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# A bleak winter ahead of the CEE region

## EM FX Watch

### RaboResearch

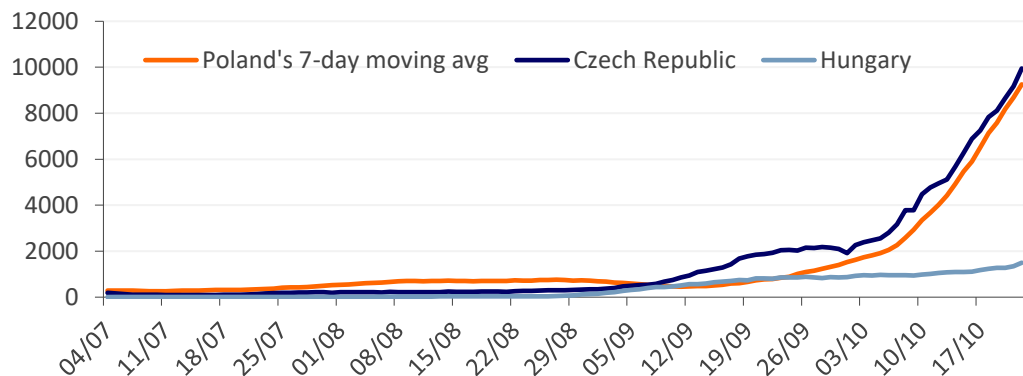
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The Czech government has imposed a partial lockdown of the economy to regain control over the raging coronavirus. All non-essential shops must close starting from Thursday. People have been banned from leaving their homes apart from buying essentials such as groceries and when going to work, although those who can are strongly encouraged to work remotely. When announcing the latest measures PM Babis explained that those stringent restrictions should prevent the Czech healthcare system from collapsing within next few weeks. He also admitted that easing the restrictions over the summer was a mistake. The Czech Republic reported another record daily high of coronavirus cases of almost 12,000. Health Minister Prymula expressed concerns about "the extremely high" share of positive tests of 32%. *"That means there is a huge number of infected people that are under the radar and hospitals would be overrun"*, he added.

**Figure 1: Parabolic increase in daily cases in the Czech Republic and Poland**

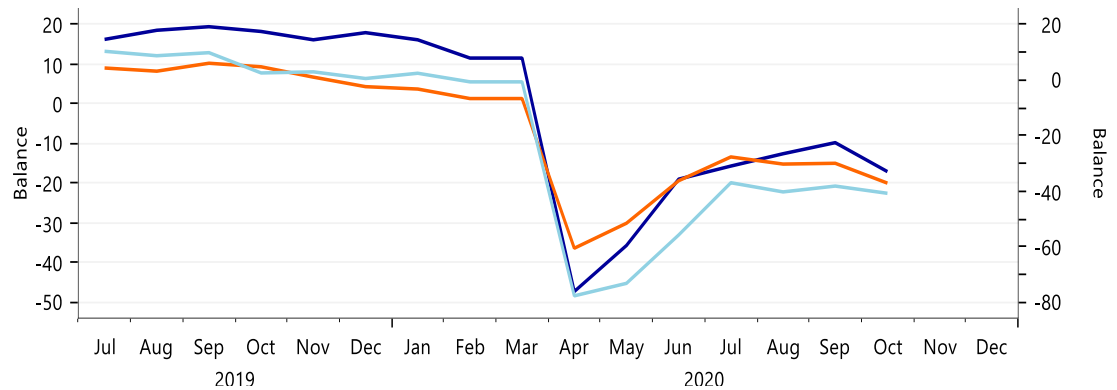


Source: Rabobank, Bloomberg

While the government has not closed factories, the measures implemented over the last few weeks will have negative consequences for the economy. The hospitality sector will be amongst the worst impacted due to severe restrictions. Rising concerns about health may weigh on private consumption and spill over to other sectors. Export growth could slow down as well due to constraints imposed across the EU. The pace of infections in Germany – by far the most important trading partner for the Czech Republic and other countries in the CEE region – accelerated sharply this week as the country reported a record number of new cases in three consecutive days. Essentially, the Czech Republic faces the prospect of a W-shaped recovery from the coronavirus recession. The damage the second wave of the pandemic will cause to confidence amongst households and corporates will determine how quickly the economy will bounce back.

The negative impact of the health crisis is already evident in Poland where consumer confidence plunged to -20 in October from -15 in September. Poles are once again reluctant to purchase major goods as their concerns about the job prospects have increased (Figure 2). Mobility has started trending lower not only due to the official restrictions regarding social distancing, but also due to rising personal preferences to reduce going out to absolute minimum to avoid being infected. The number of visitors in shopping centres reportedly fell to 73% of the 2019 level after the latest restrictions took effect on October 17. This trend is likely to continue in the coming weeks. The latest set of data supports our view that private consumption is set to lose momentum as Poland is struggling to regain control over the coronavirus reporting a record number of daily cases.

**Figure 2: Consumer sentiment deteriorates again which does not bode well for private consumption**



Source: Macrobond

Health Minister Niedzielski warned that “*radical restrictions*” will be required if exponential growth of infections continues. Poland could report 15,000 new daily cases on average next week and around 20,000 in the following week, Niedzielski added. This would be significantly higher than the current 7-day moving average of 9,255. Speaking in parliament on Wednesday PM Morawiecki admitted that the next few weeks and months will be the most difficult for Poland in many decades. He pledged to protect the healthcare, jobs and elderly people who are the most at risk from the coronavirus.

Moving on to Hungary, the healthcare system is the main concern for Hungarians amid the coronavirus pandemic. This was followed by economic concerns, including low wages and pensions, the high cost of living and growing inequality, according to a survey commissioned by the Policy Solutions research institute. Hungary has just reported a record increase of daily new cases of 2,032. The country has the third highest Covid-19 death rate per million in the CEE region – behind the Czech Republic and Hungary, based on the data provided by the ECDC. The Orban administration may have to consider a much stricter restrictions similar to those already announced in the Czech Republic and Poland.

The outlook for the Czech Republic, Hungary and Poland has deteriorated as the region faces the prospects of a fairly bleak winter potentially through the beginning of 2021. GDP growth is likely to lose momentum in Q4 as the second wave of the pandemic will weigh on sentiment and lead to lower private consumption, which is a major source of growth. At the time when Germany and other trading partners in the EU face the same challenge to contain the virus, exports are unlikely to offset weaker domestic demand.

We prefer to focus on higher levels in EUR/CEEs in the coming weeks as our charts below illustrate.

**Figure 3: EUR/PLN remains on track to revisit the March top at 4.6342**



Source: Rabobank, Bloomberg

Figure 4: It is too early to declare that EUR/CZK has lost its upside bias



Source: Bloomberg, Rabobank

Figure 5: Much stricter restrictions would likely squeeze EUR/HUF above the 366.40 resistance area



Source: Bloomberg, Rabobank

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