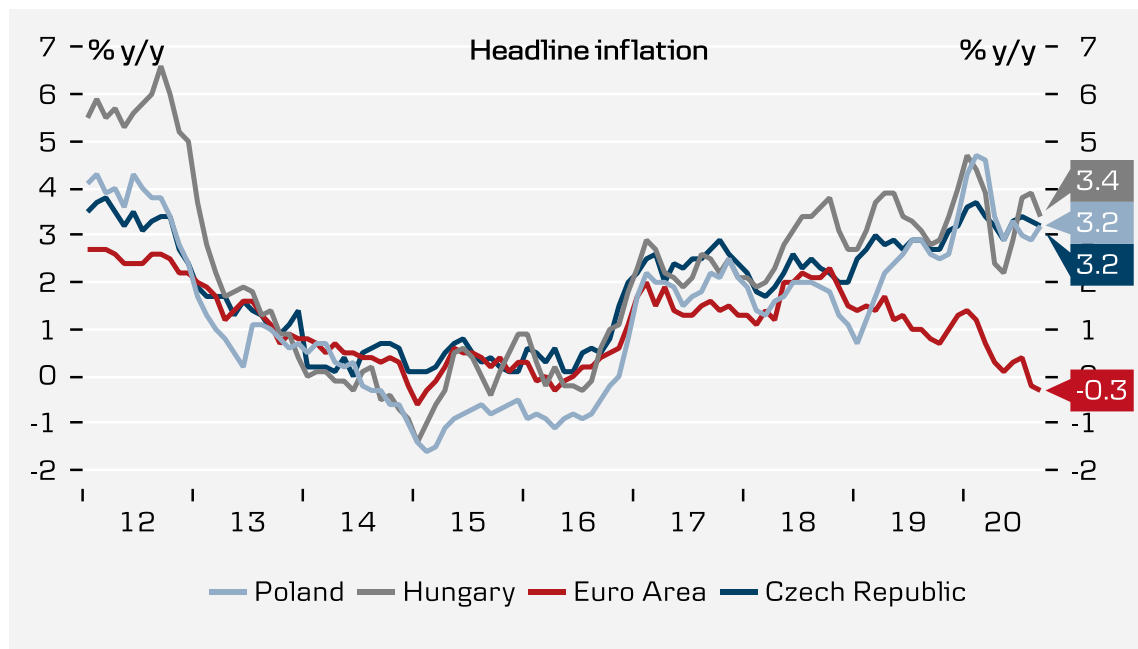
Source: Macrobond Financial, Danske Bank

However, unit labour costs are increasing as companies have retained staff while production is plummeting



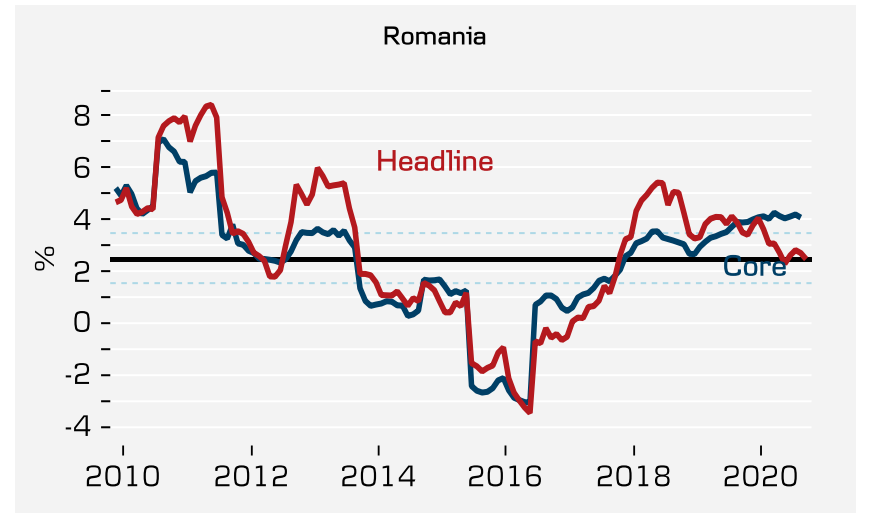
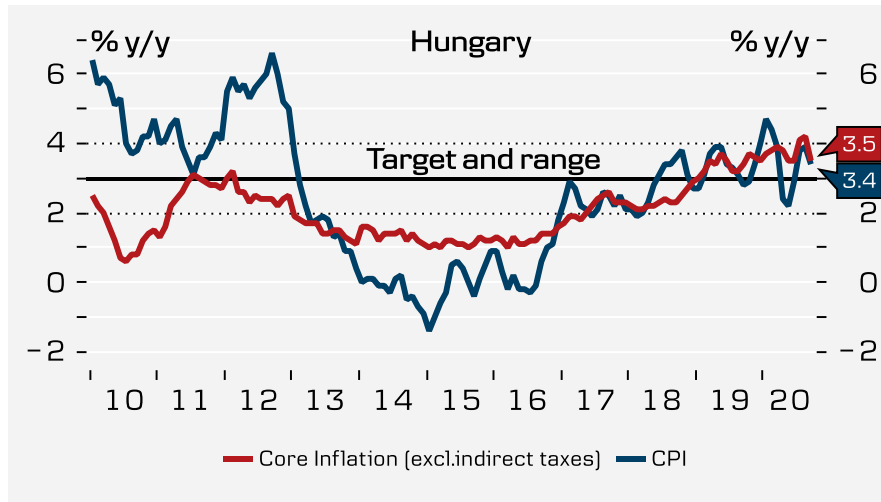
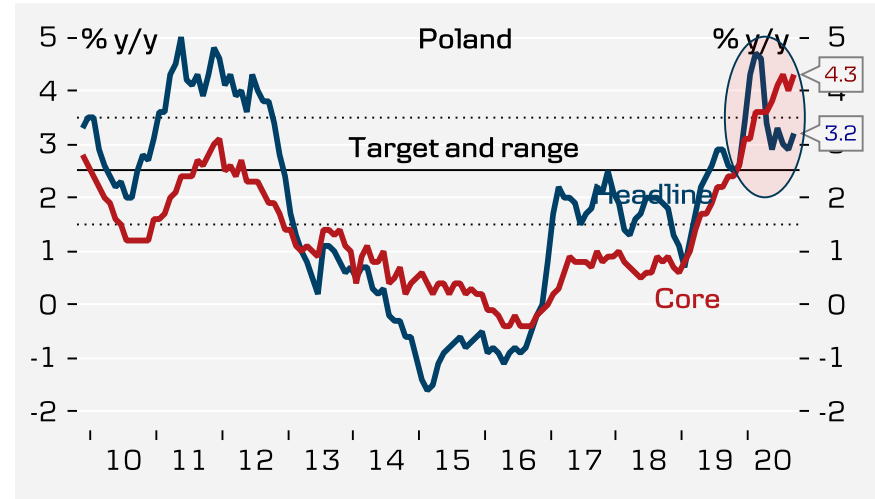
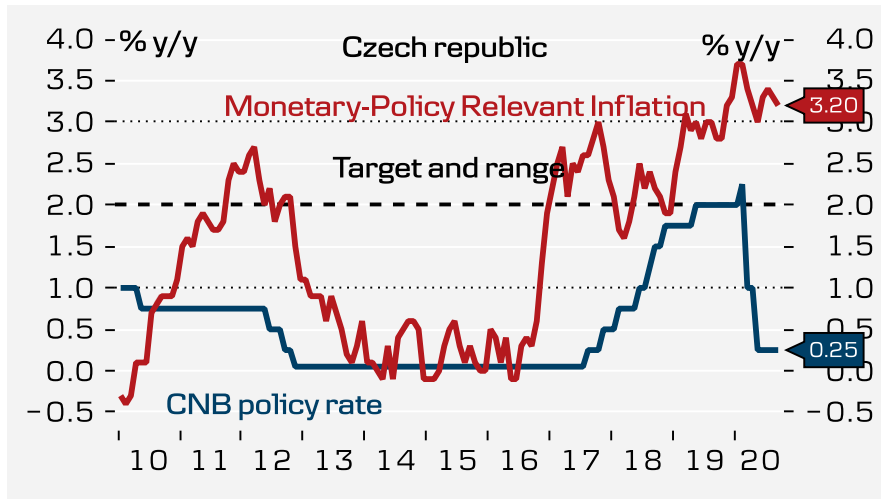
Source: Eurostat, Danske Bank

Inflation remains stubbornly high and significantly above eurozone inflation...



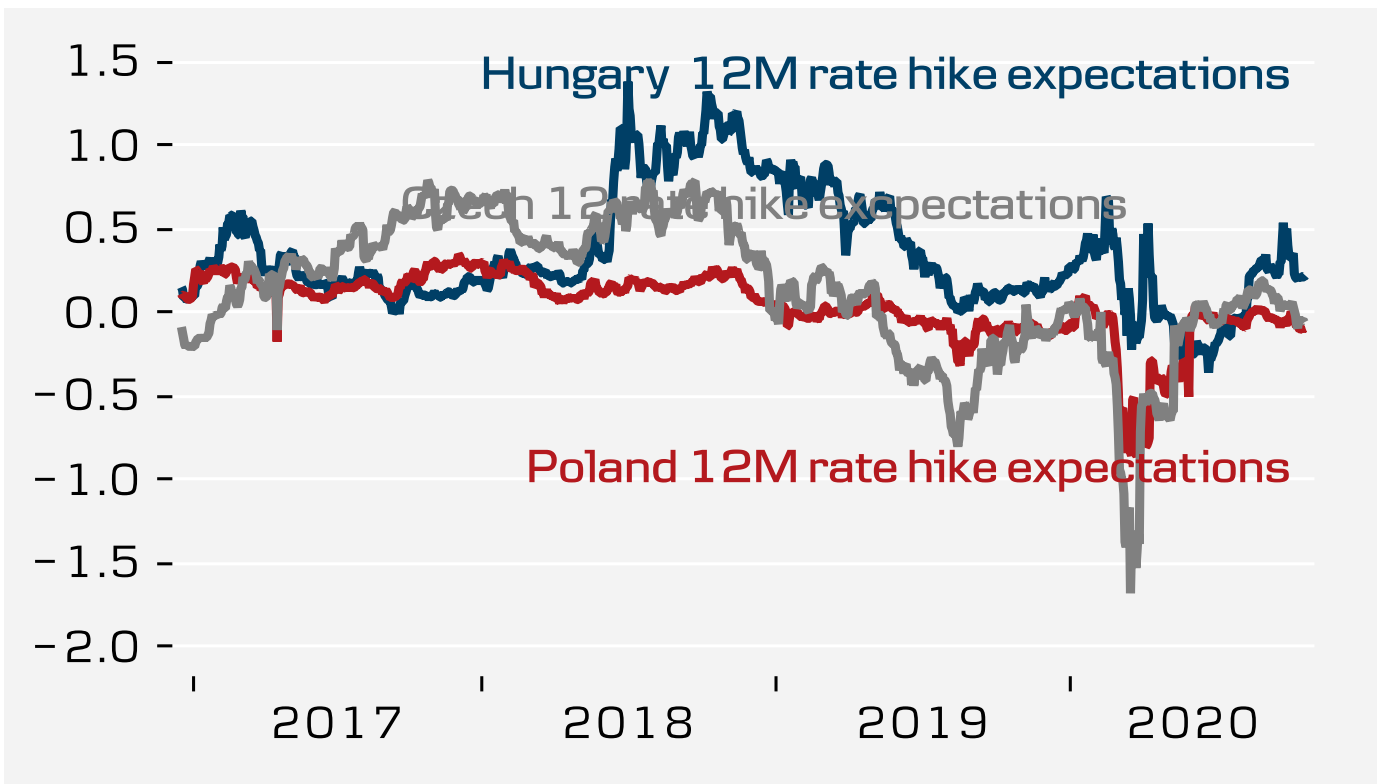
Source: Eurostat, Danske Bank

...driven by sticky core inflation pressures



Source (all charts): Eurostat, national central banks, Macrobond Financial, Danske Bank

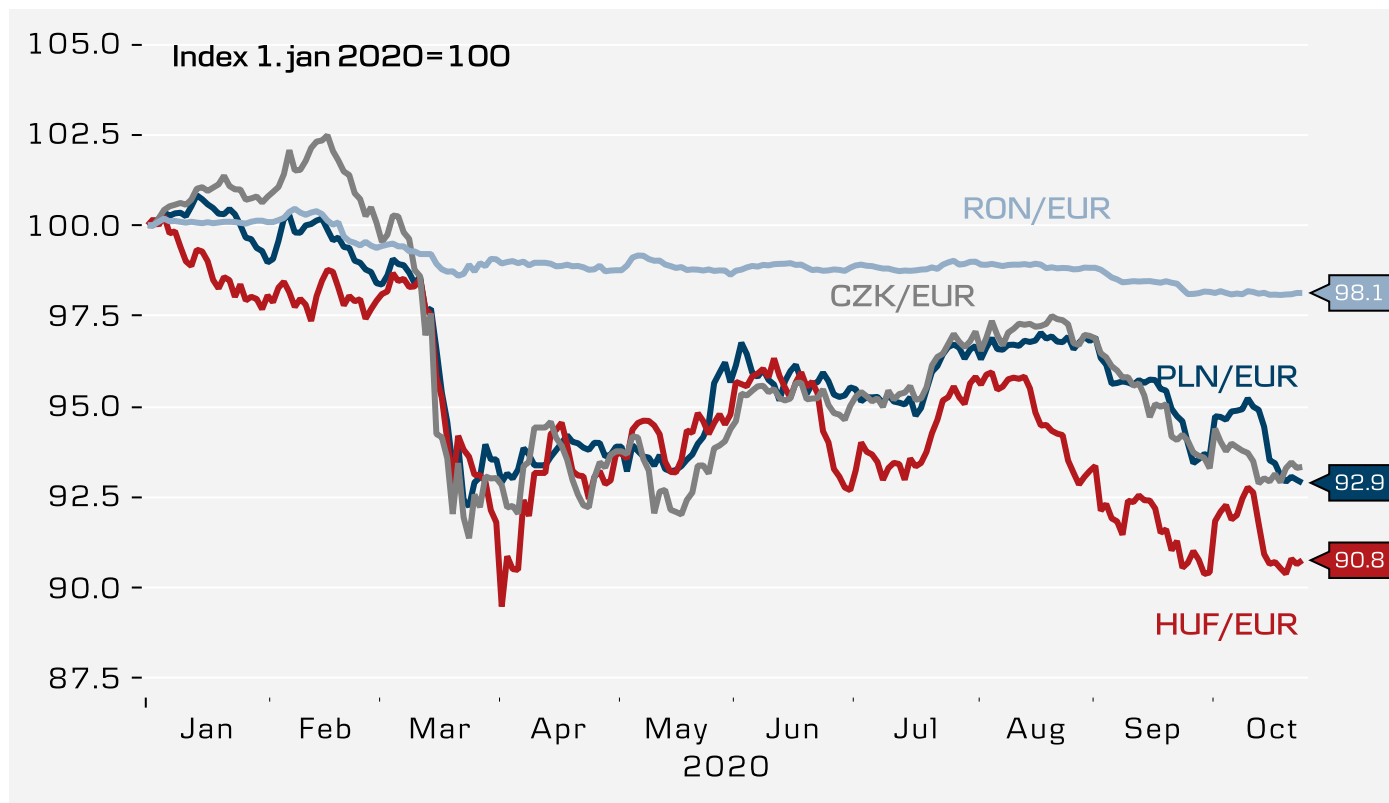
Markets are not expecting an exit from monetary stimulus, i.e. interest rates to stay low for a long time



Source: Bloomberg, Macrobond Financial, Danske Bank

CEE FX has lost considerable ground since the beginning of the crisis...

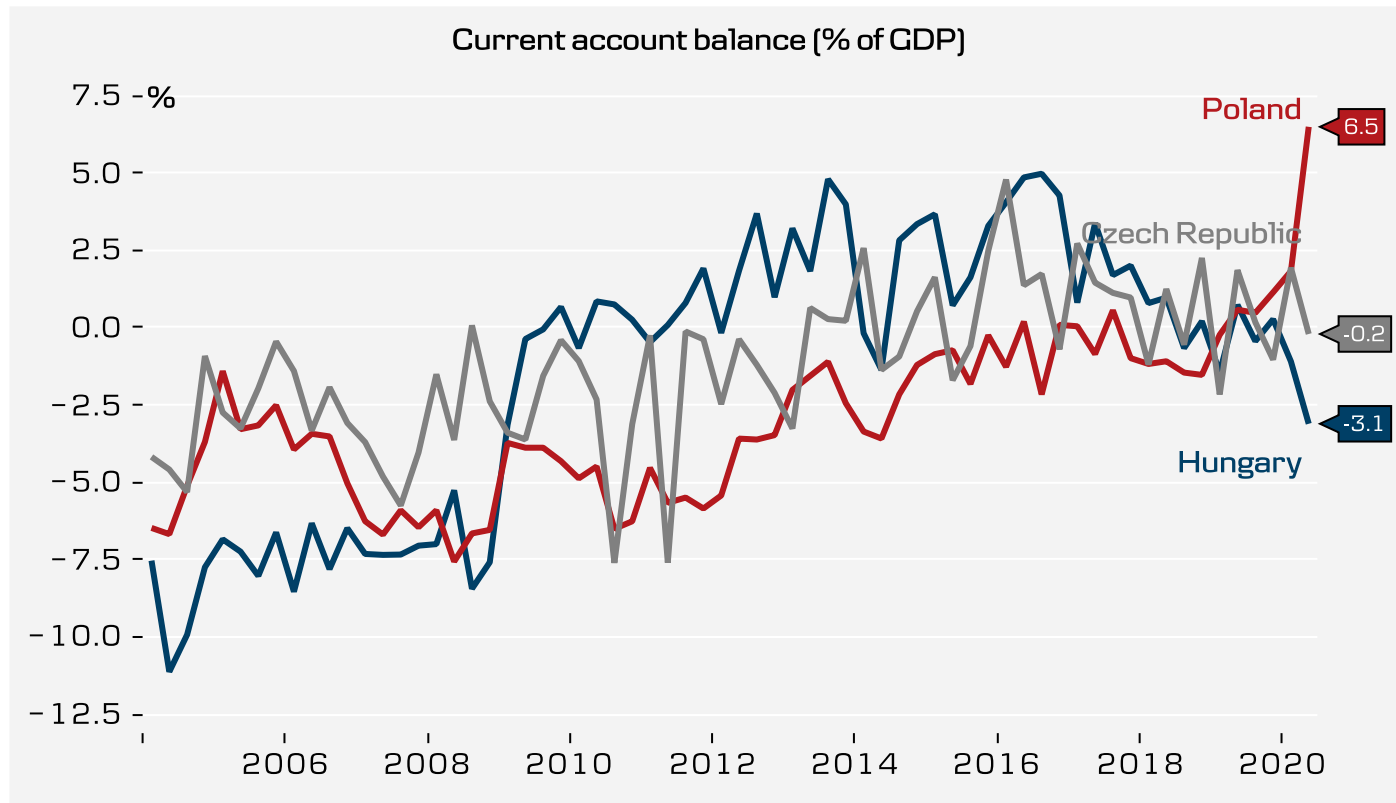
Given PLN, CZK and HUF are small economies and have a high beta to global risk sentiment, they were all hit fairly hard by the corona situation in March as well as the local situation today. Notably HUF has gone lower due to having near-zero interest rates, elevated inflation and the historical precedent for the central bank to help demand more than wanting to curb inflation.



Note: Past performance is not a reliable indicator of current or future results.

Source: Bloomberg, Macrobond Financial, Danske Bank

...but the external situation is quite strong, especially in Poland



Source: Bloomberg, Macrobond Financial, Danske Bank

We are expecting the currencies to rebound but do see upside risks to our forecasts against the euro

We see the coronavirus in CEE, soft global demand and high CEE inflation continuing to weigh on CEE currencies, notably HUF.

We expect a stronger PLN and CZK but the timing of this will likely not be until the coronavirus situation is better under control and/or a global vaccine is found. While this is not so, CEE FX is likely to remain quite weak.

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	23-okt-20	4,57		3,85		163		227		240	
	+1M	4,42	4,57	3,78	3,85	168	163	238	227	247	240
	+3M	4,40	4,58	3,67	3,85	169	163	239	227	245	240
	+6M	4,35	4,59	3,63	3,85	171	162	237	227	244	240
	+12M	4,35	4,60	3,69	3,85	171	162	237	226	241	240
HUF	23-okt-20	365		308		2,04		2,84		3,00	
	+1M	354	366	295	308	2,10	2,03	2,97	2,84	3,08	2,99
	+3M	358	366	298	308	2,08	2,03	2,93	2,83	3,02	2,99
	+6M	360	368	300	309	2,07	2,02	2,86	2,83	2,94	2,99
	+12M	370	371	314	310	2,01	2,01	2,78	2,81	2,84	2,98
CZK	23-okt-20	27,2		23,0		27,3		38,1		40,2	
	+1M	26,5	27,2	22,6	23,0	28,1	27,3	39,6	38,1	41,1	40,2
	+3M	26,5	27,2	22,1	22,9	28,1	27,3	39,6	38,1	40,8	40,3
	+6M	26,2	27,3	21,8	22,9	28,4	27,3	39,3	38,1	40,5	40,3
	+12M	25,8	27,3	21,9	22,9	28,9	27,2	39,9	38,1	40,7	40,4
RUB	23-okt-20	90,3		76,1		8,2		11,5		12,1	
	+1M	93,6	90,6	80,0	76,4	7,9	8,2	11,2	11,4	11,6	12,1
	+3M	96,0	91,3	80,0	76,8	7,8	8,1	10,9	11,4	11,3	12,0
	+6M	90,0	92,3	75,0	77,5	8,3	8,1	11,4	11,3	11,8	11,9
	+12M	81,4	94,4	69,0	79,0	9,2	7,9	12,7	11,0	12,9	11,7
TRY	23-okt-20	9,45		7,97		79		110		116	
	+1M	9,36	9,53	8,00	8,05	79	78	112	109	116	115
	+3M	9,78	9,77	8,15	8,22	76	76	107	106	110	112
	+6M	10,08	10,16	8,40	8,53	74	73	102	102	105	108
	+12M	10,03	10,98	8,50	9,19	74	68	103	95	105	101
CNY	23-okt-20	7,92		6,69		94		131		138	
	+1M	7,90	7,94	6,75	6,69	94	94	133	131	138	138
	+3M	8,04	8,00	6,70	6,73	93	93	131	130	134	137
	+6M	8,04	8,06	6,70	6,77	93	92	128	129	132	136
	+12M	7,79	8,18	6,60	6,84	96	91	132	127	135	135

Source: Bloomberg, Danske Bank

Disclosures

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None.

Date of first publication

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