

Weekly Focus Poland

We expect 4.7% y/y GDP growth in 3Q18 (due mid-November), based on our now-cast model incorporating last week's data. Unemployment rate most likely to remain stable at record-low level of 5.8% in September. With almost no macro releases due this week in Poland, local bond and FX market to remain under global pressure. Ongoing conflict between Italy and European Commission regarding Italy's budget could impact EURUSD and zloty.

Katarzyna Rzentarzewska
+43 5 0100 – 17356
katarzyna.rzentarzewska@erstegroup.com

Malgorzata Krzywicka
malgorzata.krzywicka@erstegroup.com

This week:

- **October 23: Unemployment rate to remain at record-low level**

We expect the unemployment rate to remain at the record-low level of 5.8% for the second month in a row. This week's data completes the picture of the labor market in Poland, which in our view stabilized recently, given the September reading for wage growth and employment.

- **Our now-cast model incorporating last week's data points to 4.7% y/y growth in 3Q18 (due mid-November)**

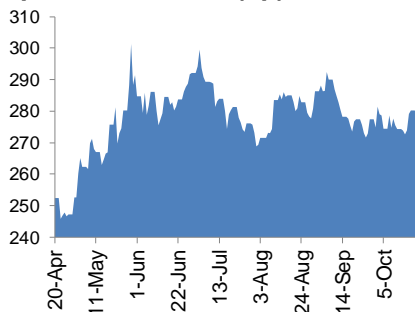
After last week's macro releases (industrial output and retail sales growth arrived well below market expectations), we updated our now-cast model for 3Q18 growth. We expect GDP growth to slow down to 4.7% y/y in 3Q18, given the drop in industrial production and retail sales growth in September. Flash GDP growth is due mid-November.

Last week's highlights

- Law and Justice (PiS), at 33%, won local election ahead of Civic Coalition (KO), at 26.7%, and Polish People's Party (PSL), at 13.6%. Turnout was highest in history of local elections and reached 53.4%.
- We observe stabilization on labor market, with wage growth of 6.7% y/y in September and employment slowing down to 3.2% y/y.
- Industrial production arrived at only 2.8% y/y in September, below market and our expectations. Construction output sustained double-digit growth and increased by 16.4% y/y in September.
- Retail sales growth also disappointed in September, arriving at 5.6% y/y in nominal terms (3.6% y/y in real terms), i.e. lowest growth dynamics for two years.
- Budget deficit revised to -1.4% pf GDP in 2017.

Bond market drivers

Spread vs. Bunds (bp)

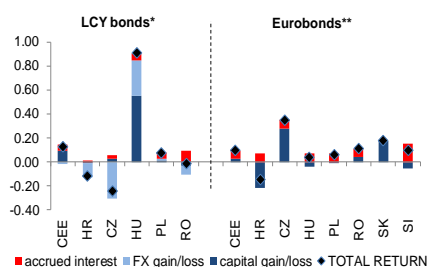


Source: Erste Group Research, Bloomberg

- 10Y yields under pressure from weak data and ECJ decision**

Over the week, the long end of the curve remained stable and 10Y yields held at around 3.20% until Friday. Weaker than expected retail sales data, the ECJ injunction immediately freezing the reforms of the Supreme Court in Poland, and increased global risk aversion had an impact on 10Y yields, which went up by 6bp on Friday. Although a yield increase was also observed on core markets (in Germany, 10Y yields went up by 5bp), the spread vs. 10Y Bunds widened from 272bp to 284bp over the week. Given the empty calendar this week, the bond market in Poland should follow global developments.

Weekly performance of 5Y bonds (% in EUR)



Source: Erste Group Research, Bloomberg

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

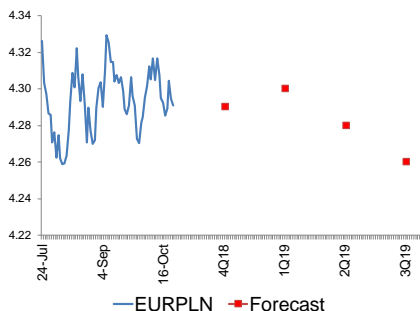
LCY bond markets in CEE did not show much movement over the course of the week apart from in Hungary. Appreciation of the forint and the drop of 10Y yields by about 15bp in Hungary translated into overall positive performance of the LCY bond market, with total positive return of 0.91% (in EUR). On the other hand, the Eurobonds market showed some movement, mostly in the Czech Republic, where the yield decrease contributed to positive performance of 0.35%.

FX market drivers

- Zloty moves in sideways trend**

Last week, despite macro releases being below expectations, the stronger US dollar and increased global risk aversion, the zloty was rather stable and was traded at between 4.28 and 4.31 vs. the EUR. It is our view that the zloty has recently been moving in a sideways trend. This week, the ongoing conflict between Italy and the European Commission over Italy's budget, and the ECB meeting, might put some pressure on the EURUSD, what could translate into weakening of the zloty in the coming days.

EURPLN



Source: Erste Group Research, Bloomberg

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
22-Oct							
No releases scheduled							
23-Oct							
10:00	PL	Unemployment Rate	Sep	5.8%	5.8%	5.8%	
14:30	SK	Current Account Balance	Aug			-379.65	
24-Oct							
No releases scheduled							
25-Oct							
11:00	HR	Wages (y/y)	Aug			3.6%	
12:00	RS	Wages (y/y)	Aug			4.9%	
26-Oct							
9:00	SK	PPI (y/y)	Sep		5.90%	6.1%	The pace of producer price inflation is likely to have eased slightly in September.

Market Forecasts

Government bond yields						FX					
	current	2018Q4	2019Q1	2019Q2	2019Q3		current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia 10Y	2.09	2.30	2.40	2.40	2.50	EURHRK	7.43	7.50	7.45	7.30	7.45
spread (bps)	162	168	166	153	153	forwards		7.43	7.43	7.43	7.43
Czech Rep. 10Y	2.12	2.15	2.16	2.20	2.26	EURCZK	25.84	25.30	24.85	24.70	24.60
spread (bps)	166	153	142	133	129	forwards		25.87	25.87	25.87	25.87
Hungary 10Y	3.81	3.58	3.63	3.73	3.75	EURHUF	322.8	325.0	325.0	325.0	325.0
spread (bps)	335	296	289	286	278	forwards		326.0	326.0	326.0	326.0
Poland 10Y	3.23	3.30	3.35	3.40	3.50	EURPLN	4.29	4.29	4.30	4.28	4.26
spread (bps)	277	268	261	253	253	forwards		4.29	4.29	4.29	4.29
Romania10Y	5.11	5.20	5.20	5.40	5.40	EURRON	4.67	4.68	4.69	4.70	4.75
spread (bps)	465	458	446	453	443	forwards		4.67	4.67	4.67	4.67
Slovakia 10Y	1.02	1.10	1.25	1.35	1.45	EURRSD	118.4	118.5	118.5	118.5	118.5
spread (bps)	55	48	51	48	48	forwards		-	-	-	-
Slovenia 10Y	1.15	1.20	1.40	1.50	1.50	EURUSD	1.15	1.13	1.15	1.16	1.18
spread (bps)	69	58	66	63	53						
Serbia 5Y	3.52	3.90	3.95	3.95	4.00						
DE10Y (BBG)*	0.46	0.62	0.74	0.87	0.97						
3M Money Market Rate						Key Interest Rate					
	current	2018Q4	2019Q1	2019Q2	2019Q3		current	2018Q4	2019Q1	2019Q2	2019Q3
Croatia	0.50	0.50	0.50	0.60	0.70	Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.77	1.91	1.92	1.97	2.11	Czech Republic	1.50	1.75	1.75	1.75	2.00
Hungary	0.16	0.20	0.45	0.55	0.75	Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.72	1.73	1.73	1.73	1.73	Poland	1.50	1.50	1.50	1.50	1.50
Romania	3.30	2.80	3.10	3.30	3.30	Romania	2.50	2.50	2.75	3.00	3.00
Serbia	2.94	2.90	2.90	3.00	3.20	Serbia	3.00	3.00	3.00	3.25	3.50
Eurozone	-0.32	-0.30	-0.30	-0.30	-0.10	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](#)

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; CEFA (Agency Analyst) +43 (0)5 0100 16314
Hans Engel (Senior Analyst Global Equities) +43 (0)5 0100 19835
Christian Enger, CFA (Covered Bonds) +43 (0)5 0100 84052
Margarita Grushanina (Economist AT, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Senior Economist Euro, US) +43 (0)5 0100 17331
Bernadett Povaszai-Römhild (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Economist Euro, CHF) +43 (0)5 0100 16360

Macro/Fixed Income Research CEE

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

CEE Equity Research

Head: Henning EBkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger +43 (0)5 0100 17906
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Vera Sutedja, CFA, MBA (Telecom, Steel) +43 (0)5 0100 11905
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Editor Research CEE

Brett Aarons +420 956 711 014

Research Croatia/Serbia

Head: Mladen Dodig (Equity) +381 11 22 09178
Head: Alen Kovac (Fixed income) +385 72 37 1383
Anto Augustinovic (Equity) +385 72 37 2833
Milan Deskar-Skrbic (Fixed income) +385 72 37 1349
Magdalena Dolenc (Equity) +385 72 37 1407
Ivana Rogic (Fixed income) +385 72 37 2419
Davor Spoljar, CFA (Equity) +385 72 37 2825

Research Czech Republic

Head: David Navratil (Fixed income) +420 956 765 439
Head: Petr Bartek (Equity) +420 956 765 227
Jiri Polansky (Fixed income) +420 956 765 192
Michal Skorepa (Fixed income) +420 956 765 172
Jan Sumbera (Equity) +420 956 765 218
Jan Zemlička (Fixed income) +420 956 765 456

Research Hungary

Head: József Miró (Equity) +361 235 5131
András Nagy (Equity) +361 235 5132
Orsolya Nyeste (Fixed income) +361 268 4428
Zsombor Varga (Fixed income) +361 373 2830
Tamás Pletser, CFA (Oil&Gas) +361 235 5135

Research Poland

Director of Research: Tomasz Duda (Equity) +48 22 330 6253
Cezary Bernatek (Equity) +48 22 538 6256
Konrad Grygo (Equity) +48 22 330 6254
Mateusz Krupa (Equity) +48 22 330 6251
Emil Poplawski (Equity) +48 22 330 6252

Research Romania

Head: Horia Braun-Erdei +40 3735 10424
Caius Raoanu (Equity) +40 3735 10441
Eugen Sinca (Fixed income) +40 3735 10435
Dorina Ilasco (Fixed Income) +40 3735 10436

Research Slovakia

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

Research Turkey

Ender Kaynar (Equity) +90 212 371 2530
Umut Cebir (Equity) +90 212 371 2537

Group Institutional & Retail Sales

Group Institutional Equity Sales

Head: Brigitte Zeitlberger-Schmid +43 (0)5 0100 83123

Cash Equity Sales

Werner Fuerst +43 (0)5 0100 83121
Josef Kerekes +43 (0)5 0100 83125
Cormac Lyden +43 (0)5 0100 83120

Institutional Equity Sales Croatia

Damir Eror (Equity) +385 72 37 28 36

Institutional Sales Czech Republic

Head: Michal Rizek +420 224 995 537
Pavel Krabicka (Equity) +420 224 995 411
Martin Havlan (Equity) +420 224 995 551

Institutional Sales Hungary

Head: Peter Csizmadia +36 1 237 8211
Levente Nándori (Equity) +361 235 5141
Attila Preisz (Equity) +361 235 5140
Balázs Zánkay (Equity) +361 235 5156

Institutional Equity Sales Poland

Jacek Jakub Langer (Head) +4822 330 6265
Mateusz Choromanski (Equity) +4822 538 6212
Wojciech Wysocki (Equity) +4822 538 6219
Przemyslaw Nowosad (Equity) +4822 538 6266
Grzegorz Stepień (Equity) +4822 330 6211

Institutional Equity Sales Romania

Liviu George Avram +40 3735 16569

Group Markets Retail Sales

Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT

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

Group Markets Execution

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

Retail & Sparkassen Sales

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

Corporate Treasury Prod. Distribution

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

Institutional Distribution CEE

Jaromir Malak +43 (0)5 0100 84254
Antun Buric +43 (0)5 0100 11387
Ciprian Mitu +43 (0)5 0100 85612

Institutional Distribution non CEE

Bernd Thaler +43 (0)5 0100 84119
Thomas Rakosi +43 (0)5 0100 84116

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Published by:

Erste Group Bank AG

Group Research

1100 Vienna, Austria, Am Belvedere 1

Head Office: Wien

Commercial Register No: FN 33209m

Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com