

## Weekly Focus Poland

This week, the structure of 1Q19 GDP will be released. Domestic demand should remain the pillar of growth, with robust private consumption being supported by somewhat stronger wage growth in 1Q19, and investment growth. As the trade balance improved at the beginning of the year, net exports might also contribute positively. Global risk sentiment should further shape the behavior of the zloty.

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### This week:

- **May 31: 1Q19 GDP structure – domestic demand to remain main growth driver**

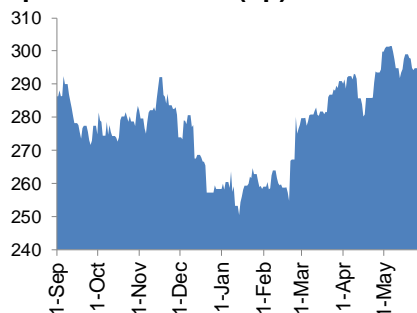
The flash estimate of 1Q19 GDP growth came in at 4.6% y/y and showed no significant sign of a slowdown. We believe that 1Q19 growth has been mostly driven by domestic demand. Private consumption likely sustained solid growth, supported by somewhat stronger wage growth than in 4Q18. Separately, investment activity should also remain strong. Private investment could pick up, as suggested by recent data regarding corporate spending on investment, which went up by 21.7% y/y in 1Q19. On the other hand, the trade balance improved at the beginning of the year. Hence, net exports could also make a positive contribution to the overall growth figure. The structure will shed some light on possible future developments, as the start of 2Q19 came in above all expectations and the economy does not seem to be losing any momentum. In our view, growth might come in above 4.5% y/y in 2Q19 and we see upside risks to our FY19 forecast of 4.2

### Last week's highlights

- Industrial production arrived at 9.2% y/y in April.
- Retail sales growth accelerated to seven-year high and came in at 13.6% y/y in April. Local consumer sentiment indicator (BWUK) jumped to record high of 8.3 in April.
- Wage growth came in at 7.1% y/y in April, while employment growth stood at 2.9% y/y. Unemployment rate went down to 5.6%
- MPC members commented on rate outlook and picture is mixed.

## Bond market drivers

### Spread vs. Bunds (bp)

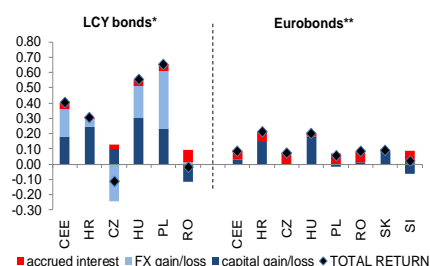


Source: Erste Group Research, Bloomberg

- Polish 10Y yields followed core markets

Over the week, the long end of the curve went down by 10bp to 2.8%, following the German yield curve. The results of the EP elections were in line with the latest polls and we have so far observed no significant market reaction. As 10Y German Bund yields continue their downward ride (decreased by a further 7bp), the spread remains at an elevated level. Although the spread vs. the 10Y German Bund decreased marginally at the end of the week, it remains above 290bp. The publication of the GDP structure for Poland and core economies should not influence the performance of the bond market this week.

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



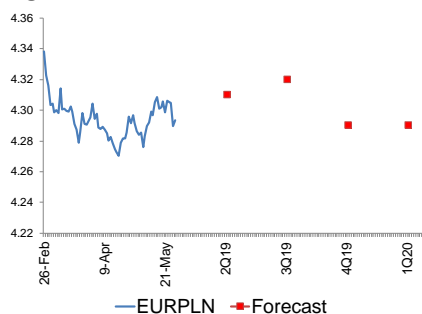
Source: Erste Group Research, Bloomberg

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

LCY yields fell last week following Bund developments in all countries except for in Romania. On the other hand, international factors – among others the FOMC minutes that weakened the USD – supported the appreciation of LCY. However, negative trade war and Brexit prospects weakened the CZK. This week's Hungarian rate-setting meeting has some potential to move rate markets, but inflation releases (throughout the region) actually have more potential to affect the markets.

## FX market drivers

### EURPLN



Source: Erste Group Research, Bloomberg

- Zloty marginally appreciated

Throughout the week, the zloty was on the weaker side of 4.30 vs. the EUR. However, marginal appreciation was observed in the second half of the week. The EURPLN closed the week below 4.30 (two-week high). GDP data for 1Q19 will be released this week for both the Eurozone and the US, but the impact on the EURUSD should be limited. The EP election results have so far had no visible impact on the zloty. In our view, the zloty will remain under global sentiment in the weeks to come.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>28-May</b>							
9:00	SK	PPI (y/y)	Apr		4.5%	4.4%	Rather steady development of producer price is expected for April.
14:00	HU	Target Rate	May 28	0.9%	0.9%	0.9%	May meeting should be 'non event'; more details on normalization of monetary policy could be revealed at June rate setting meeting.
14:30	SK	Current Account Balance	Mar			-157.99	
<b>29-May</b>							
9:00	HU	Unemployment Rate	Apr	3.6%	3.5%	3.6%	Figures might continue to reflect tight labor market conditions.
11:00	HR	GDP (y/y)	1Q p		3.1%	2.26%	GDP growth seen accelerating slightly above 3% mark in 1Q19.
<b>30-May</b>							
11:00	HR	Retail Sales (y/y)	Apr		5.0%	5.7%	Retail trade expected to show vivid growth dynamics going into 2Q19.
<b>31-May</b>							
9:00	CZ	GDP (q/q)	1Q P	0.5%	0.5%	0.5%	Within second estimate, Czech Statistical Office will release figures of GDP components. We expect both domestic as well as foreign demand to remain solid.
9:00	CZ	GDP (y/y)	1Q P	2.50%	2.5%	2.5%	GDP growth is driven mainly by labor market, positive sentiment of households and high investment expenditures of firms into robotization. Contribution of net exports was probably negative in 1Q. Although foreign
9:00	HU	Trade Balance	Mar F			677	
9:00	HU	GDP (y/y)	1Q F	5.3%	5.3%	5.3%	CSO is expected to confirm preliminary GDP figures.
10:00	PL	GDP (y/y)	1Q F		4.6%	4.6%	Domestic demand is expected to remain main growth driver.
10:30	SI	CPI (y/y)	May		1.6%	1.7%	Inflation movements expected to remain stable.
10:30	SI	GDP (y/y)	1Q		3.6%	4.1%	Growth dynamics expected to somewhat decelerate compared to 2018, but remain above 3.5% mark.
11:00	HR	Industrial Production (y/y)	Apr		2.9%	3%	Industrial production seen maintaining mild recovery footprint seen from beginning of year.
12:00	RS	Industrial Production (y/y)	Apr		2.0%	-2.8%	Continuation of relatively weak growth, as negative FCA production outlook weighs on overall headline figure.
12:00	RS	Retail Sales (y/y)	Apr		10.5%	9.5%	We expect another strong figure, notwithstanding high base, due to strong wage numbers and vivid labor market developments. Also, Easter effect should additionally boost April figure.
12:00	RS	Trade Balance	Apr			-507	
12:00	RS	GDP (y/y)	1Q F		2.3%	2.3%	We expect confirmation of flash figure with private consumption being revealed as key factor of growth.

## Market Forecasts

Government bond yields					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>Croatia 10Y</b>	1.65	1.80	1.80	1.80	1.90
spread (bps)	179	165	158	152	154
<b>Czech Rep. 10Y</b>	1.78	2.17	2.17	2.33	2.44
spread (bps)	191	202	195	205	208
<b>Hungary 10Y</b>	3.14	3.14	3.23	3.40	3.46
spread (bps)	327	299	301	312	310
<b>Poland 10Y</b>	2.81	2.95	3.00	3.05	3.10
spread (bps)	294	280	278	277	274
<b>Romania10Y</b>	4.92	4.70	5.10	5.20	5.40
spread (bps)	505	455	488	492	504
<b>Slovakia 10Y</b>	0.42	0.65	0.75	0.75	0.85
spread (bps)	55	50	53	47	49
<b>Slovenia 10Y</b>	0.55	0.80	0.90	0.90	1.00
spread (bps)	68	65	68	62	64
<b>Serbia 5Y</b>	3.90	3.96	3.90	3.93	3.95
<b>DE10Y (BBG)*</b>	-0.13	0.15	0.22	0.28	0.36

FX					
	current	2019Q2	2019Q3	2019Q4	2020Q1
<b>EURHRK</b>	7.42	7.32	7.42	7.45	7.42
forwards		7.42	7.42	7.42	7.42
<b>EURCZK</b>	25.84	25.65	25.51	25.31	25.03
forwards		25.86	25.86	25.86	25.86
<b>EURHUF</b>	325.7	324.0	324.0	324.0	325.0
forwards		328.9	329.0	329.0	329.0
<b>EURPLN</b>	4.29	4.31	4.32	4.29	4.29
forwards		4.29	4.29	4.29	4.29
<b>EURRON</b>	4.76	4.75	4.75	4.77	4.79
forwards		4.76	4.76	4.76	4.76
<b>EURRSD</b>	117.9	117.9	118.0	118.3	118.1
forwards		-	-	-	-
<b>EURUSD</b>	1.12	1.15	1.18	1.18	-

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>	2.19	2.18	2.18	2.18	2.24	<b>Czech Republic</b>	2.00	2.00	2.00	2.00	2.00
<b>Hungary</b>	0.20	0.22	0.30	0.45	0.60	<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>	3.27	3.20	3.70	3.60	3.50	<b>Romania</b>	2.50	2.50	2.50	2.50	2.50
<b>Serbia</b>	2.96	2.96	2.98	2.98	2.99	<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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