



Weekly Focus Poland

S&P affirmed Polish rating at A-. Inflation rate confirmed at 1.7% y/y in March, suggesting uptick in core inflation. Labor market data and industrial output growth to be released this week, providing pretty complete picture of 1Q19 economic performance. After Easter, we will see retail sales growth. In Eurozone, we will see market sentiment indicators. We expect little volatility on FX and bond market.

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This week:

- **March 17: Employment to grow 2.9% y/y in March, while wages expected to go up 7.3% y/y**

Labor market trends have not changed much. Employment growth has maintained its 3% pace in recent months and we expect 2.9% y/y growth in March as well (in line with market expectations). At the same time, nominal growth of wages should arrive at 7.3% y/y. That would suggest slight acceleration of the underlying trend, which has been locked at around 7% for the last half a year.

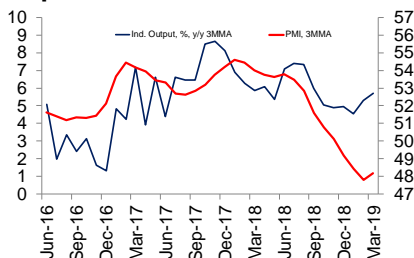
- **March 18: Industrial output growth expected at 4.1% y/y in March slightly below market expectations.**

The market sees industrial output growth at 4.5% y/y in March and is slightly more optimistic than we are. Growth at around 4% in March, however, would imply that growth of industry accelerated in 1Q19 compared to the previous quarter. Such good performance goes against market sentiment that has been consistently suggesting weaker expansion for more than half a year. A slowdown scenario does not seem close, as our Now Casting model for Poland implies GDP growth only slightly below 5% in the 1Q19.

- **March 18: We see retail sales growth at 5.5% y/y in March down from 6.5% y/y in February.**

We see slightly lower retail sales growth in March compared to February and average growth of nominal retail sales slowing slightly in the first quarter as well. All in all, however, private consumption should remain the main driver of growth. The tight labor market supports high levels of household spending. On top of that, another round of fiscal stimulus is likely to give a further boost to retail sales figures in 2H19.

Industry sustains solid growth despite weak PMI

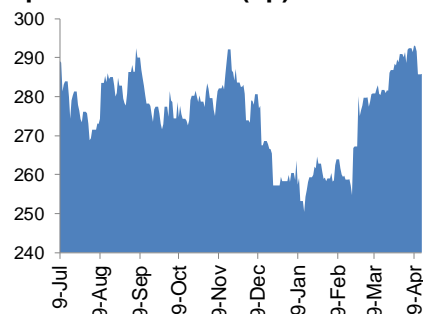


Last week's highlights

- S&P affirmed Polish rating at A- with stable outlook
- Inflation rate confirmed at 1.7% y/y in March.
- Poland to lower PIT from 18% to 17% as of 2020

Bond market drivers

Spread vs. Bunds (bp)

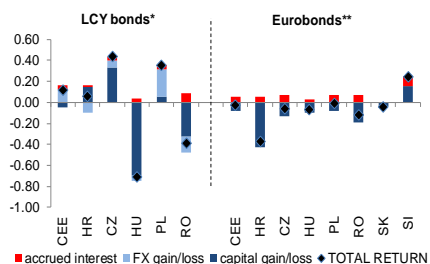


Source: Erste Group Research, Bloomberg

- Polish 10Y yields steady at 2.9%**

The long end of the curve was holding steadily at around 2.9% for the whole week. At the same time, 10Y German bunds returned to positive territory, which resulted in a marginal narrowing of the Polish spread vs. Bunds. We do not expect any major changes on the bond market due to local factors, as there should be no major surprises. Inflation increased in March to 1.7%, while growth is expected to remain robust in 1Q19. The monetary outlook remains unchanged at this point.

Weekly performance of 5Y bonds (% in EUR)

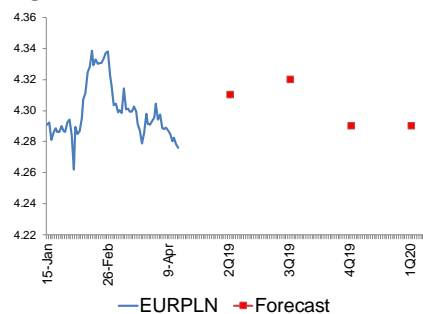


Source: Erste Group Research, Bloomberg

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

The performance of the bond market in the region was mixed last week. Yields went down in the Czech Republic as spreads vs. Bunds have been quite wide already. Such development resulted in the highest total return (in EUR) in Czech Republic. Hungary was on the opposite side. In consequence of increasing yields, Hungary posted a capital loss. Romania also underperformed. In Poland, stability on the bond market led the total return to be determined by FX gains.

EURPLN



Source: Erste Group Research, Bloomberg

FX market drivers

- Zloty goes below 4.30 vs. EUR**

The zloty stood out slightly among CEE currencies, mildly appreciating last week vs. the euro. The US dollar fell last week which is usually beneficial for the zloty. In the short term, especially, we do not see domestic factors as supporting the local currency. We expect the EURPLN to continue to follow global sentiment.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
16-Apr							
9:00	CZ	PPI (y/y)	Mar	3.6%	3.4%	3.6%	<i>Energy prices are most important reason behind relatively high PPI inflation. Similarly to CPI, we expect PPI inflation to slow down in coming months.</i>
11:00	HR	CPI (y/y)	Mar			0.5%	
11:00	HR	CPI (m/m)	Mar			0.2%	
17-Apr							
	RS	Current Account Balance	Feb			-147.6	
10:00	PL	Wages (y/y)	Mar	7.3%	7.3%	7.6%	<i>Wage growth should sustain solid dynamics.</i>
18-Apr							
	SK	Unemployment Rate	Mar		5.1%	5.16%	<i>Mild decrease in unemployment rate anticipated.</i>
10:00	PL	Industrial Production (y/y)	Mar	4.3%	4.1%	6.9%	<i>Negative calendar effect (-1 working day) might downplay performance of industry.</i>
10:00	PL	PPI (y/y)	Mar	2.60%	2.7%	2.9%	<i>Price pressure remains subdued.</i>
19-Apr							
10:30	SI	PPI (y/y)	Mar			1.2%	
23-Apr							
10:00 AM	PL	Retail sales (y/y)	Mar		5.5%	6.5%	

Market Forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia 10Y	1.82	1.80	1.80	1.80	1.90
spread (bps)	176	163	154	145	151
Czech Rep. 10Y	1.91	1.97	2.17	2.33	2.44
spread (bps)	185	180	191	198	205
Hungary 10Y	3.25	3.05	3.15	3.25	3.45
spread (bps)	319	288	289	290	306
Poland 10Y	2.90	2.85	2.90	3.00	3.10
spread (bps)	284	268	264	265	271
Romania10Y	4.97	4.70	5.10	5.20	5.30
spread (bps)	490	453	484	485	491
Slovakia 10Y	0.60	0.75	0.85	0.85	0.95
spread (bps)	53	58	59	50	56
Slovenia 10Y	0.67	0.80	0.90	0.90	1.00
spread (bps)	60	63	64	55	61
Serbia 5Y	3.91	3.96	3.90	3.93	3.95
DE10Y (BBG)*	0.06	0.17	0.26	0.35	0.39

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
EURHRK	7.44	7.32	7.42	7.45	7.42
forwards		7.44	7.44	7.44	7.44
EURCZK	25.63	25.30	25.10	24.80	24.65
forwards		25.65	25.65	25.65	25.65
EURHUF	320.5	319.0	320.0	322.0	322.0
forwards		323.7	323.7	323.7	323.7
EURPLN	4.27	4.31	4.32	4.29	4.29
forwards		4.27	4.27	4.27	4.27
EURRON	4.76	4.75	4.75	4.77	4.78
forwards		4.76	4.76	4.76	4.76
EURRSD	118.0	117.5	117.9	118.2	118.0
forwards		-	-	-	-
EURUSD	1.13	1.15	1.18	1.18	-

3M Money Market Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.46	0.50	0.50	0.50	0.50
Czech Republic	2.02	2.08	2.18	2.18	2.24
Hungary	0.16	0.22	0.30	0.45	0.60
Poland	1.72	1.72	1.72	1.72	1.72
Romania	3.38	2.80	3.20	3.40	3.40
Serbia	2.97	2.96	2.98	2.98	2.99
Eurozone	-0.31	-0.30	-0.30	-0.30	-

Key Interest Rate					
	current	2019Q2	2019Q3	2019Q4	2020Q1
Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	1.75	1.75	2.00	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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