

Weekly Focus Poland

Unemployment rate expected to hit record-low level due to seasonal effect. Flash CPI for June should arrive at 2.4% and remain stable compared to previous month, but figure to, in our view, be neutral for MPC rate-setting meeting on July 3. Bond market should remain under global pressure, while FX market most likely to focus on President Trump and Xi Jinping meeting in Japan.

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This week:

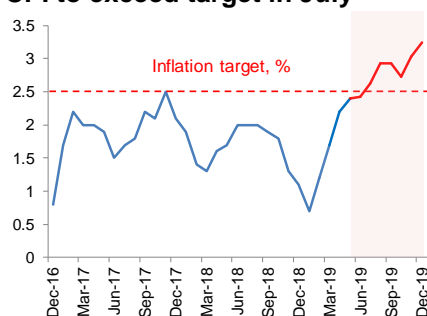
- **June 26: Unemployment rate to decrease**

According to estimates from the Ministry of Family, the Labor and Social Policy unemployment rate should hit a record-low of 5.4% in May. The unemployment rate has decreased mostly due to seasonal factors in such sectors as construction and agriculture.

- **June 28: CPI to remain stable**

We expect the flash CPI in June to arrive at 2.4% y/y (0.2% m/m) and remain stable compared to the previous month. The figure will most likely be neutral for the MPC, which is to hold a rate-setting meeting at the beginning of July. Next week, the MPC will publish new inflation and growth projections and both paths are expected to be shifted upward. We believe that CPI will exceed the target in July and will peak at the turn of the year. Moreover, as of July, electricity prices for corporates will be unfrozen; it is our view that this could shift the inflation path up by 0.4pp beginning from 4Q19. All in all, we see CPI on average at 2.4% this year, with risks to the upside.

CPI to exceed target in July



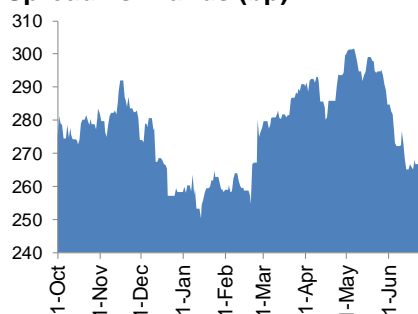
Source: Erste Group Research

Last week's highlights

- Core inflation remained stable at 1.7% y/y in May.
- Wage growth surprised to upside, arriving at 7.7% y/y in May, while employment growth somewhat disappointed, with growth at 2.7% y/y in May.
- Industrial production sustained solid growth momentum, as it came in at 7.7% y/y in May, pointing to strong GDP growth in 2Q19.
- Retail sales came in at 7.3% y/y in May.

Bond market drivers

Spread vs. Bunds (bp)

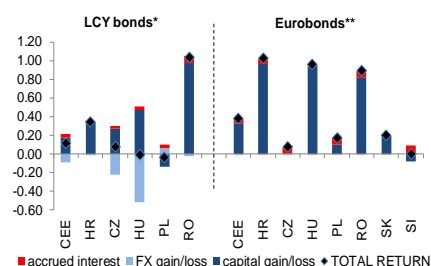


Source: Erste Group Research, Bloomberg

Polish 10Y yields fell down

Over the course of the week, the Polish sovereign curve went further down along all maturities. As a reaction to the more dovish ECB and Fed, 10Y yields decreased by roughly 10bp last week. As a result, the spread vs. 10Y German Bunds oscillated around 265bp and holds well below the 1Y average. Given current market developments, we see risks to the downside to our current yield forecast. This week, global markets will focus on the G20 summit in Japan and the meeting between President Trump and Xi Jinping regarding the trade conflict. Local macro releases should have no major impact on the bond market, as inflation is expected to remain stable.

Weekly performance of 5Y bonds (% in EUR)



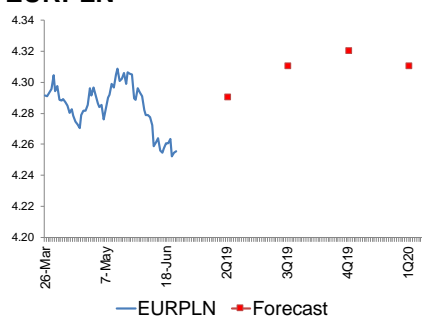
Source: Erste Group Research, Bloomberg

Weekly performance of 5Y bonds (% in EUR)

Yields again went further down last week amid the dovish external environment, and spreads over German Bund yields again mostly decreased. Romanian yields fell the most, likely due to the relatively high nominal yield level, but as the fiscal and political issues are far from being solved, further declines might be difficult to achieve. Hungarian yields also fell substantially, but here, the central bank is tolerating higher inflation vs. CEE peers, which could also limit further yield drops.

FX market drivers

EURPLN



Source: Erste Group Research, Bloomberg

Zloty benefited from dovish sentiment

Last week, the zloty moved around 4.26 vs. the EUR, supported by dovish sentiment that spilled over onto global markets. Lower liquidity on the market due to public holiday did not impact the zloty. This week, the EURUSD will most likely focus on the Trump and Xi meeting during the G20 summit in Japan. Although the zloty was recently stronger vs. the euro, we expect it to somewhat weaken in 2H19.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
24-Jun							
10:00	PL	Retail Sales (y/y)	May	8.50%	8.60%	13.6%	Retail sales to sustain solid growth momentum.
25-Jun							
12:00	RS	Wages (y/y)	Apr			6.5%	
14:00	HU	Target Rate	Jun	0.9%	0.9%	0.9%	We expect MNB to pause its normalization process, given mainly changed rate outlook of the ECB.
26-Jun							
10:00	PL	Unemployment Rate	May	5.4%	5.5%	5.6%	Unemployment to marginally drop.
13:00	CZ	Target Rate	Jun	2.0%	2.0%	2.0%	After May hike, we see policy as adequate in Czech economy. Moreover, CNB will be more cautious in coming quarters, due to Brexit and US-China (and later US-EU) talks and keep policy unchanged, in our view.
27-Jun							
9:00	HU	Unemployment Rate	May	3.5%	3.5%	3.5%	Latest figures expected to reinforce tight labor market conditions in economy.
11:00	HR	Unemployment Rate	May			8.6%	
11:00	HR	Wages (y/y)	Apr			2.8%	
28-Jun							
	HR	Current Account Balance	1Q			-872.9	
9:00	CZ	GDP (q/q)	1Q F	0.6%	0.6%	0.6%	We expect no change in main figure in third estimate; however, some minor changes among components could be published.
9:00	CZ	GDP (y/y)	1Q F	2.6%	2.6%	2.6%	GDP growth driven mainly by labor market and positive sentiment of households and high investment expenditures of firms into robotization. Contribution of net exports was zero in 1Q. Although foreign demand was
9:00	HU	PPI (y/y)	May			4.1%	
9:00	SK	PPI (y/y)	May		4.0%	3.9%	Steady increase of producer prices expected for May.
10:00	PL	CPI (y/y)	Jun P	2.5%	2.4%	2.4%	Inflation expected to remain stable, as food prices growth should marginally ease.
10:30	SI	CPI (y/y)	Jun		1.5%	1.4%	Inflation seen as remaining in tight band around 1.5% mark.
11:00	HR	Industrial Production (y/y)	May		2.7%	3%	Modest recovery trend from beginning of year expected to persist.
11:00	HR	Retail Sales (y/y)	May		5.1%	4.8%	Retail trade seen as extending robust growth pace in May.
12:00	RS	Industrial Production (y/y)	May		2.0%	-0.8%	We expect positive print in May, mostly due to low base effect, while overall trend remains weak this year.
12:00	RS	Retail Sales (y/y)	May		6.5%	6.7%	We see retail trade maintaining positive footprint amid ongoing wage growth and strong credit activity.
12:00	RS	Trade Balance	May			-500	
14:30	SK	Current Account Balance	Apr			-43.71	

Market Forecasts

Government bond yields											
	current	2019Q3	2019Q4	2020Q1	2020Q2						
Croatia 10Y	1.20	1.20	1.30	1.30	-						
spread (bps)	151	150	140	120	-						
Czech Rep. 10Y	1.48	2.00	2.15	2.25	2.36						
spread (bps)	179	230	225	215	226						
Hungary 10Y	2.62	2.93	2.98	3.06	3.12						
spread (bps)	293	323	308	296	302						
Poland 10Y	2.36	2.60	2.65	2.70	2.70						
spread (bps)	267	290	275	260	260						
Romania10Y	4.40	4.70	4.90	5.10	5.10						
spread (bps)	471	500	500	500	500						
Slovakia 10Y	0.19	0.55	0.65	0.80	-						
spread (bps)	50	85	75	70	-						
Slovenia 10Y	0.24	0.40	0.40	0.50	0.60						
spread (bps)	54	70	50	40	50						
Serbia 5Y	3.42	3.65	3.80	3.80	3.70						
DE10Y*	-0.30	-0.30	-0.10	0.10	0.10						

FX											
	current	2019Q3	2019Q4	2020Q1	2020Q2						
EURHRK	7.40	7.42	7.42	7.42	-						
forwards		7.40	7.40	7.40	-						
EURCZK	25.60	25.55	25.30	25.14	24.88						
forwards		25.75	25.91	26.02	26.14						
EURHUF	324.2	325.0	325.0	325.0	325.0						
forwards		324.6	325.2	325.8	326.5						
EURPLN	4.26	4.31	4.32	4.31	4.30						
forwards		4.28	4.30	4.33	4.35						
EURRON	4.73	4.75	4.77	4.79	4.82						
forwards		4.77	4.82	4.87	4.92						
EURRSD	117.9	118.0	118.3	118.0	117.9						
forwards		-	-	-	-						
EURUSD	1.14	1.10	1.13	1.15	-						

3M Money Market Rate						Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2		current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.50	0.50	0.50	0.50	-	Croatia	0.30	0.30	0.30	0.30	-
Czech Republic	2.17	2.16	2.16	2.22	2.36	Czech Republic	2.00	2.00	2.00	2.00	2.25
Hungary	0.24	0.22	0.25	0.35	0.45	Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.72	1.72	1.72	1.72	1.72	Poland	1.50	1.50	1.50	1.50	1.50
Romania	3.23	3.60	3.60	3.50	3.50	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.97	2.95	2.98	2.97	2.98	Serbia	3.00	3.00	3.00	3.00	3.00
Eurozone	-0.34	-0.30	-0.30	-0.30	-	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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24 June 2019

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