

# Weekly Focus Poland

The flash estimate of GDP should still point to strong growth of the economy in 2Q19, despite some warning signs that we have seen lately. We expect GDP growth to arrive at 4.6% y/y, with domestic demand remaining the main growth driver. The flash inflation reading should be confirmed at 2.9% y/y in July. Bond yields will most likely remain depressed and under global influence. The recent depreciation of the zloty might be capped by positive GDP data.

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## This week:

- **August 14: GDP growth to remain strong**

We expect the 2Q19 flash estimate of GDP growth to arrive at 4.6% y/y (1.0% q/q), marginally above market expectations that stand at 4.5% y/y. We have seen weaker industry and retail sales performance only recently. The strong figures from the beginning of the second quarter should keep the growth dynamics relatively high. We see the FY19 growth forecast at 4.8%, but the risks are tilted to the downside due to slowing global economic activity. Trade wars and looming recession among trading partners are negative for growth. On the other hand, the fiscal package will support private consumption and growth itself in 2H19 and domestic demand should remain the main growth driver. However we expect to see lower growth dynamics in the quarters to come. In our view, the 2Q19 GDP release will be neutral for the stance of the MPC.

- **August 14: Final CPI reading for July**

We expect that the flash CPI reading will be confirmed at 2.9% y/y (0.0% m/m). In recent months, inflation has been strongly influenced by robust growth of food prices, but the increase in services prices has been also significant.

- **August 16: Core inflation to accelerate**

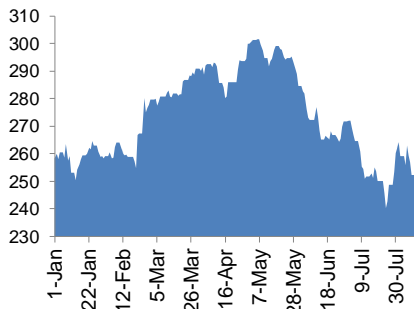
Given the strong increase of services prices, core inflation will accelerate further and is expected to increase to 2.1% y/y in July.

## Last week's highlights

- Governor Glapinski said in the interview that, in the event of a more significant slowdown in Poland, monetary loosening cannot be ruled out.
- MPC member Ancyparowicz is of the opinion that the financial supervisory authority should consider reducing the regulatory requirements for banks in order to neutralize the risks coming from FX loans.

## Bond market drivers

### Spread vs. Bunds (bp)

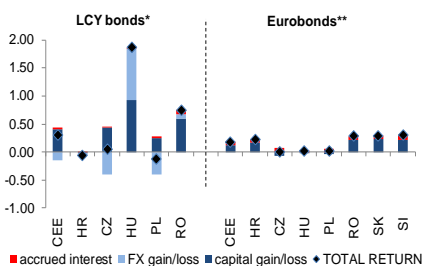


Source: Erste Group Research, Bloomberg

- Polish 10Y yield followed core market development**

Over the course of the week, the 10Y Polish yield went below 2% toward record low levels. It followed core market development, where the 10Y Bund went down to -0.6%. As a result, the spread vs. the 10Y Bund marginally narrowed from 260bp to around 250bp. Separately, the dovish comment from Governor Glapinski, suggesting a need for a rate cut in the event of a more severe slowdown, dragged the 12-month FRA down. The current level implies a 20bp cut by the NBP within a year. This week, local bond yields will remain under the influence of global factors and we do not expect that the flash release of 2Q19 GDP will have a significant impact on the long end of the curve in Poland unless the growth dynamics disappoint.

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



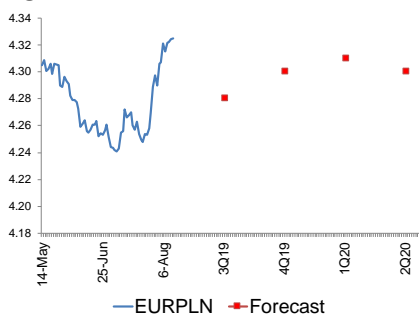
Source: Erste Group Research, Bloomberg

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

Spreads of CEE government bonds above German Bunds could not stop shrinking last week, and this continues to be driven by global rate expectation developments. It seems that CEE bonds could even benefit from risk-off sentiment, as evidenced by the continued drop in yields on Friday, despite the huge increase in BTP yields in Italy after early elections in autumn became increasingly likely there.

## FX market drivers

### EURPLN



Source: Erste Group Research, Bloomberg

- Zloty continued to weaken**

Last week, the zloty continued to depreciate, albeit at a slower pace than in the previous week. The EURPLN increased by 0.4% and went above 4.30. Upcoming flash 2Q19 GDP and inflation readings might cap the depreciation of the zloty this week. Moreover, this week's macro release on major markets could give some direction to the EURUSD exchange rate. The first estimate of German 2Q GDP is scheduled, but US CPI and retail sales data for July should be watched more closely.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>12-Aug</b>							
8:00	RO	CPI (y/y)	Jul		<b>4.2%</b>	3.84%	Inflation probably increased in July due to base effect.
8:00	RO	CPI (m/m)	Jul		<b>-0.2%</b>	-0.23%	Cheaper vegetables and natural gas in July.
9:00	CZ	CPI (y/y)	Jul	2.7%	<b>2.8%</b>	2.7%	Tight labor market, sound domestic demand and development of food prices still stand behind relatively high inflation.
12:00	RS	CPI (y/y)	Jul		<b>1.4%</b>	1.5%	July CPI expected to additionally decelerate due to base effect.
12:00	RS	CPI (m/m)	Jul			-0.3%	
<b>13-Aug</b>							
	RO	Current Account Balance	Jun			-3401	
9:00	SK	CPI (y/y)	Jul		<b>2.8%</b>	2.6%	Mild acceleration in inflation rate expected for July.
9:00	SK	CPI (m/m)	Jul		<b>0.0%</b>	0.1%	Compared to previous month, consumer prices likely to have remained largely unchanged.
14:00	PL	Trade Balance	Jun	-70		96	
<b>14-Aug</b>							
8:00	RO	Industrial Production (y/y)	Jun		<b>-3.4%</b>	-1.7%	Very weak industrial production due to shrinking external demand.
8:00	RO	GDP (q/q)	2Q A		<b>0.8%</b>	1.29%	Domestic demand most likely remained top economic growth driver.
9:00	CZ	GDP (q/q)	2Q A	0.5%	<b>0.5%</b>	0.6%	Development of Czech economy remained favorable in 2Q, mainly due to solid household consumption and private investment.
9:00	CZ	GDP (y/y)	2Q A	2.6%	<b>2.6%</b>	2.8%	GDP growth driven mainly by labor market and positive sentiment of households and high investment expenditures of firms into robotization. Contribution of net exports should be slightly negative, mainly due to lower foreign demand.
9:00	HU	GDP (y/y)	2Q P		<b>4.6%</b>	5.3%	Economy could slow in 2Q19 as European slowdown reaches Hungary: industrial production and internal demand could mitigate, while agricultural performance might continue decreasing.
10:00	PL	CPI (y/y)	Jul F		<b>2.9%</b>	2.9%	Flash inflation reading to be confirmed.
10:00	PL	CPI (m/m)	Jul F				
10:00	PL	GDP (y/y)	2Q P	4.5%	<b>4.6%</b>	4.7%	We believe that GDP growth will also sustain solid growth in 2Q19, supported by private consumption and investment growth.
<b>15-Aug</b>							
	RS	Current Account Balance	Jun			-124.2	
<b>16-Aug</b>							
9:00	CZ	PPI (y/y)	Jul	2.2%	<b>2.3%</b>	2.5%	PPI inflation affected mainly by lack of new available employees, which in turn increases labor costs of firms.
11:00	HR	CPI (y/y)	Jul		<b>0.6%</b>	0.6%	Inflation expected to remain in tight band in July.

## Market Forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>Croatia 10Y</b>	0.94	1.10	1.00	1.00	1.00
spread (bps)	153	160	140	130	130
<b>Czech Rep. 10Y</b>	0.93	1.51	1.71	1.87	1.99
spread (bps)	152	201	211	217	229
<b>Hungary 10Y</b>	1.81	2.11	2.15	2.31	2.46
spread (bps)	240	261	255	261	276
<b>Poland 10Y</b>	1.94	2.20	2.30	2.35	2.30
spread (bps)	253	270	270	265	260
<b>Romania10Y</b>	4.09	4.70	4.90	5.10	5.20
spread (bps)	468	520	530	540	550
<b>Slovakia 10Y</b>	-0.26	0.05	0.20	0.30	0.35
spread (bps)	33	55	60	60	65
<b>Slovenia 10Y</b>	-0.14	0.15	0.20	0.20	0.20
spread (bps)	45	65	60	50	50
<b>Serbia 5Y</b>	2.76	2.80	3.00	2.90	2.70
<b>DE10Y</b>	-0.59	-0.50	-0.40	-0.30	-0.30

FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>EURHRK</b>	7.39	7.40	7.42	7.42	7.38
forwards		7.39	7.39	7.39	7.39
<b>EURCZK</b>	25.86	25.55	25.30	25.14	24.88
forwards		25.94	26.05	26.16	26.30
<b>EURHUF</b>	324.5	325.0	325.0	325.0	325.0
forwards		324.8	325.3	325.9	326.6
<b>EURPLN</b>	4.32	4.28	4.30	4.31	4.30
forwards		4.34	4.36	4.38	4.41
<b>EURRON</b>	4.73	4.75	4.77	4.79	4.82
forwards		4.75	4.79	4.83	4.87
<b>EURRSD</b>	117.6	117.7	118.0	118.0	117.8
forwards		-	-	-	-
<b>EURUSD</b>	1.12	1.10	1.10	1.12	1.15

3M Money Market Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>Croatia</b>	0.47	0.50	0.50	0.50	0.50
<b>Czech Republic</b>	2.14	2.16	2.16	2.22	2.36
<b>Hungary</b>	0.25	0.25	0.25	0.35	0.45
<b>Poland</b>	1.72	1.72	1.72	1.72	1.72
<b>Romania</b>	3.09	3.40	3.40	3.30	3.30
<b>Serbia</b>	2.26	2.45	2.48	2.47	2.48
<b>Eurozone</b>	-0.40	-0.40	-0.50	-0.50	-0.50

Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2
<b>Croatia</b>	0.30	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>	2.50	2.50	2.50	2.50	2.50
<b>Eurozone</b>	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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