

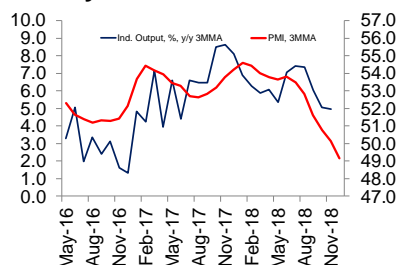
Weekly Focus Poland

MPC kept policy rate stable at 1.5% this week. Trade balance and current account deficits better than expected. Final release of inflation rate should bring no surprises, while industrial output growth should fit slowing trend. Release of FY18 German GDP growth and vote on Brexit deal to be center of attention this week.

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Weaker performance of industry



This week:

- **January 15: Final CPI expected at 1.1% y/y in December**

The flash CPI published two weeks ago arrived at 1.1% y/y in December. The inflation rate dropped below the lower bound of the central bank target of 1.5%. Overall, inflationary pressure remains limited, as evidenced by core inflation below 1%. Recently, the external environment has also been deflationary due to low dynamics of food prices and the dropping price of oil. Average inflation in 2018 landed at 1.6% and we expect it to be only slightly higher this year (our forecast is 1.9%).

- **January 18: Industrial production to grow 4.3% y/y in December vs. market expectations at 5.0% y/y**

Performance of industry has weakened in recent months. The underlying trend (3MMA) shows slowing industrial growth, from 7% to around 5%. This is in line with weakening market sentiment and PMI dropping below the threshold of 50. We see industrial output growth at 4.3% y/y in December, which would set the average growth of the industry to around 5.5% in 4Q18. Despite weakening industrial growth, GDP dynamics have proved robust. The first estimate of GDP growth in 2018 (due at the end of January) is expected to be 5.1%.

- **January 18: Wage growth to sustain dynamics close to 7% y/y in December**

The labor market remains tight. Although the downward trend in the unemployment rate has ended (the unemployment rate went up to 5.9% in December, according to the Ministry of Labor), wage growth should sustain its dynamics at around 7%, as labor shortages remain the limiting factor.

Last week's highlights

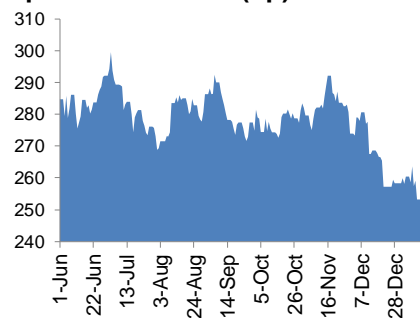
- MPC kept policy rate flat at 1.5%.
- Trade and current account deficits better than expected (EUR 229mn and EUR 221mn)

Bond market drivers

- **10Y yield remains below 3%**

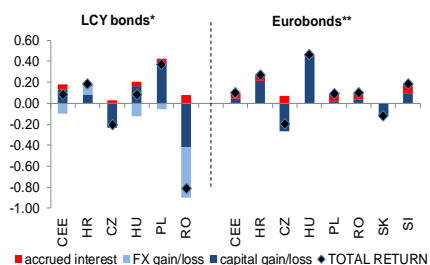
We saw a correction on the long end of the curve last week, as 10Y yields went up to as much as 2.85%. At the beginning of this week, the downward trend seems to be back, however, as long-term yields have dropped toward 2.7%. At the same time, the spread vs. Bunds has narrowed to around 250bp. This week, global sentiment is going to be crucial for the bond market, in our view. German GDP growth for 2018 as a whole is due on January 15. Due to the importance of foreign trade, Germany's economy is particularly susceptible to the current phase of global trade weakness. If Germany's GDP fell further in 4Q18, Germany would technically be in recession. If yields on core markets drop in reaction to the data, we would expect a similar trend in Poland. Another event with possible market impact is the vote in the British Parliament on the Brexit deal.

Spread vs. Bunds (bp)



Source: Erste Group Research, Bloomberg

Weekly performance of 5Y bonds (% in EUR)



Source: Erste Group Research, Bloomberg

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

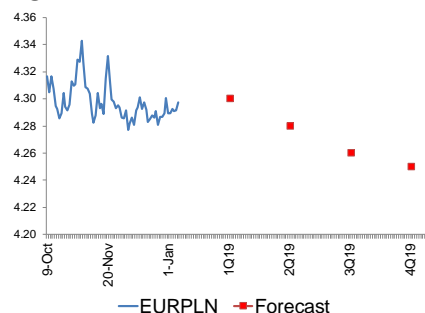
Last week, the performance of the 5Y bonds in the region was mixed. While Hungary and Poland posted capital gains, in the Czech Republic and Romania the situation was the opposite. Romania is a clear outlier, as it visibly underperformed. The behavior of the interest rate market seems to echo the introduction of the new measures (bank tax among others). On top of that, the EURRON hit an all-time low and FX losses have only increased the total loss on the Romanian bond market.

FX market drivers

- **Zloty remains locked at 4.29-4.30 vs. EUR**

There has been no major change on the Polish FX market, as the zloty remains stable and is moving in a tight range. This week, global sentiment is going to drive the FX market, as German FY18 GDP data will be published and a vote in the British Parliament on the Brexit deal is scheduled.

EURPLN



Source: Erste Group Research, Bloomberg

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
15-Jan							
9:00	HU	CPI (y/y)	Dec	2.8%	2.70%	3.1%	Continuation of drops in fuel prices could have been most important reason for expected slowdown of headline rate.
9:00	HU	CPI (m/m)	Dec	-0.4%	-0.35%	-0.3%	
9:00	SK	CPI (y/y)	Dec		2.1%	2.1%	Inflationary pressures expected to have eased slightly towards year-end.
9:00	SK	CPI (m/m)	Dec		0.0%	-0.1%	Hardly any monthly change in consumer prices expected for December.
10:00	PL	CPI (y/y)	Dec F		1.1%	1.1%	We expect flash to be confirmed
10:00	PL	CPI (m/m)	Dec F				
16-Jan							
9:00	CZ	PPI (y/y)	Dec	3.2%	3.2%	3.9%	Decrease in oil prices was main driver behind lower y/y growth in producer prices, although effect partly mitigated by increase in wage costs of firms.
11:00	HR	CPI (y/y)	Dec		1.4%	1.3%	December inflation expected to remain in narrow band, wrapping up average 2018 CPI figure at 1.5%
11:00	HR	CPI (m/m)	Dec			-0.3%	
17-Jan							
No releases scheduled							
18-Jan							
	RS	Current Account Balance	Nov			-146	
	SK	Unemployment Rate	Dec		5.1%	5.09%	Unemployment rate could have experienced seasonal stagnation towards year-end.
10:00	PL	Industrial Production (y/y)	Dec	5.0%	4.3%	4.7%	Decreasing sentiment visible in recent months, dragging production down
10:00	PL	PPI (y/y)	Dec	2.6%	2.5%	2.7%	Price pressure to remain limited
10:00	PL	Wages (y/y)	Dec	7.30%	6.9%	7.7%	Wage growth to sustain solid stable growth

Market Forecasts

Government bond yields					
	current	2019Q1	2019Q2	2019Q3	2019Q4
Croatia 10Y	2.40	2.05	2.10	2.20	2.30
spread (bps)	221	150	142	140	141
Czech Rep. 10Y	1.73	2.26	2.34	2.43	2.51
spread (bps)	154	171	166	163	162
Hungary 10Y	2.88	3.45	3.63	3.75	3.81
spread (bps)	269	290	295	295	292
Poland 10Y	2.75	3.00	3.10	3.15	3.20
spread (bps)	257	245	242	235	231
Romania10Y	4.55	5.20	5.40	5.40	5.40
spread (bps)	436	465	472	460	451
Slovakia 10Y	0.75	1.25	1.27	1.30	1.55
spread (bps)	56	70	59	50	66
Slovenia 10Y	1.03	1.20	1.30	1.40	1.50
spread (bps)	84	65	62	60	61
Serbia 5Y	3.36	3.65	3.70	3.70	3.80
DE10Y (BBG)*	0.19	0.55	0.68	0.80	0.89

FX					
	current	2019Q1	2019Q2	2019Q3	2019Q4
EURHRK	7.43	7.45	7.30	7.42	7.45
forwards		7.43	7.43	7.43	7.43
EURCZK	25.56	25.00	24.70	24.60	24.50
forwards		25.59	25.59	25.59	25.59
EURHUF	321.0	325.0	325.0	325.0	325.0
forwards		324.2	324.2	324.2	324.2
EURPLN	4.30	4.30	4.28	4.26	4.25
forwards		4.30	4.30	4.30	4.30
EURRON	4.66	4.69	4.70	4.75	4.77
forwards		4.66	4.66	4.66	4.66
EURRSD	118.9	118.5	118.5	118.5	119.0
forwards		-	-	-	-
EURUSD	1.14	1.11	1.12	1.14	-

3M Money Market Rate					
	current	2019Q1	2019Q2	2019Q3	2019Q4
Croatia	0.50	0.50	0.55	0.55	0.60
Czech Republic	2.01	1.92	1.97	2.11	2.19
Hungary	0.13	0.45	0.55	0.75	0.85
Poland	1.72	1.73	1.73	1.73	1.73
Romania	2.94	3.30	3.30	3.30	3.30
Serbia	3.05	3.05	3.05	3.10	3.10
Eurozone	-0.31	-0.30	-0.30	-0.10	-

Key Interest Rate					
	current	2019Q1	2019Q2	2019Q3	2019Q4
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.75	1.75	1.75	2.00	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	2.50	2.50	2.50
Serbia	3.00	3.00	3.00	3.00	3.25
Eurozone	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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14 January 2019

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