



# Weekly Focus Poland

This week, the full set of macro indicators for February will be released. Wage and retail sales growth should remain in a sideways movement, with growth figures at 6.8% y/y and 6.0% y/y, respectively. Industrial production is expected to slow further and expand at a sluggish pace of 2.3% y/y. The Brexit talks and FOMC meeting will most likely have a weak impact on the FX and bond market.

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## This week:

- **March 19: Wage growth to remain in sideways trend**

We expect wage growth to arrive at 6.8% y/y in February, a bit more pessimistic than the market consensus at 7.2%. We believe in further stabilization of the wage increase in the coming months. On the other hand, employment is likely to increase by 2.9% y/y in February, suggesting that employment growth has stabilized around 3%, down from the average of 3.5% last year.

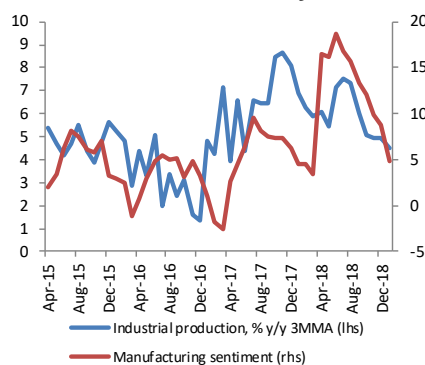
- **March 20: Industry to expand at meager 2.3% y/y**

Industrial output should expand at a rather sluggish pace of 2.3% y/y in February. Our call is visibly below the market consensus, which stands at 4.8%. The market sentiment and external demand have been showing signs of weakening for the last couple of months already. Further, construction growth is expected at 4.7% y/y, marking a second month in a row of growth below 5% and suggesting that economic activity is slowing down.

- **March 21: Retail sales should maintain solid growth**

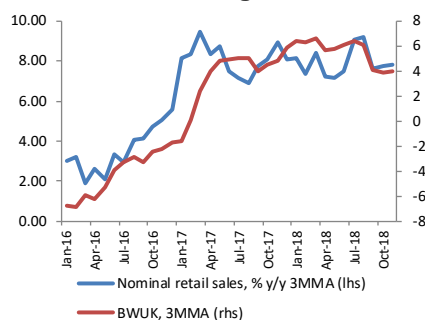
We see retail sales increasing 6.0% y/y in February, supported by strong wage growth. However, the space for further acceleration is limited, as the recent drop of consumer sentiment toward 4 is consistent with 7-8% growth of nominal retail sales. After the retail sales data release, we will have the full dataset for February, allowing us to update our GDP now-cast for 1Q19.

### Manufacturing sentiment points to slowdown in industry



Source: Erste Group Research, CSO

### Consumer sentiment suggests stable retail sales growth



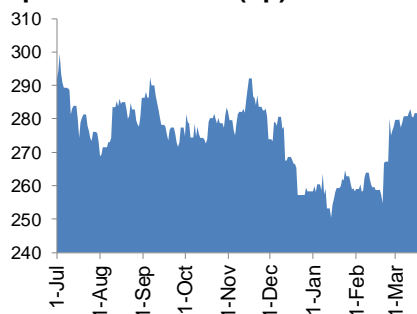
Source: Erste Group Research, CSO

## Last week's highlights

- CPI arrived at 1.2% y/y in February, while January figure has been revised down from 0.9% y/y to 0.7% y/y.
- Governor Glapinski said that current slowdown is unlikely to require monetary loosening.

## Bond market drivers

### Spread vs. Bunds (bp)

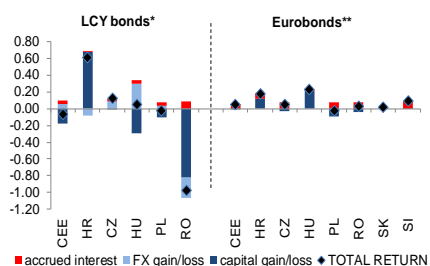


Source: Erste Group Research, Bloomberg

- Polish 10Y yields remain on hold**

Over the course of the week, the 10Y yield remained stable and moved between 2.85% and 2.88%. Although some marginal increase of German 10Y Bunds after the second vote in the British Parliament against a hard Brexit has been observed, the spread stood at around 280bp. This week, further discussion regarding Brexit will take place with a third vote over the deal planned for March 20. If the vote is favorable or an agreement with the EU regarding a delay is struck, this could bring some relief to the German bond market. On the other hand, local macro releases should be neutral for the bond market. Only major disappointment in economic activity could bring downward pressure on yields.

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



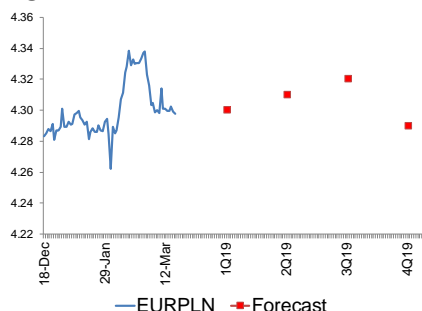
Source: Erste Group Research, Bloomberg

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

Last week, 5Y LCY bond yields remained mostly flat in CEE, except for Romania and Croatia. Romania's 5Y bond increased by about 20bp w/w, due to the risk of a change of the S&P rating outlook to negative, while uncertainty about the resolution of the controversial bank levy weighed on Romanian government securities. In the end, Romania visibly underperformed. On the other hand, we observed a roughly 10bp w/w decrease of yields in Croatia, which translated into the biggest capital gains in the region.

## FX market drivers

### EURPLN



Source: Erste Group Research, Bloomberg

- Zloty has returned to 4.30 vs. EUR**

The FX market was rather stable in CEE throughout the week, with the zloty anchored at 4.30 vs. the EUR. We see the zloty remaining on hold unless some breakthrough in the Brexit story comes. Passing the deal would support the euro and have a possible negative effect on the zloty. We see the zloty remaining rather stable until the end of the year, with increased pressure in 3Q19 coming from the parliamentary election.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>18-Mar</b>							
	RO	Current Account Balance	Jan			-9416	
9:00	CZ	PPI (y/y)	Feb	3.7%		2.9%	
14:00	PL	Trade Balance	Jan	-346		-1340	
<b>19-Mar</b>							
	SK	Unemployment Rate	Feb		<b>5.16%</b>	5.26%	After uptick in January, unemployment rate is expected to have inched down in February
10:00	PL	Wages (y/y)	Feb	7.2%	<b>6.8%</b>	7.5%	We see wage growth remaining in sideways movement
<b>20-Mar</b>							
10:00	PL	Industrial Production (y/y)	Feb	4.8%	<b>2.3%</b>	6.1%	Industrial production to slow down further
10:00	PL	PPI (y/y)	Feb	2.70%	<b>2.7%</b>	2.2%	Price pressure to stay limited
<b>21-Mar</b>							
10:00	PL	Retail Sales (y/y)	Feb	7.10%	<b>6.00%</b>	6.6%	Retail sales are expected to hold strong, as consumer sentiment moves up
10:30	SI	PPI (y/y)	Feb			1.1%	
<b>22-Mar</b>							
	RS	Current Account Balance	Jan			-349.7	

## Market Forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia 10Y</b>	2.04	2.10	2.00	2.00	2.00
spread (bps)	197	180	162	150	146
<b>Czech Rep. 10Y</b>	1.89	2.24	2.29	2.34	2.44
spread (bps)	182	194	191	184	190
<b>Hungary 10Y</b>	3.21	3.28	3.35	3.41	3.45
spread (bps)	314	298	297	291	291
<b>Poland 10Y</b>	2.89	3.00	3.10	3.20	3.30
spread (bps)	281	270	272	270	276
<b>Romania10Y</b>	4.78	5.10	5.10	5.20	5.30
spread (bps)	471	480	472	470	476
<b>Slovakia 10Y</b>	0.68	0.90	1.00	1.00	1.10
spread (bps)	61	60	62	50	56
<b>Slovenia 10Y</b>	0.79	0.80	0.90	0.90	1.00
spread (bps)	71	50	52	40	46
<b>Serbia 5Y</b>	3.64	3.93	3.90	3.90	3.95
<b>DE10Y (BBG)*</b>	<b>0.07</b>	<b>0.30</b>	<b>0.38</b>	<b>0.50</b>	<b>0.54</b>

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>EURHRK</b>	7.41	7.30	7.42	7.45	7.42
forwards		7.41	7.41	7.41	7.41
<b>EURCZK</b>	25.64	25.30	25.10	24.80	24.65
forwards		25.67	25.67	25.67	25.67
<b>EURHUF</b>	314.3	320.0	322.0	322.0	322.0
forwards		317.5	317.5	317.5	317.5
<b>EURPLN</b>	4.30	4.31	4.32	4.29	4.29
forwards		4.30	4.30	4.30	4.30
<b>EURRON</b>	4.75	4.75	4.75	4.77	4.78
forwards		4.75	4.75	4.75	4.75
<b>EURRSD</b>	118.1	117.9	117.8	118.0	118.2
forwards		-	-	-	-
<b>EURUSD</b>	1.13	1.12	1.14	1.16	-

3M Money Market Rate						Key Interest Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1		current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia</b>	0.49	0.50	0.50	0.50	0.50	<b>Croatia</b>	0.30	0.30	0.30	0.30	0.30
<b>Czech Republic</b>	2.03	2.01	2.18	2.19	2.19	<b>Czech Republic</b>	1.75	1.75	2.00	2.00	2.00
<b>Hungary</b>	0.14	0.35	0.70	0.85	0.90	<b>Hungary</b>	0.90	0.90	0.90	0.90	0.90
<b>Poland</b>	1.72	1.72	1.72	1.72	1.72	<b>Poland</b>	1.50	1.50	1.50	1.50	1.50
<b>Romania</b>	3.10	2.80	2.80	2.80	2.60	<b>Romania</b>	2.50	2.50	2.50	2.50	2.50
<b>Serbia</b>	2.94	3.01	3.05	3.05	3.05	<b>Serbia</b>	3.00	3.00	3.00	3.00	3.00
<b>Eurozone</b>	-0.31	-0.30	-0.30	-0.30	-	<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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18 March 2019

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