

Weekly Focus Poland

Central banks in focus this week. MPC expected to keep target rate stable at 1.5%, while ECB most likely to deliver monetary stimulus. Uncertainty regarding Brexit and upcoming ECB decision to be key drivers of bond and FX market. If ECB disappoints market expectations regarding size of stimulus, we could see a reaction from EURUSD and zloty.

Katarzyna Rzentarzewska
+43 5 0100 – 17356
katarzyna.rzentarzewska@erstegroup.com

Malgorzata Krzywicka
+43 5 0100 – 17338
malgorzata.krzywicka@erstegroup.com

This week:

- **September 11: MPC to keep rates unchanged**

We expect the MPC to keep the policy rate stable at 1.5%. We think that the MPC will sustain its dovish rhetoric and will most likely reiterate that the current inflation level is not worrisome. Inflation growth slowed down in August, as the headline figure came in at 2.8% y/y. Moreover, price pressure is mostly being driven by non-core items and hence remains out of the scope of monetary policy. However, we see mostly upside risks to the inflation outlook stemming from energy and food prices development next year. All in all, low inflation in the external environment and the expected monetary easing to be announced on September 12 by the ECB will support the stability of rates in Poland. We expect that the MPC will keep rates at record low levels until the end of 2020 or beyond.

- **September 13: Flash inflation to be confirmed**

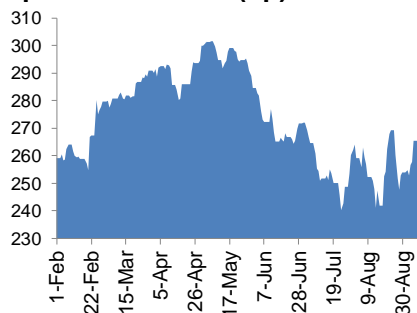
We expect that the flash inflation estimate for August will be confirmed at 2.8% y/y (0.0% m/m). In our view, headline CPI will move within the upper bound of the target until year-end and will most likely peak at the end of 1Q20. Uncertainty regarding energy price development next year and the base effect could shift inflation above 3.5% in 1Q20.

Last week's highlights

- S&P expressed concern over the possible implications of the ECJ ruling on FX loans, but the government remains more concerned about the global growth slowdown.
- The Ministry of Family, Labor and Social Policy reported that the unemployment rate stood at 5.2% in August.
- The Ministry of Finance announced that 85% of this year's borrowing needs (according to the budget act) has already been covered and 20% of 2020 needs has been pre-financed.

Bond market drivers

Spread vs. Bunds (bp)

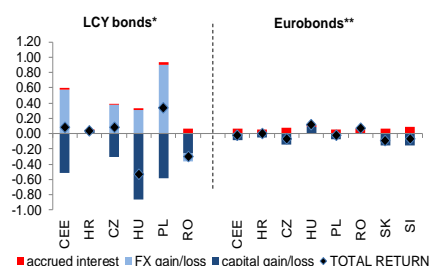


Source: Erste Group Research, Bloomberg

- **10Y yield followed core markets**

Over the course of the week, the 10Y yield increased to 2% on the back of improved global sentiment and the somewhat lower risk of hard Brexit. As a result, the spread vs. the 10Y German Bund widened to 265bp. However, the spread widening is most likely due to the fact that investors started building up their expectations ahead of the ECB meeting later this week. We expect that Polish yields this week will follow core market developments.

Weekly performance of 5Y bonds (% in EUR)



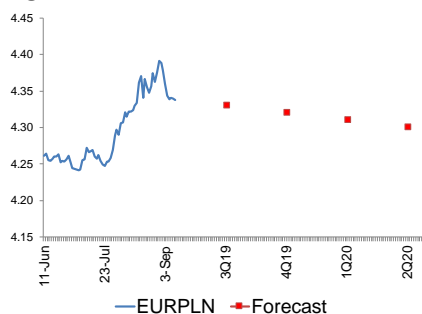
Source: Erste Group Research, Bloomberg

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

Yields increased considerably last week, amid the improving market mood and a likely rotation into stocks by investors. Spreads above German Bunds also increased in most CEE countries. A major outlier from this development is Croatia, where 10Y yields continued to slowly decline. We have therefore cut our 10Y HRK yield forecast. Also important to note is the increase in short-term rates in Romania, Poland and the Czech Republic in the last two weeks, indicating the lower probability of monetary easing assumed by the markets.

FX market drivers

EURPLN



Source: Erste Group Research, Bloomberg

- **Zloty took breath and went stronger**

Last week, the zloty strengthened and the EURPLN closed the week marginally below 4.34. The zloty followed other CEE currencies and benefited from the improved global mood. The better than expected PMI for August could have also supported the zloty. The ECB meeting will be the key event for the zloty this week. The gloomy outlook for the economy has pushed market expectations up, so a risk of a disappointment exists, which would in turn trigger a reaction from the EURUSD and influence the zloty.

Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
9-Sep							
10:30	SI	Trade Balance	Jul			0.13	
10-Sep							
9:00	SK	Industrial Production (y/y)	Jul			-3%	Industrial production in July was likely affected by planned summer breaks at some major industrial plants (esp. in the car sector).
9:00	CZ	CPI (y/y)	Aug	2.8%	2.7%	2.9%	CPI inflation still remains close to upper bound of tolerance band around inflation target. Sound labor market and positive development in foreign demand still most important proinflationary factors.
9:00	CZ	CPI (m/m)	Aug	0.0%	-0.1%	0.4%	We expect slight decrease in overall price level, mainly due to small correction in food prices.
9:00	HU	CPI (y/y)	Aug	3.3%		3.3%	
10:30	SI	Industrial Production (y/y)	Jul			1.1%	
11:00	HR	PPI (y/y)	Aug			0.3%	
11-Sep							
	PL	Target Rate	Sep	1.5%	1.5%	1.5%	
8:00	RO	CPI (y/y)	Aug	3.9%	3.9%	4.12%	Minor decrease of annual inflation rate in August.
8:00	RO	CPI (m/m)	Aug		0.1%	-0.2%	Rising tobacco price and lower pressure on food price at m/m level.
12-Sep							
8:00	RO	Industrial Production (y/y)	Jul		-2.7%	-4.1%	Weak external demand for local manufacturing.
9:00	SK	Wages (y/y)	Jul			-3.6%	
12:00	RS	CPI (y/y)	Aug		1.6%	1.6%	
12:00	RS	CPI (m/m)	Aug			-0.2%	
12:00	RS	Target Rate	Sep			2.5%	
13-Sep							
	RO	Current Account Balance	Jul			-5135	
9:00	SK	CPI (y/y)	Aug	2.7%		2.9%	Consumer prices are likely to have retained their pace in August.
10:00	PL	CPI (y/y)	Aug F	2.8%		2.8%	Flash estimate to be confirmed.
14:00	PL	Current Account Balance	Jul;	-179.00		21.00	
14:00	PL	Trade Balance	Jul	-56.00		-77	

Market Forecasts

Government bond yields					
	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia 10Y	0.54	0.40	0.40	0.40	0.40
spread (bps)	114	80	80	80	80
Czech Rep. 10Y	1.20	1.27	1.41	1.51	1.58
spread (bps)	181	167	181	191	198
Hungary 10Y	2.21	1.90	2.00	2.11	2.25
spread (bps)	281	230	240	251	265
Poland 10Y	2.06	2.10	2.15	2.20	2.20
spread (bps)	267	250	255	260	260
Romania10Y	4.21	4.40	4.50	4.50	4.60
spread (bps)	481	480	490	490	500
Slovakia 10Y	-0.38	-0.25	-0.10	-0.05	0.00
spread (bps)	22	15	30	35	40
Slovenia 10Y	-0.11	0.20	0.20	0.20	0.30
spread (bps)	49	60	60	60	70
Serbia 5Y	2.70	3.00	2.90	2.70	2.70
DE10Y	-0.60	-0.40	-0.40	-0.40	-0.40

FX					
	current	2019Q4	2020Q1	2020Q2	2020Q3
EURHRK	7.40	7.42	7.42	7.38	7.40
forwards		7.40	7.40	7.40	7.40
EURCZK	25.87	25.50	25.34	25.04	24.86
forwards		26.05	26.16	26.30	26.44
EURHUF	329.7	329.0	328.0	328.0	328.0
forwards		330.4	330.8	331.4	332.2
EURPLN	4.34	4.30	4.31	4.30	4.29
forwards		4.37	4.39	4.42	4.44
EURRON	4.73	4.77	4.79	4.82	4.85
forwards		4.78	4.82	4.86	4.90
EURRSD	117.6	118.0	118.0	117.8	117.8
forwards		-	-	-	-
EURUSD	1.10	1.10	1.12	1.15	1.15

3M Money Market Rate						Key Interest Rate					
	current	2019Q4	2020Q1	2020Q2	2020Q3		current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.48	0.50	0.50	0.50	0.50	Croatia	0.30	0.30	0.30	0.30	0.30
Czech Republic	2.14	2.16	2.22	2.36	2.35	Czech Republic	2.00	2.00	2.00	2.25	2.25
Hungary	0.23	0.26	0.28	0.29	0.30	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	3.05	3.00	2.90	2.90	3.20	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	1.99	2.48	2.47	2.48	2.52	Serbia	2.50	2.50	2.50	2.50	2.50
Eurozone	-0.43	-0.50	-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](#)

Contacts

Group Research

Head of Group Research
Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Zoltan Arokszallasi, CFA (Fixed income) +43 (0)5 0100 18781
Katarzyna Rzentarzewska (Fixed income, Poland) +43 (0)5 0100 17356
Malgorzata Krzywicka (Fixed income) +43 (0)5 0100 17338

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary
Orsolya Nyeste +361 268 4428
Zsombor Varga +361 373 2830

Romania
Horia Braun-Erdei (Head) +40 3735 10424
Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Katarina Muchova +421 2 4862 4762

Major Markets & Credit Research
Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
Ralf Burchert, CEFA (Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Covered Bonds/Financials) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Covered Bonds/Financials) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povazsai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA +43 (0)5 0100 17906
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Anto Augustinovic +385 72 37 2833
Magdalena Doleneć +385 72 37 1407
Davor Spoljar, CFA +385 72 37 2825

Czech Republic
Petr Bartek (Head) +420 956 765 227
Marek Dongres +420 956 765 218
Jan Safranek +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA +361 235 5135

Poland
Tomasz Duda (Head) +48 22 330 6253
Cezary Bernatek +48 22 538 6256
Konrad Grygo +48 22 330 6254
Mateusz Krupa, CFA +48 22 330 6251
Michal Pilch +48 22 330 6255
Emil Poplawski +48 22 330 6252

Romania
Caius Rapanu +40 3735 10441

Turkey
Umut Cebir +90 2129120445
Lina Barokas +90 2129120445

Treasury – Erste Bank Vienna

Group Markets Retail Sales
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT
Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Institutional Distribution non CEE
Head: Jaromir Malak +43 (0)5 0100 84254
Karin Rattay +43 (0)5 0100 84118
Christian Kienesberger +43 (0)5 0100 84323
Bernd Bollhof +49 (0)30 8105800 5525
Rene Klasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800-5507
Charles-Henry La Coste de Fontenilles +43 (0)5 0100 84115
Bernd Thaler +43 (0)5 0100 84119

Bank Distribution
Head: Marc Friebertshäuser +49 (0)711 810400 5540
Sven Kienzle +49 (0)711 810400 5541
Michael Schmotz +43 (0)5 0100 85542
Ulrich Inhofner +43 (0)5 0100 85544
Klaus Vosseler +49 (0)711 810400 5560
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562

Institutional Distribution CEE
Head: Jaromir Malak +43 (0)5 0100 84254

Institutional Distribution PL and CIS
Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

Institutional Distribution Slovakia
Head: Sarlota Sipulova +421 2 4862 5619
Monika Smelikova +421 2 4862 5629

Institutional Distribution Czech Republic
Head: Ondrej Cech +420 2 2499 5577
Milan Bartos +420 2 2499 5562
Barbara Suvadova +420 2 2499 5590

Institutional Asset Management Czech Republic
Head: Petr Holecek +420 956 765 453
Martin Perina +420 956 765 106
Petr Valenta +420 956 765 140
David Petracek +420 956 765 809
Blanca Weinerova +420 956 765 317

Institutional Distribution Croatia
Head: Antun Buric +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Natalija Zujic +385 (0)7237 1638

Institutional Distribution Hungary
Head: Peter Csizmadia +36 1 237 8211
Attila Hollo +36 1 237 8209
Gabor Balint +36 1 237 8205

Institutional Distribution Romania and Bulgaria
Head: Ciprian Mitu +43 (0)50100 85612
Crisitan Adascalita +40 373 516 531

Group Institutional Equity Sales
Head: Brigitte Zeitlberger-Schmid +43 (0)50100 83123
Werner Fürst +43 (0)50100 83121
Josef Kerekes +43 (0)50100 83125
Cormac Lyden +43 (0)50100 83120

Business Support
Bettina Mahoric +43 (0)50100 86441

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Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
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Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com