

## Weekly Focus Poland

Unemployment rate should decrease further in October. Flash estimate of inflation is expected to ease to 1.7% y/y in November, due to base effect and weak growth of food prices. GDP structure should show that private consumption remains pillar of growth, while investments should recover further. Inventories could make positive contribution to surprisingly strong growth in 3Q18. Bond and FX market should remain stable this week and follow developments on core markets.

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### This week:

- **November 27: Unemployment rate to drop further**

We expect the unemployment rate to fall further to 5.6% in October. The market consensus sees the unemployment stable at 5.7%. Trends observed on the labor market are still favorable, despite the recent stabilization of wage growth and the unemployment rate. The good financial situation supports the high level of household spending.

- **November 30: Headline inflation to ease in November**

The market expects flash CPI to decrease to 1.6% y/y in November, from 1.8% y/y in October. In our view, the drop in the headline figure will most likely be smaller, as we see CPI at 1.7% y/y in November. The inflation is expected to ease, given the base effect and weak food price growth.

- **November 30: GDP structure - private consumption to remain pillar of growth**

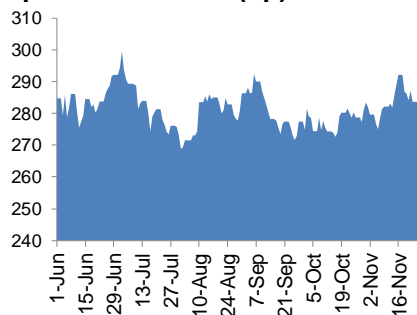
Given the strong positive surprise of 3Q18 GDP growth, which arrived at 5.1% y/y, the GDP structure will be of great interest. In our view, private consumption should remain the pillar of growth and a further recovery of investment is expected. However, it is unlikely that a rebound of investment is the factor behind the surprise. We thus tend to think that the increase in inventories contributed positively to such strong growth in 3Q18. After the release of monthly indicators for October, our now-cast model suggests that the growth dynamics should remain robust at around 4.8-4.9% y/y in 4Q18. Based on the GDP structure, we will revise our FY18 and FY19 growth forecast accordingly.

### Last week's highlights

- Industrial production arrived at 7.4% y/y in October, above our forecast and market expectations. Construction output came in at 22.4% y/y.
- Nominal retail sales growth accelerated to 9.7% y/y in October, surprising to the upside as well.

## Bond market drivers

### Spread vs. Bunds (bp)

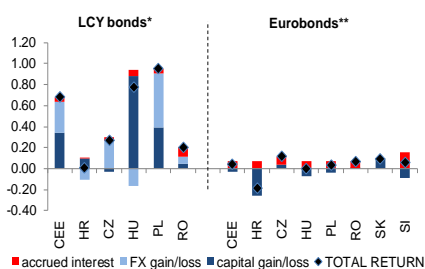


Source: Erste Group Research, Bloomberg

- 10Y yields fell by 10bp**

Over the week, the 10Y yields followed the developments observed in other CEE countries as well as on the core markets and went down from 3.27% to 3.16%. The 10Y yield on the German Bund decreased from 0.39% to 0.33%. As a result, the spread vs. the 10Y Bund narrowed from 287bp to around 280bp. Currently, the spread stands slightly above the one-year average. This week, local macro releases should not have any major impact on the bond market. Further on, the upcoming vote on the Brexit deal and ongoing conflict between the EU and Italy over the budget might keep up the pressure on the core markets.

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



Source: Erste Group Research, Bloomberg

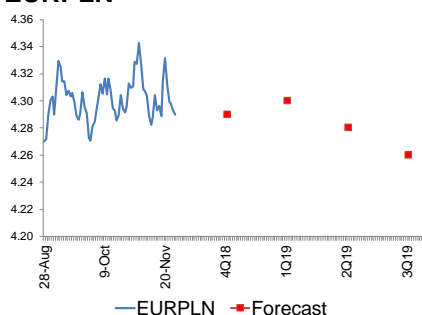
- Weekly performance of 5Y bonds (% in EUR)**

Last week, the regional LCY bond market reported an overall positive performance of 0.6% (in EUR). In Poland, the LCY bond market performance was supported by the appreciation of the zloty and a 10bp decline in yields. In Hungary, the positive performance was due to a significant drop in yields, the 10Y yield fell by almost 20bp throughout the week. In the remaining countries, the performance was also positive, but the total return was not as impressive as in the case of Poland and Hungary.

## FX market drivers

- Zloty pared recent losses**

### EURPLN



Source: Erste Group Research, Bloomberg

At the beginning of the week, the zloty remained rather weak and the EURPLN went above 4.33. Toward the end of the week, the pressure on the zloty eased and it managed to pare recent losses, as it went below 4.30 vs. the EUR. In our view, the recently increased volatility on the EURPLN was mainly due to the corruption scandal including the head of the Financial Supervisory Authority. This week, releases (Eurozone CPI) should be neutral for the EURUSD, and hence the zloty should remain stable around 4.30 vs. the EUR.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>26-Nov</b>							
11:00	HR	Unemployment Rate	Oct			8.4%	
12:00	RS	Wages (y/y)	Sep			3.5%	
<b>27-Nov</b>							
10:00	PL	Unemployment Rate	Oct	5.7%	<b>5.6%</b>	5.7%	We expect unemployment to decrease further
14:30	SK	Current Account Balance	Sep			-472.23	
<b>28-Nov</b>							
9:00	HU	Unemployment Rate	Oct		<b>3.8%</b>	3.8%	Tight labor market conditions do not indicate increase in number of unemployed, while decreasing number of public workers and seasonal effects may limit further decrease as well
9:00	SK	PPI (y/y)	Oct		<b>6.1%</b>	6.1%	We expect producer prices to have increased mildly on monthly basis, keeping y/y pace unchanged from September
11:00	HR	GDP	3QP		<b>2.3%</b>	2.9%	Croatian economy to mark marginal slowdown
<b>29-Nov</b>							
	RO	Unemployment Rate	Oct			3.33%	
11:00	HR	Industrial Production (y/y)	Oct		<b>-2.0%</b>	-2.6%	Industrial production decline expected to moderate in October
<b>30-Nov</b>							
9:00	CZ	GDP (q/q)	3Q P	0.5%	<b>0.5%</b>	0.4%	We expect slight revision upwards from 0.4% q/q; we see economic development in Czech economy as favorable, despite slight negative surprise associated with lower than expected flash estimate figure
9:00	CZ	GDP (y/y)	3Q P	2.3%	<b>2.4%</b>	2.3%	GDP growth is still positively affected by both domestic and foreign demand; economic slowdown, influenced mainly by lack of new available employees and tighter monetary conditions, is temporary, in our view, and we expect its acceleration towards 3% in coming quarters
9:00	HU	PPI (y/y)	Oct			6.7%	
9:00	HU	Trade Balance	Sep F			268	
10:00	PL	CPI (y/y)	Nov P	1.5%	<b>1.7%</b>	1.8%	Inflation to drop, due to base effects and deflationary behavior of oil price
10:00	PL	GDP (y/y)	3Q F		<b>5.1%</b>	5.1%	We expect private consumption to remain pillar of growth
10:30	SI	CPI (y/y)	Nov		<b>1.9%</b>	2.2%	Inflation expected to keep stable movements around 2% mark
10:30	SI	GDP (y/y)	3Q		<b>3.6%</b>	3.8%	Figure shaped by solid private consumption footprint, stable investment trajectory and milder net exports contribution
12:00	RS	Industrial Production (y/y)	Oct		<b>2.8%</b>	-1.2%	Industrial production shaped by seasonal factors
12:00	RS	Retail Sales (y/y)	Oct		<b>3.9%</b>	5.9%	Continuation of positive developments ahead, as figure is supported by improving labor market, rising wages and stable inflation movements
12:00	RS	Trade Balance	Oct			-400.4	
12:00	RS	GDP (y/y)	3Q F		<b>3.7%</b>	3.7%	We expect Statistical Office to confirm flash estimate

## Market Forecasts

Government bond yields					
	current	2018Q4	2019Q1	2019Q2	2019Q3
<b>Croatia 10Y</b>	2.06	2.30	2.40	2.40	2.50
spread (bps)	170	175	174	162	164
<b>Czech Rep. 10Y</b>	2.04	2.15	2.16	2.20	2.26
spread (bps)	168	160	150	142	140
<b>Hungary 10Y</b>	3.31	3.55	3.63	3.73	3.75
spread (bps)	295	300	297	295	289
<b>Poland 10Y</b>	3.17	3.30	3.35	3.40	3.50
spread (bps)	282	275	269	262	264
<b>Romania10Y</b>	5.00	5.20	5.20	5.40	5.40
spread (bps)	464	465	454	462	454
<b>Slovakia 10Y</b>	0.92	1.10	1.25	1.27	1.30
spread (bps)	56	55	59	49	44
<b>Slovenia 10Y</b>	1.10	1.20	1.40	1.50	1.50
spread (bps)	75	65	74	72	64
<b>Serbia 5Y</b>	3.45	3.60	3.60	3.60	3.70
<b>DE10Y (BBG)*</b>	<b>0.36</b>	<b>0.55</b>	<b>0.66</b>	<b>0.78</b>	<b>0.86</b>

FX					
	current	2018Q4	2019Q1	2019Q2	2019Q3
<b>EURHRK</b>	7.43	7.50	7.45	7.30	7.45
forwards		7.43	7.43	7.43	7.43
<b>EURCZK</b>	25.91	25.40	24.95	24.70	24.60
forwards		25.93	25.94	25.94	25.94
<b>EURHUF</b>	322.5	322.0	325.0	325.0	325.0
forwards		325.7	325.7	325.7	325.8
<b>EURPLN</b>	4.29	4.29	4.30	4.28	4.26
forwards		4.29	4.29	4.29	4.29
<b>EURRON</b>	4.66	4.68	4.69	4.70	4.75
forwards		4.66	4.66	4.66	4.66
<b>EURRSD</b>	118.4	118.5	118.5	118.5	118.5
forwards		-	-	-	-
<b>EURUSD</b>	1.14	1.11	1.10	1.12	1.14

3M Money Market Rate					
	current	2018Q4	2019Q1	2019Q2	2019Q3
<b>Croatia</b>	0.49	0.50	0.50	0.60	0.70
<b>Czech Republic</b>	2.02	1.91	1.92	1.97	2.11
<b>Hungary</b>	0.13	0.15	0.45	0.55	0.75
<b>Poland</b>	1.72	1.73	1.73	1.73	1.73
<b>Romania</b>	3.20	2.80	3.10	3.30	3.30
<b>Serbia</b>	3.03	2.95	2.95	3.05	3.20
<b>Eurozone</b>	-0.32	-0.30	-0.30	-0.30	-0.10

Key Interest Rate					
	current	2018Q4	2019Q1	2019Q2	2019Q3
<b>Croatia</b>	0.30	0.30	0.30	0.30	0.30
<b>Czech Republic</b>	1.75	1.75	1.75	1.75	2.00
<b>Hungary</b>	0.90	0.90	0.90	0.90	0.90
<b>Poland</b>	1.50	1.50	1.50	1.50	1.50
<b>Romania</b>	2.50	2.50	2.75	3.00	3.00
<b>Serbia</b>	3.00	3.00	3.00	3.00	3.00
<b>Eurozone</b>	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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