

## Weekly Focus Poland

First real economy data for September is due this week. We expect wage growth to keep solid growth dynamics and arrive at 6.1% y/y, while employment should increase by 2.7% y/y. Industrial production will be worth watching, as we will see extent of slowdown in sector in 3Q19. We think that figure will return to positive territory, supported by favorable calendar effect (+1WD), and we see it at 5.3% y/y. Markets will likely focus on macro releases in Eurozone and US as well as Brexit developments.

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### This week:

- **October 15: core inflation to remain stable**

In our view, core inflation will stay stable at 2.2% y/y in September, while the market expects a marginal increase to 2.3% y/y. After a steep increase in 1H19, we recently have observed a stabilization. All in all, core inflation should land on average around 2% in 2019.

- **October 17: wage growth to keep solid dynamics**

We expect wage growth to arrive at 6.1% y/y in September. We are slightly less optimistic than the market, which sees the growth at 7.1% y/y. On average, 3Q19 wage growth should remain stable compared to the previous quarter at 6.7%. Moreover, employment should arrive at 2.7% y/y in September. The situation on the labor market remains favorable.

- **October 18: industrial production to somewhat recover**

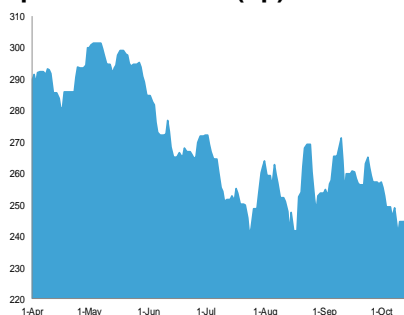
After a very weak August reading (-1.3% y/y), we expect that industrial production will return to positive territory and arrive at 5.3% y/y in September. A positive calendar effect (+1WD) will be supportive for the reading. However, 3Q19 will show a visible slowdown of the industrial sector, as the average growth will most likely drop from 4.8% in 2Q19 to well below 4% in 3Q19. Such a slowdown will weigh on the GDP growth, and we expect it to arrive below 4% in 3Q19.

### Last week's highlights

- According to partial results, five parties will enter the new parliament; the turnout stood at a record-high level of 61.1%. The ruling Law & Justice won the election and will maintain its simple majority in parliament, gathering 43.8% of the votes. The Civic Coalition was ranked in second place, with support at 27.2%, followed by the Left with 12.5%, the Polish People's Party with 8.6% and the far-right Confederation supported by 6.8%.
- S&P kept its Polish rating unchanged at A- with stable outlook. Moody's passed the date of the review.

## Bond market drivers

### Spread vs. Bunds (bp)

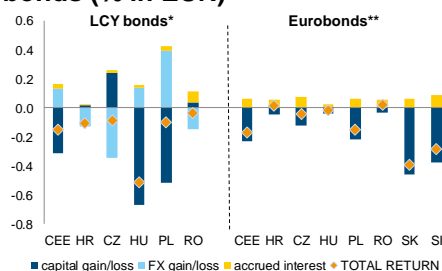


Source: Erste Group Research, Bloomberg

- **10Y yield returned to 2%**

After a strong downward move a week before, last week, the long end of the Polish curve went visibly up and the 10Y yield increased by 10bp toward 2%. The local yield followed the core market development as the 10Y Bund went up by an impressive 15bp and closed the week above -0.5%. The increase of German Bund yields seemed to be associated with an easing of the risk-off mode, as 10Y US Treasury yields went up as well. As a result, the spread over the 10Y bund fluctuated between 245bp and 250bp. This week, markets will most likely focus on the upcoming European Council meeting, at which Brexit will be in focus. The coming US-China trade talks, if they deliver a positive outcome, could further increase the sentiment on the market.

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



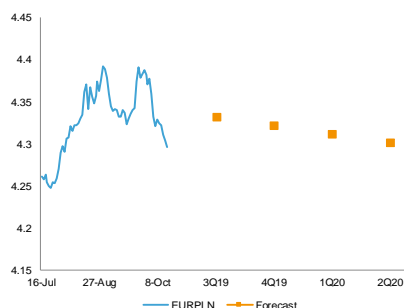
Source: Erste Group Research, Bloomberg

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

We saw some yield spread compression in 10Y CEE bonds over German Bunds last week. However, not all CEE bonds followed the increase on core markets. Croatia's bonds continued in their own rally, ahead of another potential rating upgrade by Moody's already this Friday.

## FX market drivers

### EURPLN



Source: Erste Group Research, Bloomberg

- **Zloty holds strong**

Over the course of the week, the zloty benefited from the stronger EUR and increased risk appetite. Since the beginning of the month, the zloty has appreciated by 1.6% vs. the EUR and the EURPLN closed the week below 4.30. This week, all eyes will be on international politics, with Brexit and trade talks in focus. As far as macro releases are concerned, Eurozone industrial production and retail sales for the US will be the most important releases for the EURUSD. A bottoming out of industrial production could lift the outlook for the Eurozone somewhat. Markets will be watching US retail sales for confirmation of the ongoing steady expansion of the economy.

## Calendar

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
15. Oct	10:00	PL	CPI (y/y)	Sep F			2.6%	
	10:00	PL	CPI (m/m)	Sep F			-0.1%	
16. Oct	9:00	CZ	PPI (y/y)	Sep	1.9%	<b>1.9%</b>	2.1%	PPI inflation has been slowing down, mainly due to lower oil price in y/y terms and low inflation in Eurozone
	11:00	HR	CPI (y/y)	Sep		<b>1.0%</b>	0.8%	Inflation is expected to remain in tight band around 1% mark
	11:00	HR	CPI (m/m)	Sep			-0.3%	
17. Oct	10:00	PL	Wages (y/y)	Sep	7.1%	<b>6.1%</b>	6.8%	Wage growth to maintain solid dynamics
18. Oct		RS	Current Account Balance	Aug			-291.7	
		SK	Unemployment Rate	Sep	5.0%	<b>5.0%</b>	4.97%	We expect rate of unemployment to stagnate at level close to 5%
	10:00	PL	Industrial Production (y/y)	Sep	5.0%	<b>5.3%</b>	-1.3%	Positive calendar effect (+1WD) should support performance of industry; we see industrial production slowing down on average in 3Q19 compared to previous quarter
	10:00	PL	PPI (y/y)	Sep	0.5%	<b>0.5%</b>	0.7%	Price pressure remains low

Source: Erste Group Research

## Market Forecasts

### Government bond yields

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>Croatia 10Y</b>	0.5	0.4	0.4	0.4	0.4
spread (bps)	93	80	80	80	70
<b>Czechia 10Y</b>	1.2	1.5	1.6	1.7	1.7
spread (bps)	171	188	200	208	204
<b>Hungary 10Y</b>	2.0	2.1	2.2	2.2	2.2
spread (bps)	244	249	255	261	255
<b>Poland 10Y</b>	2.0	2.0	2.0	2.1	2.1
spread (bps)	244	235	240	245	235
<b>Romania10Y</b>	4.1	4.4	4.5	4.5	4.6
spread (bps)	458	480	490	490	490
<b>Slovakia 10Y</b>	0.0	-0.1	0.1	0.1	0.2
spread (bps)	47	35	45	50	50
<b>Slovenia 10Y</b>	0.04	0.00	0.00	0.00	0.00
spread (bps)	50	40	40	40	30
<b>Serbia 5Y</b>	2.7	3.0	2.9	2.7	2.5
spread (bps)	312	340	330	310	280
<b>DE10Y</b>	-0.5	-0.4	-0.4	-0.4	-0.3

### 3M Money Market Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>Croatia</b>	0.45	0.50	0.50	0.50	0.50
<b>Czechia</b>	2.17	2.13	2.12	2.12	2.12
<b>Hungary</b>	0.21	0.21	0.22	0.25	0.25
<b>Poland</b>	1.72	1.72	1.72	1.72	1.72
<b>Romania</b>	3.05	3.00	2.90	2.90	3.20
<b>Serbia</b>	1.99	2.00	1.90	1.80	1.70
<b>Eurozone</b>	-0.42	-0.50	-0.50	-0.50	-0.50

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](#)

### FX

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>EURHRK</b>	7.43	7.42	7.42	7.38	7.40
forwards		7.43	7.43	7.43	7.43
<b>EURCZK</b>	25.84	25.50	25.34	25.04	24.86
forwards		25.96	26.10	26.25	26.40
<b>EURHUF</b>	331.44	334.00	335.00	335.00	335.00
forwards		331.82	332.24	332.75	333.36
<b>EURPLN</b>	4.29	4.35	4.35	4.35	4.34
forwards		4.31	4.34	4.36	4.39
<b>EURRON</b>	4.75	4.77	4.79	4.82	4.85
forwards		4.79	4.83	4.87	4.92
<b>EURRSD</b>	117.53	118.00	118.00	117.70	117.70
forwards		-	-	-	-
<b>EURUSD</b>	1.10	1.10	1.12	1.15	1.15

### Key Interest Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
<b>Croatia</b>	0.3	0.3	0.3	0.3	0.3
<b>Czechia</b>	2.0	2.0	2.0	2.0	2.0
<b>Hungary</b>	0.9	0.9	0.9	0.9	0.9
<b>Poland</b>	1.5	1.5	1.5	1.5	1.5
<b>Romania</b>	2.5	2.5	2.5	2.5	2.5
<b>Serbia</b>	2.5	2.5	2.5	2.5	2.5
<b>Eurozone</b>	0.0	0.0	0.0	0.0	0.0

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