

Weekly Focus Poland

Quite heavy macro calendar this week. Employment and nominal wage growth to be released on Tuesday. Industrial output and retail sales data (due Wednesday) should confirm solid 2Q17 GDP growth, although slightly below 4% seen in 1Q. ECB meeting to be key event for FX and bond market, as investors seeking confirmation of more hawkish Draghi.

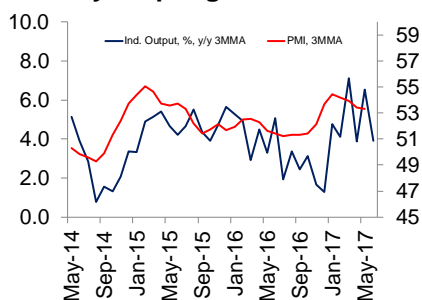
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Upcoming this week

- **July 18: Market expects employment to grow 4.3% y/y in June and nominal wage growth to go up by 5.0% y/y, marginally lower than our estimate of 5.1% y/y growth.**

The tightening of the labor market continues and employment and the nominal wage are expected to post solid growth. The market expects employment to rise 4.3% y/y in June – a somewhat slower pace of growth compared to May (4.5% y/y) – while wages are also expected to marginally slow. Nevertheless, good labor market conditions suggest that private consumption is likely to remain strong throughout the year, supporting robust economic growth.

Industry output growth and PMI



Source: BBG, CSO, Erste Group Research

- **July 19: Industrial output to grow 3.2% y/y in June (vs. market expectations of 3.9% y/y).**

There were fewer working days in June than in the previous year and that is likely to weigh on industrial output growth dynamics. After very strong industrial performance in May (9.1% y/y), we expect a slower pace of industrial expansion, consistent with our belief that in 2Q17 the economy grew below the 4% seen in the first quarter.

- **July 19: We see retail sales growth of 5.8% y/y (vs. consensus of 6.8% y/y).**

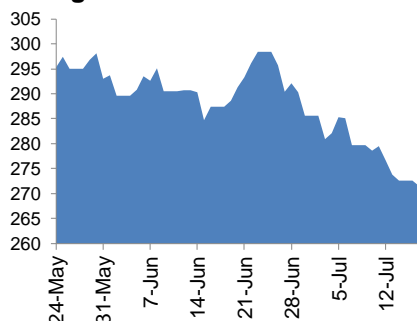
Retail sales growth should remain robust, as the strong labor market supports high levels of household spending.

Last week's highlights

- Drop in inflation rate from 1.9% y/y in May to 1.5% y/y in June.
- Core inflation remained flat at 0.8% y/y in June, confirming limited demand pressure in economy, despite tight labor market.
- Current account deficit arrived at EUR 179mn. Trade balance negative at EUR 200mn.

Bond market drivers

Spread vs. Bunds as narrow as in August 2016

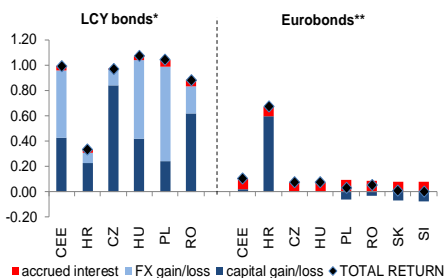


Source: Erste Group Research, Bloomberg

- **Spread vs. Bunds narrows further**

Over the last week, the long end of the curve has been relatively stable. Although German yields went up, the spread vs. Bunds has been narrowing, keeping 10Y Polish yields close to 3.32% throughout the week. On Monday, however, long-term yields dropped marginally. There are many domestic releases this week, but they should have limited impact on the bond market. Thursday's ECB meeting should be the key event. Draghi's recent comments have been read by the market as hawkish and have visibly pushed up the long end of the German curve. Investors will thus be looking for confirmation as to whether Draghi has indeed turned hawkish. A dovish tone, on the other hand, would be positive for the bond market and we expect the Polish yield curve to follow developments on core markets.

Weekly performance of 5Y bonds (% in EUR)

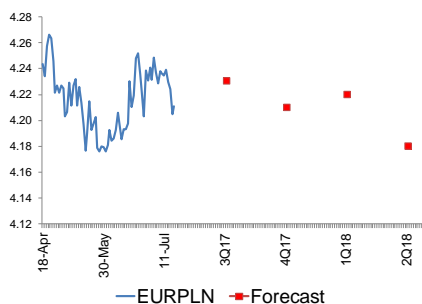


Source: Erste Group Research, Bloomberg

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

The strong performance of the CEE bond market was driven by both FX and capital gains in all CEE countries. The Czech Republic, Hungary and Poland each offered around a 1% return (in EUR). A relatively weak CPI in the US on Friday helped regional currencies to strengthen. This week, the ECB meeting is the key event to watch, as investors will be looking for signs on when to expect a reduction of asset purchases.

EURPLN



Source: Erste Group Research, Bloomberg

FX market drivers

- **Zloty supported by global sentiment**

The zloty strengthened more visibly towards the end of the week because of the CPI data in the US. The disappointing release was a trigger for the zloty to move toward 4.20 vs. the EUR at the end of the week. On Monday, the zloty lost some of this strength. If there are no major surprises in monthly data releases, the zloty should remain relatively strong. At the end of the week, however, global sentiment will set the tone for the EURPLN, as the ECB meeting will be closely watched by investors.

Calendar

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
18. Jul.	14:00	HU	Target Rate	Jul	0.9%	0.9%	0.9%	No change is expected in policy rate or toolkit; statement is likely to remain dovish
	14:00	PL	Wages (y/y)	Jun	5.0%	5.1%	5.4%	Robust growth of nominal wage supported by increasing employment
19. Jul.	14:00	PL	Industrial Production (y/y)	Jun	3.9%	3.2%	9.1%	Industry to expand at moderate pace, as PMI index stabilized around 53; moreover, lower number of working days is negative for growth dynamics
	14:00	PL	Retail Sales (y/y)	Jun	6.8%	5.8%	8.4%	Level of household spending has been high, supported by tight labor market conditions
	14:00	PL	PPI (y/y)	Jun	2.1%	2.2%	2.5%	PPI is expected to stabilize
20. Jul.		RS	Current Account Balance (monthly)	May			-79.4	
		SK	Unemployment Rate	Jun		7.3%	7.4%	Another slight decrease of unemployment rate was seen in June
	9:00	CZ	PPI (y/y)	Jun	1.7%	2.0%	2.3%	Lower oil prices are behind slowdown in producer prices; this effect was partly mitigated by higher labor costs
21. Jul.	10:30	SI	PPI (y/y)	Jun			2.4%	
	11:00	HR	Unemployment Rate	Jun		10.9%	11.7%	Seasonal support keeping headline figure on strong downward pattern

Market Forecasts

Government bond yields						FX					
	current	2017Q3	2017Q4	2018Q1	2018Q2		current	2017Q3	2017Q4	2018Q1	2018Q2
Croatia 10Y	2.80	3.00	3.10	3.10	3.20	EURHRK	7.41	7.50	7.55	7.55	7.40
spread (bps)	222	248	245	235	238	forw ards		7.41	7.43	7.45	7.47
Czech Rep. 10Y	0.98	1.20	1.18	1.18	1.20	EURCZK	26.10	26.10	26.00	25.80	25.70
spread (bps)	40	68	53	43	38	forw ards		26.07	26.00	25.98	25.98
Hungary 10Y	3.07	3.30	3.35	3.40	3.44	EURHUF	306.0	313.0	315.0	315.0	315.0
spread (bps)	250	278	270	265	262	forw ards		306.3	306.4	306.9	307.4
Poland 10Y	3.29	3.44	3.62	3.75	3.91	EURPLN	4.21	4.23	4.21	4.22	4.18
spread (bps)	271	292	297	300	309	forw ards		4.23	4.25	4.27	4.29
Romania10Y	4.16	3.90	4.10	4.30	4.30	EURRON	4.56	4.58	4.62	4.60	4.61
spread (bps)	359	338	345	355	348	forw ards		4.57	4.58	4.60	4.62
Slovakia 10Y	0.95	1.23	1.25	1.35	1.38	EURRSD	120.2	123.0	123.5	123.5	123.6
spread (bps)	38	71	60	60	56	forw ards		-	-	-	-
Slovenia 10Y	1.15	1.30	1.40	1.50	1.50	EURUSD	1.15	1.10	1.12	1.12	1.12
spread (bps)	58	78	75	75	68						
Serbia 7Y	5.35	5.80	6.00	6.25	6.25						
DE10Y (BBG)*	0.57	0.52	0.65	0.75	0.82						
3M Money Market Rate						Key Interest Rate					
	current	2017Q3	2017Q4	2018Q1	2018Q2		current	2017Q3	2017Q4	2018Q1	2018Q2
Croatia	0.60	0.40	0.45	0.45	0.45	Croatia	0.50	0.30	0.30	0.30	0.30
Czech Republic	0.30	0.42	0.43	0.49	0.50	Czech Republic	0.05	0.18	0.25	0.25	0.25
Hungary	0.15	0.05	0.05	0.05	0.05	Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.73	1.74	1.75	1.79	1.79	Poland	1.50	1.50	1.50	1.50	1.50
Romania	0.87	0.80	0.95	1.15	1.18	Romania	1.75	1.75	1.75	1.75	1.75
Serbia	3.54	3.50	3.50	3.80	4.00	Serbia	4.00	4.00	4.00	4.00	4.25
Eurozone	-0.33	-0.30	-0.30	-0.30	-0.30	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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