

## Weekly Focus Poland

Macro releases this week most likely to have limited impact on bond and FX market. Trade balance expected to decline, while flash CPI to be confirmed at 2.3% y/y in May. In our view, long end of curve should stabilize. Zloty to remain under global sentiment and we see limited potential for further appreciation.

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### This week:

- **June 13: Trade balance to decline in April**

The market expects the trade balance to worsen in April and decline to below EUR 500mn. Export and import volumes are expected to decline, although the drop in exports is likely to be stronger. In 1Q19, net exports contributed positively to the overall GDP figure; however, in FY19 we expect it to be neutral for growth.

- **June 14: Flash CPI to be confirmed at 2.3% y/y**

We expect that the flash reading of inflation will be confirmed at 2.3% y/y in May. We think that, after a strong pick-up in the headline figure in April (1.1% m/m), growth dynamics will stabilize in the coming months. We expect inflation to peak at the turn of the year and it could go above the upper bound of the inflation target. However, we see risks to the upside to our current forecast (FY19 at 2.4%) due to the unfreezing of electricity prices for corporates as of July 2019, as well as higher food and transportation prices.

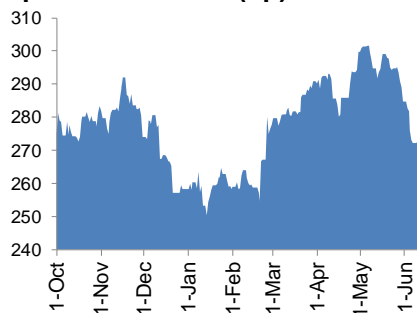
We revised upward our FY19 growth forecast to 4.8% and FY20 to 4%, given the positive surprise in 1Q19 growth dynamics and strong beginning to 2Q19. In our view, the economy will be mainly driven by domestic demand. Private consumption should sustain solid growth of around 4%. Investment growth has finally recovered and we expect it at 9% this year.

### Last week's highlights

- Flash CPI came in at 2.3% y/y in May, supported by higher food and transportation prices
- MPC kept key rate unchanged at 1.5%. Governor Glapinski reiterated that he sees stability of rates as most likely scenario
- New Minister of Finance appointed as part of government reshuffle in aftermath of EP election

## Bond market drivers

### Spread vs. Bunds (bp)

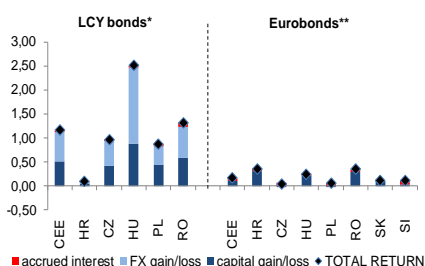


Source: Erste Group Research, Bloomberg

- Polish 10Y yields went below 2.5%**

Since the end of May, the long end of the curve went down by almost 40bp. 10Y yields bottomed out at the end of last week and reached 2.45%, which is the lowest level since mid-2015. Recently, a correction has been observed, as yields went slightly above 2.5%. As a result, the spread vs. the 10Y German Bund narrowed and it currently stands below 280bp. In the coming weeks, we expect the spread to hold around current levels. In our view, 10Y yields should marginally increase until the end of the year; however, we see risks to the downside if pressure on German yields continues.

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



Source: Erste Group Research, Bloomberg

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

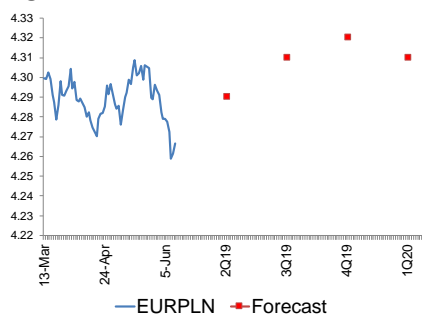
Rates and yields further declined substantially in CEE last week against the backdrop of easing external growth prospects. Additionally, yield spreads over German Bunds declined further. Furthermore, regional currencies were driven by external factors amid dampened global rate expectations and these visibly appreciated over the course of the week and supported the performance of the LCY bond market.

## FX market drivers

- Zloty went visibly below 4.30 vs. EUR**

Over the course of the week, the zloty followed regional developments and appreciated, supported by the weaker US dollar. The EURPLN went down to 4.26, which is the strongest level since August 2018. We expect the zloty to weaken and go above 4.30 vs. the EUR in 2H19, due to higher overall risk for the EU, which limits the appreciation potential of the euro and favors slight strengthening of the US dollar. We see the EURPLN at 4.32 at year-end.

### EURPLN



Source: Erste Group Research, Bloomberg

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>11-Jun</b>							
9:00	CZ	CPI (y/y)	May	2.7%	<b>2.7%</b>	2.8%	<i>Due to tight labor market, sound domestic demand and pro-inflationary development in food prices, headline inflation remains above target. However, it has been gradually decreasing, which in turn implies that CNB does not need to react in coming months.</i>
9:00	CZ	CPI (m/m)	May	0.4%	<b>0.4%</b>	0.1%	<i>In m/m terms, inflation was affected by increase in food prices. In fact, food prices pose risk for near future, as many important food items are relatively volatile and their future development cannot be easily predicted. This is also affected by weather conditions.</i>
<b>12-Jun</b>							
8:00	RO	CPI (y/y)	May	4.13%	<b>4.15%</b>	4.11%	<i>Inflation to remain above NBR's target in coming quarters.</i>
8:00	RO	CPI (m/m)	May		<b>0.52%</b>	0.61%	
9:00	SK	Wages (y/y)	Apr			3.4%	
12:00	RS	CPI (y/y)	May		<b>2.7%</b>	3.1%	<i>We expect gradual decline of CPI prints, as surge in vegetable prices no longer exhibits strong base effect.</i>
12:00	RS	CPI (m/m)	May			0.7%	
<b>13-Jun</b>							
	RO	Current Account Balance	Apr			-1212	
8:00	RO	Industrial Production (y/y)	Apr		<b>0.2%</b>	1.4%	<i>Weak industrial production growth due to sluggish external demand.</i>
14:00	PL	Trade Balance	Apr	434		589	
<b>14-Jun</b>							
9:00	SK	CPI (y/y)	May		<b>2.6%</b>	2.3%	<i>Inflation is likely to have been driven by food, energy and service prices.</i>
9:00	SK	CPI (m/m)	May		<b>0.3%</b>	0.2%	<i>Some acceleration in rate of inflation is expected for May.</i>
10:00	PL	CPI (y/y)	May F	2.3%	<b>2.3%</b>	2.3%	<i>May inflation figure is expected to be confirmed.</i>
10:00	PL	CPI (m/m)	May F	0.2%		0.2%	
11:00	HR	CPI (y/y)	May		<b>0.7%</b>	0.7%	<i>Inflation movements remain in tight band, i.e. slightly below 1% mark.</i>
11:00	HR	CPI (m/m)	May			0.6%	

## Market Forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>Croatia 10Y</b>	1.44	1.40	1.40	1.50	-
spread (bps)	167	170	150	140	-
<b>Czech Rep. 10Y</b>	1.63	2.00	2.15	2.25	2.36
spread (bps)	185	230	225	215	226
<b>Hungary 10Y</b>	2.87	2.93	2.98	3.06	3.12
spread (bps)	309	323	308	296	302
<b>Poland 10Y</b>	2.55	2.60	2.65	2.70	2.70
spread (bps)	277	290	275	260	260
<b>Romania10Y</b>	4.63	5.10	5.20	5.40	5.40
spread (bps)	485	540	530	530	530
<b>Slovakia 10Y</b>	0.30	0.55	0.65	0.80	-
spread (bps)	53	85	75	70	-
<b>Slovenia 10Y</b>	0.34	0.40	0.40	0.50	0.60
spread (bps)	56	70	50	40	50
<b>Serbia 5Y</b>	3.73	3.65	3.80	3.80	3.70
<b>DE10Y*</b>	-0.22	-0.30	-0.10	0.10	0.10

FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>EURHRK</b>	7.41	7.42	7.45	7.42	-
forwards		7.41	7.41	7.41	-
<b>EURCZK</b>	25.65	25.55	25.30	25.14	24.88
forwards		25.83	25.97	26.08	26.21
<b>EURHUF</b>	320.9	325.0	325.0	325.0	325.0
forwards		321.4	322.0	322.7	323.6
<b>EURPLN</b>	4.27	4.31	4.32	4.31	4.30
forwards		4.29	4.32	4.34	4.36
<b>EURRON</b>	4.72	4.75	4.77	4.79	4.82
forwards		4.78	4.83	4.88	4.93
<b>EURRSD</b>	118.0	118.0	118.3	118.0	117.9
forwards		-	-	-	-
<b>EURUSD</b>	1.13	1.10	1.13	1.15	-

3M Money Market Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>Croatia</b>	0.48	0.50	0.50	0.50	-
<b>Czech Republic</b>	2.17	2.16	2.16	2.22	2.36
<b>Hungary</b>	0.18	0.22	0.25	0.35	0.45
<b>Poland</b>	1.72	1.72	1.72	1.72	1.72
<b>Romania</b>	3.24	3.70	3.60	3.50	3.50
<b>Serbia</b>	2.97	2.95	2.98	2.97	2.98
<b>Eurozone</b>	-0.32	-0.30	-0.30	-0.30	-

Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>Croatia</b>	0.30	0.30	0.30	0.30	-
<b>Czech Republic</b>	2.00	2.00	2.00	2.00	2.25
<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	3.00
<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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