

Weekly Focus Poland

The MPC left policy rate flat at 1.5%. Despite upward revision of inflation and growth forecast, the MPC sustained its dovish stance. This week GDP is the key domestic event and we expect growth to accelerate to 4.8% y/y. Labor market data (wage growth and employment) should confirm further tightening. Surprise to the upside in GDP data may be positive for the zloty in the short term.

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Upcoming this week

- **November 13: CPI to ease to 2.1% in October.**

Final CPI reading should confirm flash estimate at 2.1% y/y in October and show the details behind the easing of inflation compared to previous month.

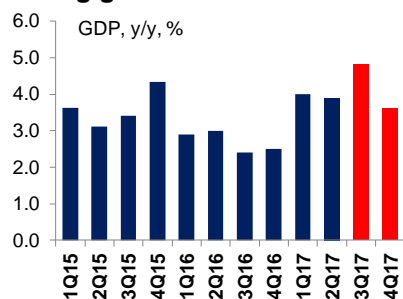
- **November 14: We expect GDP growth to accelerate to 4.8% y/y in 3Q17 above market consensus at 4.5% y/y.**

We expect to see GDP growth dynamics at 4.8% y/y, up from 3.9% in 2Q17. Overall robust performance of the industry as well as dynamic retail sales growth suggest strong growth momentum. Our forecast is above market expectations (4.5% y/y) and if proves to be correct another upward revision of this year growth is likely (from current forecast at 4.1%)

- **November 17: Nominal wage growth and employment data to confirm further tightening.**

Nominal wage growth has been accelerating lately and we expect it to arrive at 6.3% y/y in October. Tight labor market conditions and labor shortages are likely to out further upward pressure on wages. Employment is expected to raise 4.5%

Strong growth momentum



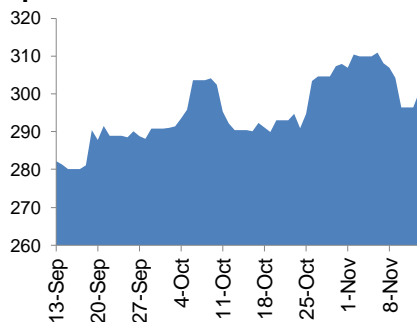
Source: BBG, CSO, Erste Group Research

Last week's highlights

- The MPC left the policy rate flat at 1.5%, in line with expectations, and cut the mandatory reserve rate from 3.5% to 0% for liabilities longer than two years beginning from January 2018.
- Despite upward revision of growth and inflation forecast, governor Glapinski reiterated his dovish stance.
- The EC expects Polish economy to grow 4.2% this year and slow to 3.8% in 2018.
- The EC forecast for the fiscal balance was revised to -1.7% of GDP in 2017 and 2018, due to higher tax revenues and strong growth momentum. In structural terms, the deficit is expected to narrow to 2% of GDP in 2017 and widen to 2.25% in 2018.

Bond market drivers

Spread vs. Bunds

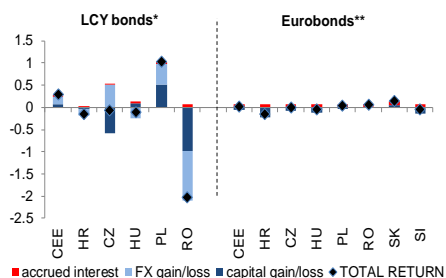


Source: Erste Group Research, Bloomberg

- **Long end of the curve moved down.**

Long-term yields have dropped over last week. Toward the end of the week the dovish tone of the MPC seems to cool down expectations for monetary tightening to begin sooner than governor Glapinski has been suggesting i.e.2019. It seems that hawkish MPC members remain in majority, yet the pressure will be gradually rising. The spread vs. Bunds have narrowed toward 300bp.

Weekly performance of 5Y bonds (% in EUR)



Source: Erste Group Research, Bloomberg

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

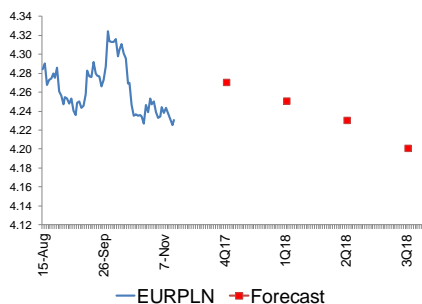
The CEE bond market performance was mixed. Croatian and Hungarian bond markets hold stable. In Czech Republic capital loss was outweighed by FX gains. Only Poland offered positive return last week as yields have dropped. Romania, on the other hand, underperformed as loss was at 2% in EUR.

FX market drivers

- **Zloty holds around 4.23 vs. EUR**

The zloty has been relatively stable throughout last week. There were no major impulses that could push the zloty more visibly. This week, if GDP growth surprises to the upside we may see short-lived strengthening as robust performance of the economy is mostly priced in. As far as global sentiment is concerned it seems that the expected rate hike in US in December is already in prices, limiting appreciation potential of the zloty.

EURPLN



Source: Erste Group Research, Bloomberg

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
14. Nov.	8:00	RO	GDP (q/q)	3Q A		1.3%	1.7%	Real GDP seen as losing speed in q/q terms in 3Q17 compared with 2Q17.
	8:00	RO	GDP (y/y)	3Q A		6.5%	6.1%	Economic growth driven by retail trade and services in 3Q17. Local economy also expected to receive support from agriculture.
	9:00	CZ	GDP (q/q)	3Q A	0.3%	-0.3%	2.5%	After extraordinary 2Q figure, we expect slight decrease in q/q GDP growth. First, we expect slight q/q decrease in investment. Second, solid domestic demand significantly increases volume of imports.
	9:00	CZ	GDP (y/y)	3Q A	4.8%	4.1%	4.7%	Favorable y/y figure supported by both domestic and foreign demand.
	9:00	HU	GDP (q/q)	3Q P	0.7%	0.6%	0.9%	
	9:00	HU	GDP (y/y)	3Q P	3.7%	3.7%	3.2%	For demand, both household consumption and investments could have contributed to growth; production side likely led by services, industrial production and construction.
	9:00	SK	GDP (y/y)	3Q P	3.4%	3.3%	3.3%	We expect GDP growth to be confirmed at 3.3% in 2Q17, driven predominantly by household consumption.
	10:00	PL	GDP (q/q)	3Q P	0.8%	0.8%	1.1%	
	10:00	PL	GDP (y/y)	3Q P	4.5%	4.8%	3.9%	Strong growth momentum should continue, as suggested by robust industry and retail performance.
15. Nov.			No releases scheduled					
16. Nov.	9:00	CZ	PPI (y/y)	Oct	1.4%	1.5%	1.7%	PPI inflation driven by increasing labor costs and higher oil prices.
	11:00	HR	CPI (y/y)	Oct		1.6%	1.4%	Inflation seen maintaining stable footprint also in October
	11:00	HR	CPI (m/m)	Oct			1.5%	
17. Nov.		RS	Current Account Balance (monthly)	Sep			-118.5	
	14:00	PL	Wages (y/y)	Oct	6.5%	6.3%	6%	We expect further robust wage growth.

Market Forecasts

Government bond yields					
	current	2017Q4	2018Q1	2018Q2	2018Q3
Croatia 10Y	2.69	2.60	2.75	2.90	3.00
spread (bps)	230	209	209	211	211
Czech Rep. 10Y	1.80	1.44	1.49	1.55	1.61
spread (bps)	141	93	83	76	72
Hungary 10Y	2.25	2.00	2.00	2.00	2.00
spread (bps)	186	149	134	121	111
Poland 10Y	3.39	3.38	3.55	3.67	3.91
spread (bps)	300	287	289	288	302
Romania10Y	4.60	4.30	4.40	4.60	4.70
spread (bps)	421	379	374	381	381
Slovakia 10Y	0.75	0.90	1.05	1.10	1.15
spread (bps)	36	39	39	31	26
Slovenia 10Y	0.84	1.00	1.10	1.20	1.30
spread (bps)	45	49	44	41	41
Serbia 7Y	4.66	5.00	5.00	5.20	5.40
DE10Y (BBG)*	0.39	0.51	0.66	0.79	0.89

3M Money Market Rate					
	current	2017Q4	2018Q1	2018Q2	2018Q3
Croatia	0.59	0.45	0.45	0.45	0.45
Czech Republic	0.72	0.84	0.89	0.96	1.11
Hungary	0.03	-0.10	-0.10	-0.10	-0.10
Poland	1.73	1.75	1.79	1.79	1.83
Romania	1.89	1.60	1.80	1.90	2.10
Serbia	3.08	3.30	3.30	3.30	3.50
Eurozone	-0.33	-0.30	-0.30	-0.30	-0.30

Source: Erste Group Research, Bloomberg

FX					
	current	2017Q4	2018Q1	2018Q2	2018Q3
EURHRK	7.54	7.55	7.55	7.35	7.45
forwards		7.54	7.56	7.57	7.58
EURCZK	25.55	25.60	25.50	25.40	25.30
forwards		25.54	25.54	25.57	25.62
EURHUF	311.8	312.0	315.0	315.0	315.0
forwards		312.0	312.2	312.5	312.8
EURPLN	4.23	4.27	4.25	4.23	4.20
forwards		4.24	4.26	4.29	4.31
EURRON	4.65	4.62	4.60	4.61	4.65
forwards		4.67	4.70	4.74	4.78
EURRSD	118.5	119.8	120.0	121.0	120.0
forwards		-	-	-	-
EURUSD	1.16	1.15	1.13	1.14	1.16

Key Interest Rate					
	current	2017Q4	2018Q1	2018Q2	2018Q3
Croatia	0.50	0.30	0.30	0.30	0.30
Czech Republic	0.5	0.75	0.75	0.75	1.00
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.50
Romania	1.75	1.75	2.25	2.25	2.25
Serbia	3.50	3.50	3.50	3.50	3.75
Eurozone	0.00	0.00	0.00	0.00	0.00

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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