

Weekly Focus Poland

This week, we will get to know the performance of the economy at the beginning of the year. The growth in the last quarter was still robust, but a slowdown seems to be waiting around the corner. We expect industrial output and retail sales growth to remain positive, but the dynamics should fit the underlying slowing trend. We do not expect any major changes on the FX and bond market. However, if local data surprises to the upside, it could benefit the zloty.

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This week:

- **February 19: Average wage and employment growth**

We believe that nominal wage growth does not have much space to accelerate more visibly, which goes against market expectations (wage growth at 6.9% y/y in January). At the same time, growth of employment is expected to slow more visibly, as the consensus sees the growth at 1.8% y/y in January vs. 2.8% y/y in December. The slowing employment growth suggests lower dynamics of private consumption in the coming quarters, which is in line with our scenario of an economic slowdown.

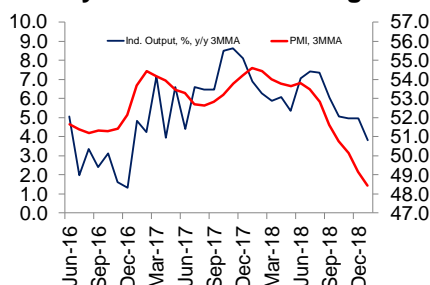
- **February 20: We see industrial output at 3.9% y/y in January, slightly above consensus at 3.6% y/y**

Industry has been slowly, losing strength for the last couple of months already. We see January's growth in the positive area at 3.6% y/y, despite the PMI arriving below the threshold of 50 for the last three months. Calendar effects (one more working day) as well as an increase of new orders should support industry at the beginning of the year.

- **February 21: Retail sales to grow at 6.5% y/y in January**

After a disappointing December, we expect retail sales growth to accelerate in January to above 6%. As consumer confidence remains strong and the labor market has been tight, we keep expecting solid growth of retail sales.

Industry has been weakening

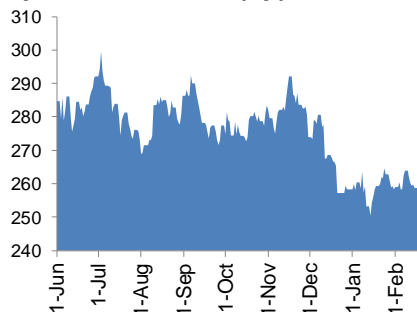


Last week's highlights

- 4Q18 GDP growth arrived at 4.9% y/y, slightly above market expectations
- Inflation eased to 0.9% in January

Bond market drivers

Spread vs. Bunds (bp)

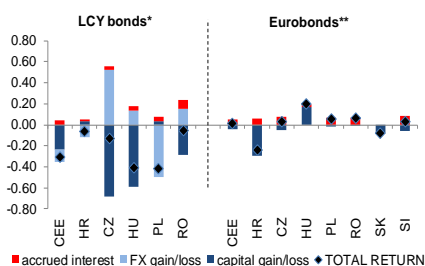


Source: Erste Group Research, Bloomberg

- **10Y yield below 2.7%, in response to low inflation data**

10Y German yields have been holding relatively stable over the last week. Polish 10Y yields dropped below 2.7% at the end of the week, after the publication of inflation data. In general, the downward trend on the long end of the curve is in line with easing inflation pressure over the last few months. This week, domestic releases should have a limited impact on the bond market.

Weekly performance of 5Y bonds (% in EUR)



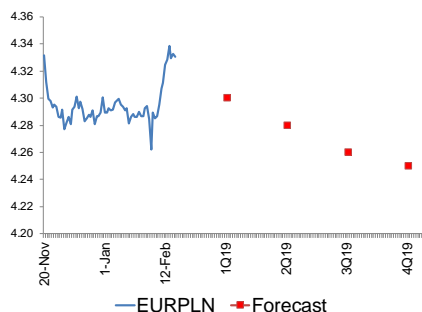
Source: Erste Group Research, Bloomberg

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

The LCY market ended the week in negative territory, as yields went up in the Czech Republic, Hungary and Romania, resulting in capital loss in those countries. Increased interest rate expectations were the main reason behind this development in the Czech Republic and Hungary. In Romania, the uncertainty around the fiscal situation still persists, affecting the bond market. As far as the FX market is concerned, the Polish zloty clearly underperformed, as it weakened last week, while the Czech koruna, Hungarian forint and Romanian leu appreciated, turning into an FX gain.

FX market drivers

EURPLN



Source: Erste Group Research, Bloomberg

- **Zloty kept weakening, EURPLN touched 4.34 level**

The zloty has been weakening continuously since the beginning of February. Last week, the EURPLN touched 4.34, the lowest level in a couple of months. We believe that global factors are driving the zloty; in particular, the zloty is sensitive to the EURUSD development, as the macroeconomic outlook has not changed much recently. Although the economic slowdown is broadly expected, disappointing data on industrial output and/or retail sales growth is likely to limit appreciation potential further.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
19-Feb							
	SK	Unemployment Rate	Jan			5.04%	
10:00	PL	Wages (y/y)	Jan	6.70%	5.8%	6.1%	After moving in sideways trend in 2H18, we expect wage growth to ease.
20-Feb							
10:00	PL	Industrial Production (y/y)	Jan	3.8%	3.90%	2.8%	Positive calendar effect (+1 working day) should support industrial performance. New orders up in December, which is positive for industrial output.
10:00	PL	PPI (y/y)	Jan	2.1%	1.90%	2.2%	Price pressure to ease in January.
21-Feb							
10:00	PL	Retail Sales (y/y)	Jan	5.5%	6.50%	4.7%	Increase of local consumer sentiment index (BWUK) observed in January compared to December, which should support retail sales.
10:30	SI	PPI (y/y)	Jan			1.4%	
22-Feb							
11:00	HR	CPI (y/y)	Jan		0.7%	0.8%	Inflation expected to remain in tight band in January.
11:00	HR	CPI (m/m)	Jan			-0.8%	
12:00	RS	CPI (y/y)	Jan		2.20%	2%	Regular annual adjustment of excise tax on cigarettes and double-digit growth in vegetable prices were main drivers of slightly higher CPI in January. CPI expected to remain in lower part of targeted band throughout 2019.
12:00	RS	CPI (m/m)	Jan		1%	0.1%	

Market Forecasts

Government bond yields					
	current	2019Q1	2019Q2	2019Q3	2019Q4
Croatia 10Y	2.32	2.40	2.45	2.50	2.60
spread (bps)	220	206	197	191	189
Czech Rep. 10Y	1.91	2.15	2.24	2.29	2.34
spread (bps)	180	181	176	170	163
Hungary 10Y	2.73	2.77	2.93	3.10	3.21
spread (bps)	262	243	245	251	250
Poland 10Y	2.69	2.90	3.00	3.10	3.20
spread (bps)	257	256	252	251	249
Romania10Y	4.81	5.00	5.10	5.10	5.20
spread (bps)	470	466	462	451	449
Slovakia 10Y	0.78	1.25	1.27	1.30	1.55
spread (bps)	67	91	79	71	84
Slovenia 10Y	0.96	1.20	1.30	1.40	1.50
spread (bps)	85	86	82	81	79
Serbia 5Y	3.64	3.60	3.60	3.65	3.70
DE10Y (BBG)*	0.11	0.34	0.48	0.59	0.71

FX					
	current	2019Q1	2019Q2	2019Q3	2019Q4
EURHRK	7.41	7.45	7.30	7.42	7.45
forwards		7.41	7.41	7.41	7.41
EURCZK	25.72	25.45	25.30	25.10	24.80
forwards		25.75	25.75	25.75	25.75
EURHUF	317.9	320.0	322.0	325.0	325.0
forwards		321.1	321.1	321.1	321.1
EURPLN	4.33	4.30	4.28	4.26	4.25
forwards		4.33	4.33	4.33	4.33
EURRON	4.74	4.72	4.73	4.75	4.77
forwards		4.74	4.74	4.74	4.74
EURRSD	118.0	118.5	118.5	118.5	119.0
forwards		-	-	-	-
EURUSD	1.13	1.11	1.12	1.14	-

3M Money Market Rate					
	current	2019Q1	2019Q2	2019Q3	2019Q4
Croatia	0.49	0.50	0.55	0.55	0.60
Czech Republic	2.02	2.01	2.01	2.18	2.19
Hungary	0.15	0.19	0.35	0.70	0.85
Poland	1.72	1.73	1.73	1.73	1.73
Romania	3.14	2.80	2.80	2.80	2.80
Serbia	3.02	3.07	3.07	3.07	3.07
Eurozone	-0.31	-0.30	-0.30	-0.30	-

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	3.00
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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