

## Weekly Focus Poland

We expect the first estimate of GDP growth in 2018 to arrive at 5.1%, i.e. the highest since 2011. The PMI is expected to show a marginal upward correction in January and reach 48.0. This week, the Eurozone flash estimate of 4Q18 GDP is due. The Polish zloty and local bond market should remain stable, unless the Eurozone growth release is a major disappointment.

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### This week:

- **January 31: Annual growth dynamics, at 5.1%, to hit highest rate since 2011**

We expect the first estimate of annual GDP growth in 2018 to arrive at 5.1% y/y, while the market sees the growth dynamics as being a bit lower, at 5.0% y/y. Despite the somewhat disappointing monthly performance of the economy in December, the pace of economic expansion throughout last year should remain solid. Actually, it is very likely to be the highest growth rate since 2011. We believe that private consumption remained the main driver of growth last year, supported by recovering investments. December retail sales and industrial production data suggests that the weakening sentiment in Western Europe and Poland is finally visible in economic activity and signals slowing growth in the quarters to come. We thus expect the economy to gradually slow in 2019 to 3.8%.

- **February 1: PMI to show some upward correction**

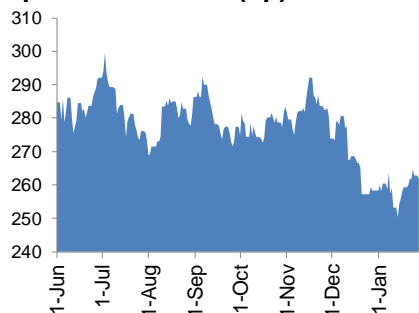
The preliminary reading of the PMI for manufacturing in January disappointed in Germany and arrived at 49.9 last week. In Poland, the market expects a marginal rebound of the PMI, from 47.6 in December to 48.0 in January. However, overall market sentiment has been weakening and a PMI below the threshold of 50 suggests that industrial output growth is losing strength.

### Last week's highlights

- Nominal retail sales surprised visibly to downside and arrived at 4.7% y/y in December (3.9% y/y in real terms).
- Recent comments from MPC members show mixed expectations regarding monetary policy in 2019.
- MinFin sold PLN 8bn of treasury papers. Poland already has 43% of this year's borrowing needs financed.

## Bond market drivers

### Spread vs. Bunds (bp)

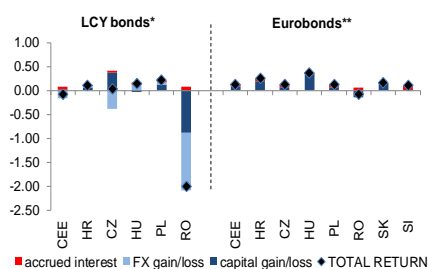


Source: Erste Group Research, Bloomberg

- **10Y yield remains stable between 2.8% and 2.85%**

At the beginning of the previous week, the 10Y yield held at 2.85% before going marginally down to around 2.8% in the second half of the week. On Friday, the MinFin held a second regular bond auction in January and sold treasury papers worth PLN 8bn, with a healthy bid-to-cover ratio of 1.45. On core markets, we observed a drop of 10Y German Bunds to 0.18% in the aftermath of the ECB acknowledging that risks for the Eurozone economy have been moving downside lately. As a result, the spread vs. 10Y German Bunds widened to around 260bp. This week, the flash estimate of GDP growth in 4Q18 for the Eurozone is due. Unless local and Eurozone data disappoint visibly, the yield curve in Poland should remain stable. Strong GDP growth in Poland is broadly expected and should be neutral for the bond market.

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



Source: Erste Group Research, Bloomberg

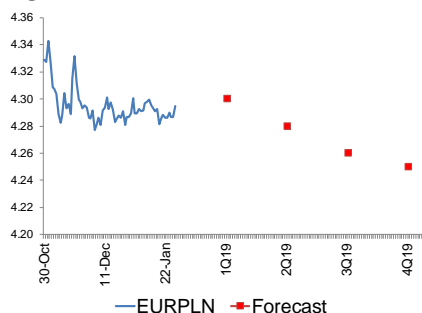
- **Weekly performance of 5Y bonds (% in EUR)**

Last week, the LCY bond market in CEE marked overall negative performance of -0.08% (in EUR). The main driver behind the negative performance was Romania, where the LCY bond market was characterized by a loss of almost -2.0% (in EUR). In Romania, due to recent government measures, yields increased by 10-20bp on the whole curve. Moreover, the Romanian leu depreciated to all-time lows – the EURRON hit our year-end forecast of 4.77. Performance in other countries was rather stable.

## FX market drivers

- **Zloty holds flat at 4.29 vs. EUR**

### EURPLN



Source: Erste Group Research, Bloomberg

Last week, the zloty held stable at around 4.29 vs. the EUR and was traded in a narrow corridor between 4.285 and 4.295. We believe that the zloty will remain stable in the coming weeks, as the outlook is unchanged. Unless we observe a visible move on the EURUSD pair, we do not expect any major change in the behavior of the EURPLN.

## Calendar

| Time          | Country | Indicator                   | Period | Survey | Erste Est.   | Prev.   | Pre Comment   |
|---------------|---------|-----------------------------|--------|--------|--------------|---------|---|
| <b>28-Jan</b> |         |                             |        |        |              |         |   |
| 9:00          | SK      | PPI (y/y)                   | Dec    |        | <b>5.2%</b>  | 5.8%    | <i>Some easing expected in inflationary pressures in production.</i>  |
| <b>29-Jan</b> |         |                             |        |        |              |         |   |
| 11:00         | HR      | Industrial Production (y/y) | Dec    |        | <b>-0.4%</b> | -0.8%   | <i>Industrial production decline expected to further moderate in December.</i>  |
| 14:00         | HU      | Target Rate                 | Jan 29 | 0.9%   | <b>0.90%</b> | 0.9%    |   |
| 14:30         | SK      | Current Account Balance     | Nov    |        |              | -204.34 |   |
| <b>30-Jan</b> |         |                             |        |        |              |         |   |
| 9:00          | HU      | Unemployment Rate           | Dec    | 3.6%   |              | 3.6%    |   |
| <b>31-Jan</b> |         |                             |        |        |              |         |   |
|               | RO      | Unemployment Rate           | Dec    |        |              | 3.31%   |   |
| 9:00          | HU      | PPI (y/y)                   | Dec    |        |              | 5.1%    |   |
| 10:00         | PL      | GDP Annual (y/y)            | 2018   | 5.0%   | <b>5.1%</b>  | 4.8%    | <i>Given strong quarterly figures in 2018 (1-3Q), we expect annual growth to accelerate to above 5%.</i>                          |
| 12:00         | RS      | Industrial Production (y/y) | Dec    |        | <b>1.2%</b>  | -1%     | <i>We see sluggish growth as positive; manufacturing output offset by mining slump.</i>   |
| 12:00         | RS      | Retail Sales (y/y)          | Dec    |        | <b>4.5%</b>  | 6.1%    | <i>Strong growth as consumers front-loaded expected wage increases in 2019.</i>   |
| 12:00         | RS      | Trade Balance               | Dec    |        | <b>-670</b>  | -504.3  | <i>Despite strong export dynamics, demand-driven imports still dominant.</i>  |
| 12:00         | RS      | GDP (y/y)                   | 4Q P   |        | <b>3.40%</b> | 3.8%    | <i>Private consumption and strong investments bode well for headline figure, while net exports contribution remains negative.</i> |
| <b>1-Feb</b>  |         |                             |        |        |              |         |   |
| 9:00          | HU      | Trade Balance               | Nov F  |        |              | 496     |   |

## Market Forecasts

| Government bond yields |             |             |             |             |             |
|------------------------|-------------|-------------|-------------|-------------|-------------|
|                        | current     | 2019Q1      | 2019Q2      | 2019Q3      | 2019Q4      |
| <b>Croatia 10Y</b>     | 2.34        | 2.40        | 2.45        | 2.50        | 2.60        |
| spread (bps)           | 215         | 198         | 186         | 182         | 180         |
| <b>Czech Rep. 10Y</b>  | 1.82        | 2.26        | 2.34        | 2.43        | 2.51        |
| spread (bps)           | 162         | 184         | 175         | 175         | 171         |
| <b>Hungary 10Y</b>     | 2.85        | 2.84        | 3.03        | 3.28        | 3.32        |
| spread (bps)           | 266         | 242         | 244         | 260         | 252         |
| <b>Poland 10Y</b>      | 2.80        | 3.00        | 3.10        | 3.15        | 3.20        |
| spread (bps)           | 261         | 258         | 251         | 247         | 240         |
| <b>Romania10Y</b>      | 5.14        | 5.20        | 5.40        | 5.40        | 5.40        |
| spread (bps)           | 494         | 478         | 481         | 472         | 460         |
| <b>Slovakia 10Y</b>    | 0.78        | 1.25        | 1.27        | 1.30        | 1.55        |
| spread (bps)           | 58          | 83          | 68          | 62          | 75          |
| <b>Slovenia 10Y</b>    | 1.08        | 1.20        | 1.30        | 1.40        | 1.50        |
| spread (bps)           | 88          | 78          | 71          | 72          | 70          |
| <b>Serbia 5Y</b>       | 3.36        | 3.60        | 3.60        | 3.65        | 3.70        |
| <b>DE10Y (BBG)*</b>    | <b>0.20</b> | <b>0.42</b> | <b>0.59</b> | <b>0.68</b> | <b>0.80</b> |

| FX            |         |        |        |        |        |
|---------------|---------|--------|--------|--------|--------|
|               | current | 2019Q1 | 2019Q2 | 2019Q3 | 2019Q4 |
| <b>EURHRK</b> | 7.43    | 7.45   | 7.30   | 7.42   | 7.45   |
| forwards      |         | 7.43   | 7.43   | 7.43   | 7.43   |
| <b>EURCZK</b> | 25.71   | 25.00  | 24.70  | 24.60  | 24.50  |
| forwards      |         | 25.73  | 25.73  | 25.73  | 25.73  |
| <b>EURHUF</b> | 317.8   | 325.0  | 325.0  | 325.0  | 325.0  |
| forwards      |         | 321.0  | 321.0  | 321.0  | 321.0  |
| <b>EURPLN</b> | 4.29    | 4.30   | 4.28   | 4.26   | 4.25   |
| forwards      |         | 4.30   | 4.30   | 4.30   | 4.30   |
| <b>EURRON</b> | 4.76    | 4.69   | 4.70   | 4.75   | 4.77   |
| forwards      |         | 4.76   | 4.76   | 4.76   | 4.76   |
| <b>EURRSD</b> | 118.5   | 118.5  | 118.5  | 118.5  | 119.0  |
| forwards      |         | -      | -      | -      | -      |
| <b>EURUSD</b> | 1.14    | 1.11   | 1.12   | 1.14   | -      |

| 3M Money Market Rate  |         |        |        |        |        |
|-----------------------|---------|--------|--------|--------|--------|
|                       | current | 2019Q1 | 2019Q2 | 2019Q3 | 2019Q4 |
| <b>Croatia</b>        | 0.49    | 0.50   | 0.55   | 0.55   | 0.60   |
| <b>Czech Republic</b> | 2.00    | 1.92   | 1.97   | 2.11   | 2.19   |
| <b>Hungary</b>        | 0.14    | 0.19   | 0.40   | 0.70   | 0.85   |
| <b>Poland</b>         | 1.72    | 1.73   | 1.73   | 1.73   | 1.73   |
| <b>Romania</b>        | 3.11    | 3.30   | 3.30   | 3.30   | 3.30   |
| <b>Serbia</b>         | 3.10    | 3.07   | 3.07   | 3.07   | 3.32   |
| <b>Eurozone</b>       | -0.31   | -0.30  | -0.30  | -0.10  | -      |

| Key Interest Rate     |         |        |        |        |        |
|-----------------------|---------|--------|--------|--------|--------|
|                       | current | 2019Q1 | 2019Q2 | 2019Q3 | 2019Q4 |
| <b>Croatia</b>        | 0.30    | 0.30   | 0.30   | 0.30   | 0.30   |
| <b>Czech Republic</b> | 1.75    | 1.75   | 1.75   | 2.00   | 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   | 2.50   | 2.50   | 2.50   |
| <b>Serbia</b>         | 3.00    | 3.00   | 3.00   | 3.00   | 3.25   |
| <b>Eurozone</b>       | 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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28 January 2019

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