

Weekly Focus Poland

We expect retail sales to sustain solid growth of around 7% y/y in July, supported by strong wage growth. Unemployment rate most likely to remain at historically low level of 5.9% y/y in July. This week's macro releases should be neutral for bond market. Zloty to remain affected by global sentiment.

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This week:

- **August 22: retail sales to sustain solid growth in July**

We expect retail sales growth to arrive at 7.5% y/y in July (market consensus stands at 9.5% y/y). Solid growth of wages (up by 7.2% y/y in July) supports household spending, which in turn supports retail sales. In the period from January to June 2018, retail sales growth has been marginally lower than in 2017, as it increased by almost 8.0% y/y vs. 8.5% y/y the year before. We see retail sales growth at 7.5% y/y in 2018. Hence, private consumption will remain one of the main GDP growth drivers. The detailed structure of GDP growth in 2Q18 will be published at the end of the month. The retail sales figure for July will enable us to run the now-cast model for GDP growth and we might revise our FY18 growth forecast upwards.

- **August 24: unemployment rate to remain at record low level**

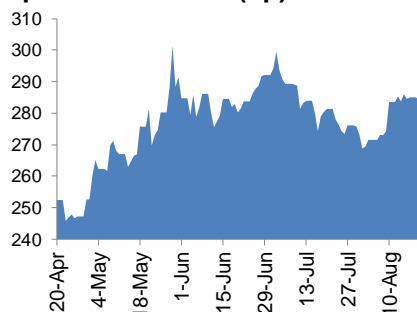
We see the unemployment remaining at the record low level of 5.9% in July. Despite somewhat disappointing figures regarding the growth of employment (up only by 3.5% y/y in July), the unemployment rate should remain stable, supported by seasonal factors.

Last week's highlights

- Industrial production surprised market to upside and arrived at 10.3% y/y in July
- Flash estimate of 2Q18 GDP growth arrived at 5.1% y/y
- Flash CPI confirmed at 2.0% y/y in July
- Wages increased by 7.2% y/y in July, whereas employment grew by 3.5% y/y

Bond market drivers

Spread vs. Bunds (bp)

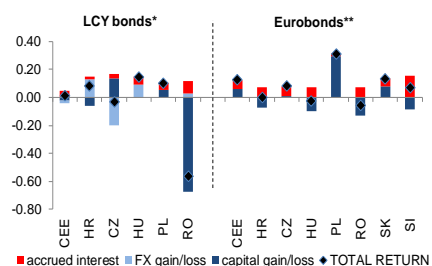


Source: Erste Group Research, Bloomberg

- 10Y yields remained stable at around 3.15%

The long end of the curve remained rather stable last week after the significant change that had been observed the week before due to Turkish lira turbulence. The 10Y yield fluctuated around 3.15%, with a marginal decrease toward 3.14% at the end of the week. The spread vs. 10Y German Bund remained stable at around 283bp. This week, local macro releases should remain neutral for the bond market.

Weekly performance of 5Y bonds (% in EUR)



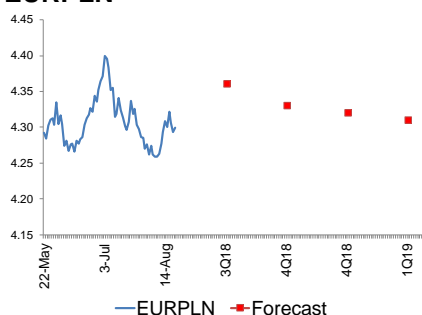
Source: Erste Group Research, Bloomberg

- Weekly performance of 5Y bonds (% in EUR)

Last week, the LCY CEE bond market did not move much w/w, apart from in Romania, where yields increased on the long end, resulting in negative performance of 0.6% (in EUR). Short-term rates development remains mixed across the region. In the Czech Republic, the next rate hike is expected at the meeting in late September, while the MNB will most likely maintain its flat rate policy at this week's meeting.

FX market drivers

EURPLN



Source: Erste Group Research, Bloomberg

- Zloty moved around 4.31 vs. EUR

The Polish zloty remained resilient to pressure during the last week of turbulence experienced by the Turkish lira. The public holiday on Wednesday last week limited supply, which caused the zloty to move above 4.34 vs. the EUR. However, it moved toward 4.31 during the second half of the week. Moreover, the weaker USD and local macro releases (GDP and inflation figures) were zloty-positive. The zloty will most likely remain affected by global sentiment this week.

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
20-Aug							
	HR	Unemployment Rate	Jul			8.8%	
10:00	PL	Industrial Production (y/y)	Jul	10%	7.1%	6.8%	Positive calendar effect (+1 working day vs. 2017) to most likely support solid growth, despite recently observed drop in PMI and local sentiment index indicators.
10:00	PL	PPI (y/y)	Jul	3.5%	3.3%	3.7%	Cost pressure expected to remain relatively high.
21-Aug							
10:30	SI	PPI (y/y)	Jul			2.4%	
14:00	HU	Target Rate	Aug	0.9%	0.9%	0.9%	Dovish stance of monetary policy also expected to remain unchanged in August.
14:30	SK	Current Account Balance	Jun			35	
22-Aug							
10:00	PL	Retail Sales (y/y)	Jul	9.5%	7.5%	10.3%	Strong real wages growth supports high level of household spending.
24-Aug							
10:00	PL	Unemployment Rate	Jul	5.9%	5.9%	5.9%	Unemployment rate expected to remain stable at record low level.
11:00	HR	Wages (y/y)	Jun			4.3%	
12:00	RS	Wages (y/y)	Jun		3.5%	4.2%	Tightening labor market conditions favorable for wage growth.

Market Forecasts

Government bond yields					
	current	2018Q3	2018Q4	2019Q1	2019Q2
Croatia 10Y	2.22	2.30	2.40	2.50	2.50
spread (bps)	191	179	180	169	158
Czech Rep. 10Y	2.15	2.17	2.30	2.32	2.37
spread (bps)	184	166	170	151	145
Hungary 10Y	3.45	3.31	3.36	3.40	3.49
spread (bps)	314	280	276	259	257
Poland 10Y	3.14	3.25	3.40	3.50	3.50
spread (bps)	283	274	280	269	258
Romania 10Y	4.86	5.40	5.40	5.40	5.80
spread (bps)	455	489	480	459	488
Slovakia 9Y	0.59	0.95	1.15	1.30	n.a.
spread (bps)	28	44	55	49	n.a.
Slovenia 10Y	0.88	1.40	1.50	1.60	1.70
spread (bps)	57	89	90	79	78
Serbia 5Y	3.78	3.80	3.80	3.85	3.85
DE10Y (BBG)*	0.31	0.51	0.60	0.81	0.92

FX					
	current	2018Q3	2018Q4	2019Q1	2019Q2
EURHRK	7.42	7.45	7.50	7.45	7.30
forwards		7.42	7.42	7.42	7.42
EURCZK	25.72	25.60	25.20	24.85	24.70
forwards		25.74	25.74	25.74	25.74
EURHUF	323.9	326.0	325.0	325.0	325.0
forwards		327.1	327.1	327.1	327.1
EURPLN	4.30	4.30	4.30	4.30	4.30
forwards		4.30	4.30	4.30	4.30
EURRON	4.65	4.70	4.73	4.74	4.75
forwards		4.65	4.65	4.65	4.65
EURRSD	118.0	118.0	118.0	118.5	118.5
forwards		-	-	-	-
EURUSD	1.14	1.14	1.13	1.15	1.16

3M Money Market Rate					
	current	2018Q3	2018Q4	2019Q1	2019Q2
Croatia	0.50	0.50	0.50	0.60	0.70
Czech Republic	1.47	1.34	1.36	1.44	1.59
Hungary	0.19	0.30	0.35	0.45	0.55
Poland	1.70	1.73	1.73	1.73	1.73
Romania	3.27	3.25	3.00	3.10	3.40
Serbia	2.88	3.00	3.00	3.00	3.25
Eurozone	-0.32	-0.30	-0.30	-0.30	-0.30

Key Interest Rate					
	current	2018Q3	2018Q4	2019Q1	2019Q2
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.25	1.25	1.50	1.50	1.75
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.50
Romania	2.50	2.50	2.50	2.75	3.00
Serbia	3.00	3.00	3.00	3.00	3.25
Eurozone	0.00	0.00	0.00	0.00	0.00

Source: Erste Group Research, Bloomberg

Note: *Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

Past performance available [here](#)

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