

Weekly Focus Poland

This week, markets to focus on global releases and rate decision by FOMC. First estimate of July inflation and 2Q19 GDP growth in Eurozone should be carefully observed. In Poland, flash estimate of inflation for July to be published. We expect it to land at 2.6% y/y due to stabilization of food price growth and still relatively low oil prices. Local yields to follow core market development, while zloty should remain stable around recent levels.

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This week:

- **July 31: CPI inflation to stabilize**

We expect the flash reading of headline inflation to land at 2.6% y/y (-0.1% m/m) in June. In our view, food prices should stabilize around recently observed levels of 5%, while oil prices remaining relatively low should be a limiting factor to inflation as well. All in all, we see inflation on average at 2.4% in 2019 with risks to the upside coming from uncertainty around electricity prices. On the other hand, core inflation should remain on an upward trend due to wage pressure.

- **August 1: PMI to drop further**

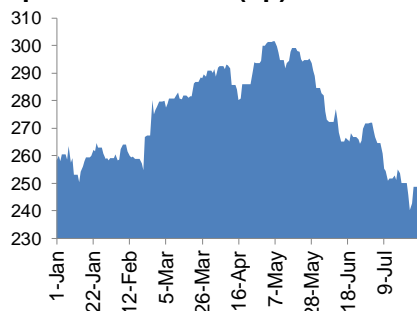
The market expects that the PMI for July will decrease to 48 from the 48.4 observed in the previous month; such a move would be in line with the drop observed in Germany (flash manufacturing PMI for July went down to 43.1).

Last week's highlights

- Construction output decreased by 0.7% y/y in June.
- MPC member Ancyparowicz against any discussion of a rate hike due to expected economic slowdown and is not concerned about accelerating inflation.
- MinFin sold papers worth PLN 7bn, while demand stood at PLN 10.8bn.
- We revised down our yield forecast and expect only mild increase of 10Y yield by year-end, to 2.3%.

Bond market drivers

Spread vs. Bunds (bp)

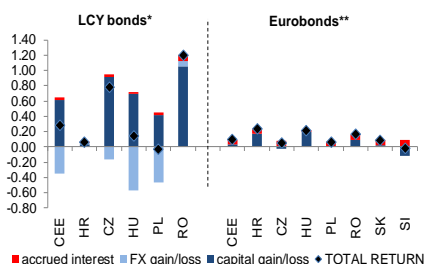


Source: Erste Group Research, Bloomberg

- Polish 10Y yields recovered after ECB meeting**

Last week, the ECB meeting was the key driver of the FI market in Europe and Poland. The ECB expects rates at current or lower levels until the end of 1H20 and a high probability of a rate cut in September was signaled. Ahead of the decision and press conference of the ECB's Governing Council, the 10Y Polish yield slid down by 20bp to 1.96%. As some of the market expectations for monetary easing could have been dampened during the press conference, the 10Y German Bund recovered somewhat toward the end of the week. As did 10Y Polish yields that increased by almost 15bp and closed the week around 2.1%. The spread vs. 10Y German Bunds holds below 250bp and it hit a 1Y low of 240bp last week. This week will be hot on global markets. The FOMC will announce their rate decision and a 25bp cut is expected. Moreover, the first flash estimate of Eurozone GDP for 2Q19 and July inflation will be released. Hence, we might observe increased volatility on the bond market.

Weekly performance of 5Y bonds (% in EUR)



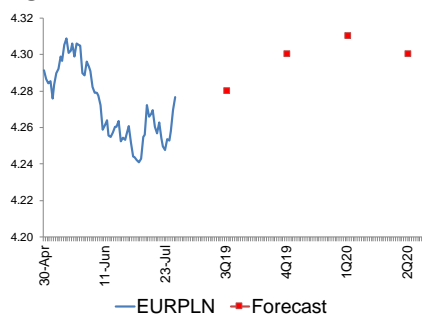
Source: Erste Group Research, Bloomberg

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

Last week, yields in CEE remained under the influence of the ECB decision and fell across the region. Due to the recent drop in yields across CEE and expectations for a rate cut by major central banks, we revised downward our yield forecast for Hungary, Poland and Slovakia.

FX market drivers

EURPLN



Source: Erste Group Research, Bloomberg

- Zloty slightly weaker vs. EUR**

Ahead of the ECB meeting, the zloty was rather stable and moved around 4.25 vs. the EUR. However, at the end of the week, the zloty depreciated on the back of the stronger US dollar and moved toward 4.28 vs. the EUR. The expected rate cut by the FOMC is already priced in by the markets, hence we expect that the volatility on the FX market ahead of the decision will most likely be limited. We expect the EURPLN to remain around 4.27 in the short-term.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
30-Jul							
11:00	HR	Industrial Production (y/y)	Jun		0.4%	0.2%	Mild recovery seen continuing in June
11:00	HR	Retail Sales (y/y)	Jun		1.5%	-2%	Following negative May footprint, we expect consumption to rebound in June
31-Jul							
	RO	Unemployment Rate	Jun		3.9%	2.95%	Unemployment rate to stay at all-time low in June, mainly thanks to tight labour market conditions.
9:00	HU	PPI (y/y)	Jun			2.7%	
10:00	PL	CPI (y/y)	Jul P	2.6%	2.6%	2.6%	Headline inflation should stabilize due to oil prices remaining low and easing food price growth
10:00	PL	CPI (m/m)	Jul P	-0.2%	-0.1%	0.3%	
10:30	SI	CPI (y/y)	Jul		1.8%	1.8%	Inflation movements expected to remain in narrow band
12:00	RS	Industrial Production (y/y)	Jun		-3.4%	-0.6%	We expect negative trend to continue due to ongoing FCA drop in production and relatively high base effect
12:00	RS	Retail Sales (y/y)	Jun		8.1%	5.9%	Strong wage growth and credit activity support robust retail trend
12:00	RS	Trade Balance	Jun			-509.3	
12:00	RS	GDP (y/y)	2Q P		3.2%	2.5%	While detailed statistics will not be available before early September, we expect fixed investments and private consumption to remain key drivers of GDP growth; net exports are expected to work in opposite direction; we see stronger growth figures in 2H19
1-Aug							
9:00	HU	Trade Balance	May F			678	
13:00	CZ	Target Rate	Aug	2.0%	2.0%	2%	We expect CNB to keep target rate stable, as there has been no significant change in outlook since May decision
2-Aug							
8:00	RO	Retail Sales (y/y)	Jun		6.0%	3.7%	Retail sales to gain momentum in June, as consumer confidence improved.
8:00	RO	PPI (y/y)	Jun			5.94%	
9:00	HU	Retail Sales (y/y)	Jun	5.2%	4.4%	2.6%	Following May slowdown, we expect some upward correction in sales statistics
9:00	SK	Retail Sales (y/y)	Jun		0.3%	-2.7%	After disappointing fall in May, retail sales should have rebounded in June, supported by still favorable labor market development

Market Forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia 10Y	1.04	1.10	1.00	1.00	1.00
spread (bps)	143	140	130	120	120
Czech Rep. 10Y	1.31	1.51	1.71	1.87	1.99
spread (bps)	170	181	201	207	219
Hungary 10Y	2.19	2.11	2.15	2.31	2.46
spread (bps)	258	241	245	251	266
Poland 10Y	2.09	2.20	2.30	2.35	2.30
spread (bps)	249	250	260	255	250
Romania10Y	4.16	4.70	4.90	5.10	5.20
spread (bps)	456	500	520	530	540
Slovakia 10Y	-0.07	0.05	0.20	0.35	0.35
spread (bps)	32	35	50	55	55
Slovenia 10Y	0.13	0.15	0.20	0.20	0.20
spread (bps)	52	45	50	40	40
Serbia 5Y	3.16	2.80	3.00	2.90	2.70
DE10Y*	-0.39	-0.30	-0.30	-0.20	-0.20

FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2
EURHRK	7.38	7.40	7.42	7.42	7.38
forwards		7.38	7.38	7.38	7.38
EURCZK	25.61	25.55	25.30	25.14	24.88
forwards		25.71	25.82	25.95	26.10
EURHUF	327.0	325.0	325.0	325.0	325.0
forwards		327.3	327.9	328.5	329.3
EURPLN	4.28	4.28	4.30	4.31	4.30
forwards		4.29	4.32	4.34	4.37
EURRON	4.73	4.75	4.77	4.79	4.82
forwards		4.75	4.79	4.83	4.88
EURRSD	117.8	117.7	118.0	118.0	117.8
forwards		-	-	-	-
EURUSD	1.11	1.10	1.10	1.12	1.15

3M Money Market Rate						Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2		current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.48	0.50	0.50	0.50	0.50	Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	2.16	2.16	2.16	2.22	2.36	Czech Republic	2.00	2.00	2.00	2.00	2.25
Hungary	0.26	0.25	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	3.08	3.40	3.40	3.30	3.30	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.45	2.45	2.48	2.47	2.48	Serbia	2.75	2.50	2.50	2.50	2.50
Eurozone	-0.37	-0.40	-0.50	-0.50	-0.50	Eurozone	0.00	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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