

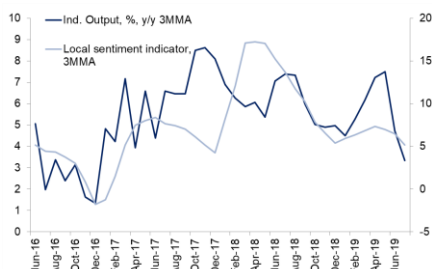
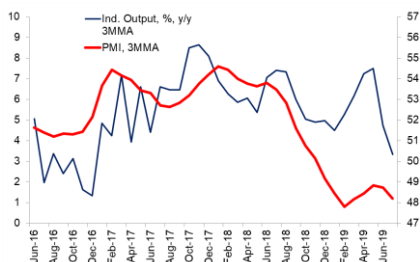
Weekly Focus Poland

This week, industrial production and retail sales data should indicate how much the economic slowdown should be feared. We expect a rebound of growth dynamics in July, after a weak performance in June. Labor market data (wage growth and employment) should confirm good conditions. The FX and bond markets are to remain under the global influence, as Fed Chairman Powell's speech at the Jackson Hole Symposium is scheduled this week.

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Industry vs. market sentiment



This week:

- **August 20: Employment to keep growing, wage growth to accelerate (6.7% y/y) in July**

Labor market conditions have been constantly improving. The unemployment rate is historically low, while employment keeps growing at a sustained pace of slightly below 3%. Nominal wage growth should rebound toward 7% y/y in July, after weak growth of 5.3% y/y in June.

- **August 21: Industry is expected to grow by 6.5% y/y in July**

After a particularly weak performance of industry in June (-2.7% y/y), the market expects industrial output growth to rebound to 6.5% y/y in July. This is in line with our scenario as well, as a positive calendar effect should support the July number. Market sentiment, however, remains weak. The PMI index has been below 50 for a couple of months already, while local sentiment indicators are also in a downward trend. If industry disappoints, expectations for a bigger slowdown in the second half of the year may arise more visibly.

- **August 22: Retail sales to accelerate to 7.0% y/y in July (vs. consensus at 7.8% y/y)**

Retail sales data in July should accelerate toward 7% y/y, after slowing in June. Apart from the effect of more working days, the expectations for continuously high spending in the months to come is related to another round of fiscal easing. Weaker than expected retail sales growth may question the strength of the private consumption growth in the third quarter, weighing on growth expectations as well.

Last week's highlights

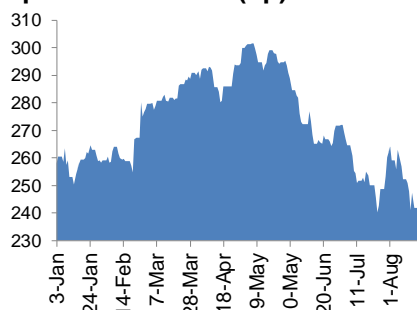
- GDP growth in 2Q maintained solid dynamics at 4.4% y/y, despite worsening external environment.
- Core inflation picked up to 2.2% y/y in July, after headline inflation was confirmed at 2.9% y/y.

Bond market drivers

- **Polish 10Y yield hit historically low level of 1.73%**

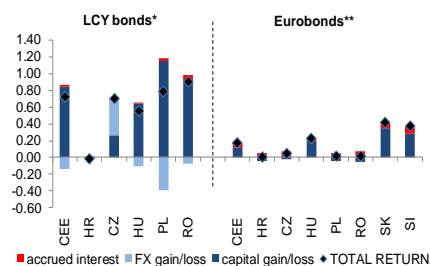
The long end of the curve continued its downward trend last week and the 10Y yield hit the historically low level of 1.73%. The move was accompanied by a narrowing of the spread vs. Bunds. Although the beginning of the week brings a slight rebound, 10Y yields are expected to remain below 2% in the nearest future. This week, domestic data on industry and retail is important to watch, as it will likely set the mood for the third quarter economic development in Poland. As far as global events are concerned, Fed Chairman Powell's speech at the Jackson Hole Symposium will set the tone for markets.

Spread vs. Bunds (bp)



Source: Erste Group Research, Bloomberg

Weekly performance of 5Y bonds (% in EUR)



Source: Erste Group Research, Bloomberg

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

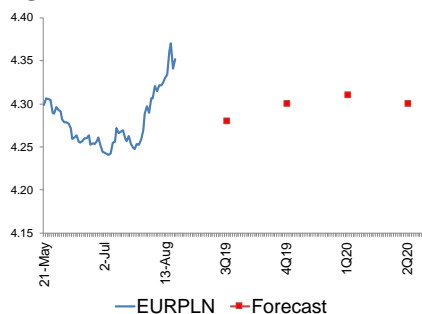
The capital gains everywhere but Croatia are behind the 0.7% return on 5Y LCY bonds. Romania and Poland were the two countries with the highest returns, despite the somewhat unfavorable FX development. On top of that, spreads continued to tighten in Poland and Hungary last week, more than just following the plummeting of global yields.

FX market drivers

- **Weak zloty**

Global trade disputes are pulling local currencies onto a rollercoaster ride, with some of them seeing separate moves in their own right. The EURPLN moved sharply to 4.37 on Wednesday, also likely due to the illiquidity last week. It already started to reverse at the end of the week, but EURPLN moved back toward 4.37 on Monday. In general, the FX market remains under global influences, so Fed Chairman Powell's speech at the Jackson Hole Symposium is likely to be the key event.

EURPLN



Source: Erste Group Research, Bloomberg

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
19-Aug							
	SK	Unemployment Rate	Jul			4.97%	
11:00	HR	Unemployment Rate	Jul			7.20%	
11:00	HR	Wages (y/y)	Jun			1.20%	
20-Aug							
10:00	PL	Wages (y/y)	Jul	7.0%	6.7%	5.30%	After weaker figure in June, we expect wage growth dynamics to move back towards 7%.
21-Aug							
10:00	PL	Industrial Production (y/y)	Jul	6.9%	6.5%	-2.70%	Positive calendar effect (+1WD) to support industrial performance.
10:00	PL	PPI (y/y)	Jul		0.4%	0.60%	Price pressure to remain sluggish due to low oil prices.
10:30	SI	PPI (y/y)	Jul			0.50%	
22-Aug							
10:00	PL	Retail Sales (y/y)	Jul	9.3%	7.0%	5.30%	We might observe first improvement of retail sales growth due to introduction of adjusted 500+ program as of July.

Market Forecasts

Government bond yields					
	current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia 10Y	0.93	1.10	1.00	1.00	1.00
spread (bps)	158	170	140	130	130
Czech Rep. 10Y	0.94	1.04	1.27	1.41	1.51
spread (bps)	159	164	167	171	181
Hungary 10Y	1.63	1.80	1.85	2.00	2.10
spread (bps)	228	240	225	230	240
Poland 10Y	1.82	2.00	2.10	2.15	2.20
spread (bps)	248	260	250	245	250
Romania 10Y	3.91	4.70	4.90	5.10	5.20
spread (bps)	457	530	530	540	550
Slovakia 10Y	-0.42	-0.30	-0.15	0.00	0.05
spread (bps)	23	30	25	30	35
Slovenia 10Y	-0.19	0.15	0.20	0.20	0.20
spread (bps)	46	75	60	50	50
Serbia 5Y	2.71	2.80	3.00	2.90	2.70
DE10Y	-0.65	-0.60	-0.40	-0.30	-0.30

FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2
EURHRK	7.39	7.40	7.42	7.42	7.38
forwards		7.39	7.39	7.39	7.39
EURCZK	25.78	25.55	25.30	25.14	24.88
forwards		25.85	25.97	26.08	26.21
EURHUF	325.7	325.0	325.0	325.0	325.0
forwards		325.9	326.3	326.7	327.4
EURPLN	4.38	4.28	4.30	4.31	4.30
forwards		4.39	4.41	4.43	4.45
EURRON	4.73	4.75	4.77	4.79	4.82
forwards		4.75	4.79	4.82	4.86
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	0.43	0.50	0.50	0.50	0.50	Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	2.14	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	3.09	3.40	3.40	3.30	3.30	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.04	2.45	2.48	2.47	2.48	Serbia	2.50	2.50	2.50	2.50	2.50
Eurozone	-0.42	-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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