

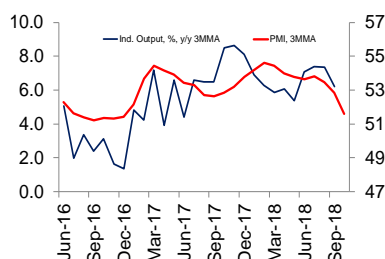
Weekly Focus Poland

Some macro figures are due this week in Poland. We expect wage growth to remain solid and arrive at 6.5% y/y in September. Industrial production is expected to slow down to 3.3% y/y, mostly due to calendar effects, but sentiment also lately decreasing. Finally, retail sales are expected to sustain solid growth and increase by 8.5% y/y. Global sentiment and EURUSD development to impact Polish zloty.

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Industry slowdown consistent with worsening market sentiment



This week:

- **October 16: We expect wage growth of 6.5% y/y**

Unlike the market, which sees wage growth to increase by 7.1% y/y in September, we expect the growth dynamics to slow down to 6.5% y/y in September from the 6.8% y/y observed a month ago. The situation on the labor market remains favorable, with a low unemployment rate, but the underlying trend on wage growth seems to have stabilized at around 7% dynamics. Solid wage growth is, if it continues, expected to eventually translate into inflationary pressure.

- **October 17: Industrial production to slow down to 3.3% y/y**

Given the calendar effect (one working day less vs. 2017) and worsening market sentiment (PMI dropped to 50.5 in September), we see industrial production growing by only 3.3% y/y in September and sustaining the recently observed downward trend. The PPI is likely to remain rather stable and increase by 2.9% y/y in September.

- **October 19: Retail sales to sustain solid growth dynamics**

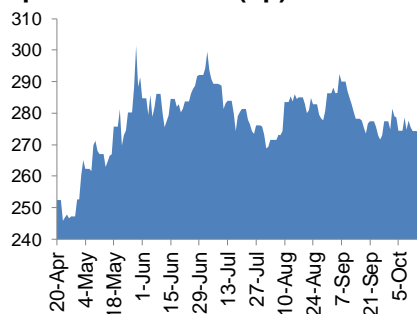
We expect retail sales growth to marginally slow down to 8.5% y/y in September, from 9.0% y/y in August, against the market consensus of growth of 8.1% y/y. We remain fairly optimistic about retail sales growth, as the overall level of HH spending is supported by the favorable situation on the labor market and solid wage growth.

Last week's highlights

- S&P upgraded Poland from BBB+ to A- with stable outlook, based on robust economic growth and favorable fiscal position
- Final CPI revised upwards to 1.9% y/y in September

Bond market drivers

Spread vs. Bunds (bp)

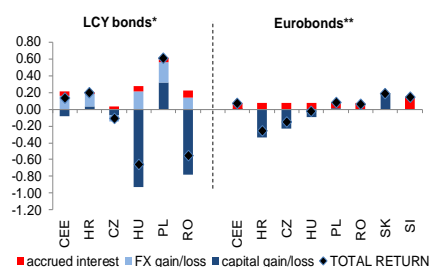


Source: Erste Group Research, Bloomberg

- 10Y yields moved toward 3.2%

Over the course of last week, 10Y yields went down by 8bp to 3.22%. The long end of the curve followed global developments and continued to move further down, most likely supported by the rating upgrade. The spread vs. 10Y German Bunds held slightly above 270bp last week, which is slightly below the 1Y average of 280bp. This week, local macro releases will most likely be neutral for the bond market, unless there is a strong surprise in the data that would suggest a bigger slowdown in the economy than is currently expected. Some slowdown in industrial production is anticipated, so the figure should have no major impact on current medium-term growth expectations.

Weekly performance of 5Y bonds (% in EUR)



Source: Erste Group Research, Bloomberg

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

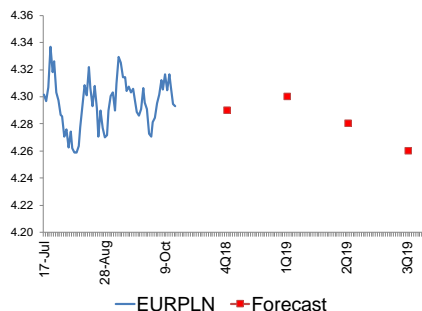
The LCY bond market reported an overall positive return of 0.14% (in EUR). The Polish LCY bond market was the best performer last week, with an overall return of 0.61% (in EUR). Zloty appreciation and the decrease in yields contributed to the positive return in Poland. On the other hand, the LCY bond market in Hungary and Romania reported a negative return of 0.66% and 0.55% (in EUR), respectively. In Hungary, 10Y yields increased by 20bp over the week due to risk-off mode on global markets, which might be seen as an interesting development before the MPC meeting on Tuesday.

FX market drivers

- Zloty holds stable despite global disturbances

Regional currencies were stable vs. the EUR last week. The EURPLN remained stable and hovered around 4.30. The zloty was rather resistant and did not undergo any serious correction after the stock selloff in the US and movement of the EURUSD. The S&P rating decision had no significant impact on the zloty. This week, retail sales data in the US and the EU summit, at which the current situation regarding the Brexit negotiations will be discussed, will most likely have an impact on both EURUSD development and the zloty.

EURPLN



Source: Erste Group Research, Bloomberg

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
15-Oct							
	RO	Current Account (monthly)	Aug			-4811	
9:00	SK	CPI (y/y)	Sep		2.8%	2.8%	Inflation expected to have remained largely unchanged in September.
9:00	SK	CPI (m/m)	Sep		0.1%	0.2%	Small monthly rise in consumer prices anticipated for September.
10:00	PL	CPI (y/y)	Sep F			1.8%	Final CPI to be confirmed at 1.8% y/y in September - base effect to weigh on inflation until year-end.
10:00	CZ	Current Account (monthly)	Aug	-10.00bn		-0.1	
14:00	PL	Trade Balance	Aug	-342		-432	
16-Oct							
9:00	CZ	PPI (y/y)	Sep		3.5%	3.3%	Development in oil prices and increased labor costs of firms stand behind relatively high PPI inflation.
10:00	PL	Wages (y/y)	Sep	7.1%	6.5%	6.8%	
11:00	HR	CPI (y/y)	Sep		2.0%	2.1%	Inflation keeping stable movements also in September
11:00	HR	CPI (m/m)	Sep			0.0%	
14:00	HU	Target Rate	Oct 16	0.9%	0.9%	0.9%	Recent price increases could mainly be explained by higher fuel and unprocessed food prices. Low level of core inflation rate suggests MNB could maintain dovish stance this quarter.
17-Oct							
10:00	PL	Industrial Production (y/y)	Sep	4.2%	3.3%	5.0%	We expect industry to slow in September - calendar effects in play and sentiment also worsening.
10:00	PL	PPI (y/y)	Sep	2.8%	2.9%	3.0%	
18-Oct							
No releases scheduled							
19-Oct							
	RS	Current Account (monthly)	Aug			-161.1	
	SK	Unemployment Rate	Sep		5.4%	5.4%	Only marginal decrease in rate of unemployment expected, given anticipated inflow of new graduates
10:00	PL	Retail Sales (y/y)	Sep	8.2%	8.5%	9.0%	We expect retail sales to be slightly lower in September, although overall level of HH spending remains high.
10:30	SI	PPI (y/y)	Sep			2.5%	

Market Forecasts

Government bond yields					
	current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia 10Y	2.10	2.30	2.40	2.40	2.50
spread (bps)	161	167	166	153	153
Czech Rep. 10Y	2.12	2.24	2.28	2.34	2.41
spread (bps)	163	161	154	147	144
Hungary 10Y	3.87	3.44	3.50	3.69	3.84
spread (bps)	339	281	276	282	287
Poland 10Y	3.20	3.30	3.35	3.40	3.50
spread (bps)	272	267	261	253	253
Romania10Y	5.12	5.20	5.20	5.40	5.40
spread (bps)	464	457	446	453	443
Slovakia 10Y	1.03	1.10	1.25	1.35	1.45
spread (bps)	54	47	51	48	48
Slovenia 10Y	1.13	1.20	1.40	1.50	1.50
spread (bps)	65	57	66	63	53
Serbia 5Y	3.52	3.90	3.95	3.95	4.00
DE10Y (BBG)*	0.48	0.63	0.74	0.87	0.97

FX					
	current	2018Q4	2019Q1	2019Q2	2019Q3
EURHRK	7.42	7.50	7.45	7.30	7.45
forwards		7.42	7.42	7.42	7.42
EURCZK	25.79	25.15	24.85	24.70	24.60
forwards		25.82	25.82	25.82	25.82
EURHUF	324.2	325.0	325.0	325.0	325.0
forwards		327.4	327.4	327.4	327.4
EURPLN	4.29	4.29	4.30	4.28	4.26
forwards		4.29	4.29	4.29	4.29
EURRON	4.67	4.68	4.74	4.75	4.75
forwards		4.67	4.67	4.67	4.67
EURRSD	118.2	118.5	118.5	118.5	118.5
forwards		-	-	-	-
EURUSD	1.16	1.13	1.15	1.16	1.18

3M Money Market Rate					
	current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia	0.50	0.50	0.50	0.60	0.70
Czech Republic	1.75	1.71	1.85	1.93	2.09
Hungary	0.17	0.35	0.45	0.55	0.75
Poland	1.72	1.73	1.73	1.73	1.73
Romania	3.18	2.80	3.10	3.30	3.30
Serbia	2.94	2.90	2.90	3.00	3.20
Eurozone	-0.32	-0.30	-0.30	-0.30	-0.10

Key Interest Rate					
	current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.50	1.75	1.75	1.75	2.00
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	2.75	3.00	3.00
Serbia	3.00	3.00	3.00	3.25	3.50
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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15 October 2018

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