

Market turmoil continues

Real economy data for October to show performance of economy at start of 4Q21. Industrial production surprised to upside, while retail sales should show solid dynamics. Market turmoil continues, with 10Y yield going up to 3.3% and zloty hitting 12-year low.

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Watch this week

November 23 | Retail sales to remain solid

We expect retail sales to arrive at 11.9% y/y in October (5.0% y/y in real terms), slightly below the market consensus of 12.5% y/y. While labor market statistics remained solid in October, sentiment continued to deteriorate, affected by the worsening pandemic situation and surging inflation. Current consumer sentiment (BWUK) dropped for two consecutive months and stands at -23.3 in November, which is the lowest since February 2021. On the other hand, the low base from last year (due to restrictions) could be positive for the figure.

Last week's highlights

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Note: Past performance is not necessarily indicative of future results.

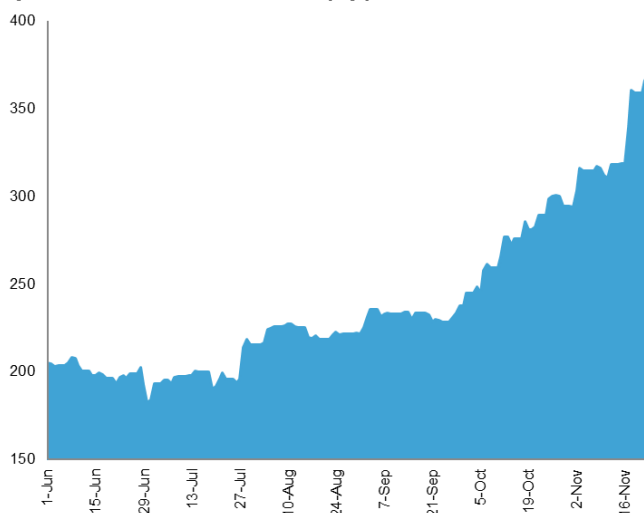
- [Industrial production](#) surprised to upside, as it arrived at 7.8% y/y in October.
- PPI surged to 11.8% y/y in October.
- Labor market statistics for October came in mostly in line with expectations as wage growth arrived at 8.4% y/y, while employment growth stood at 0.5% y/y.
- Core inflation accelerated to 4.5% y/y in October (up from 4.2% y/y in the previous month).

Market developments

Bond market drivers | 10Y yield moved further up

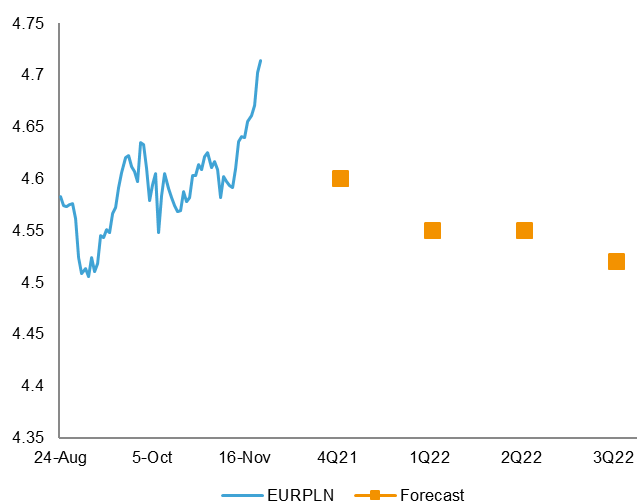
Over the course of the week, the long end of the Polish curve increased by another 35bp to around 3.3%, which is the highest for more than three years. The 10Y German Bund moved in the opposite direction, as the yield dropped by around 10bp to -0.35%. As a result, the spread against the 10Y Bund widened significantly to 360bp, the highest since February 2017. On the other hand, the 2Y Polish yield fluctuated between 2.8% and 2.9%. Last week, the National Bank of Poland purchased Treasuries and state-guaranteed papers worth just PLN 0.4bn, the least since the launch of the QE program. This week on Thursday (November 25), the MinFin will hold the second switch auction scheduled for this week. Given the busy macro calendar (local macro releases and flash PMIs) as well as next week's publication of flash inflation for November, the bond market might remain volatile.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

FX market drivers | Zloty hits 12-year low

The Polish zloty extended its losses and hit 4.72 vs. the EUR around noon on Monday, which is a 12-year low. Both global and local factors are behind the zloty's weakness. On the one hand, the US dollar continued to strengthen on the back of market bets that the Fed will start to tighten monetary conditions earlier than expected, while the ECB will stick to an accommodative policy stance. The recent surge in infection rates across the EU and the subsequent introduction of stricter rules in some countries, support the call for rate stability in the EA. On the other hand, the ongoing conflict with the EU and material risks to the disbursement of EU funds, geopolitical risks at the Polish-Belarusian border, deeply negative real interest rates and melting current account are also negative for the PLN.

Following the sharp move of the zloty on Friday, Governor Glapinski said that the recent weakening of the PLN is mainly due to the visible strengthening of the US dollar. He added that rising infection rates across Europe and in Poland could also be negative for the PLN. He added that if

changes in the exchange rate are driven by market factors, it should not be expected that the central bank will intervene. Glapinski said that the NBP did not intervene on the FX market this year, but he does not rule out such a possibility if needed. The governor reiterated that even strong appreciation of the zloty would not significantly lower inflation, but it would in turn be expensive for the economy. However, in light of currently elevated inflation, further weakening of the PLN would not be in line with interest rate increases. While the governor's comments had limited impact on the exchange rate, following the comment of PM Morawiecki on Monday, the EURPLN returned to 4.69.

Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
23.Nov	10:00	PL	Retail Sales (y/y)	Oct	13.20%	11.90%	11.10%	Nominal retail sales to post solid growth in October, while in real terms retail trade is expected to ease further.
25.Nov	10:00	PL	Unemployment Rate	Oct	5.50%	5.50%	5.60%	Unemployment rate to marginally decrease in October.
	11:00	RS	Wages (y/y)	Sep			5.80%	
26.Nov	9:00	SK	PPI (y/y)	Oct		9.0%	8.5%	Continuing demand pressures and supply-side problems will push producer prices up in October as well.
	11:00	HR	GDP (y/y)	3Q		12.00%	16.47%	GDP growth expected to maintain double-digit pace in 3Q.

Source: Bloomberg, Erste Group Research

Forecasts

Government bond yields					
	current	2021Q4	2022Q1	2022Q2	2022Q3
Croatia 10Y	0.4	0.5	0.6	0.6	0.7
spread (bps)	75	61	63	61	59
Czechia 10Y	2.6	2.5	2.4	2.3	2.3
spread (bps)	290	265	251	235	225
Hungary 10Y	4.1	4.0	4.0	4.0	4.1
spread (bps)	446	416	408	401	399
Poland 10Y	3.2	3.10	3.20	3.20	3.10
spread (bps)	356	326	328	321	304
Romania 10Y	5.2	5.2	5.1	4.9	4.8
spread (bps)	556	536	518	491	474
Slovakia 10Y	0.0	0.2	0.3	0.3	0.4
spread (bps)	28	36	33	31	34
Slovenia 10Y	0.13	0.10	0.20	0.30	0.35
spread (bps)	46	26	28	31	29
Serbia 5Y	3.3	3.4	3.2	3.0	2.8
spread (bps)	361	351	323	296	274
DE10Y*	-0.33	-0.16	-0.08	-0.01	0.06

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate					
	current	2021Q4	2022Q1	2022Q2	2022Q3
Czechia	3.17	3.21	3.32	3.32	3.07
Hungary	2.72	2.90	3.75	3.85	3.75
Poland	1.69	1.95	2.70	2.70	2.95
Romania	2.61	2.50	3.25	3.75	4.00
Serbia	0.92	0.93	0.93	0.94	0.94
Eurozone	-0.56	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)				
	2020	2021f	2022f	2023f
Croatia	-8.1	8.7	4.8	4.5
Czechia	-5.8	2.4	4.0	4.7
Hungary	-4.7	6.7	4.7	4.5
Poland	-2.5	5.3	4.8	4.3
Romania	-3.9	6.4	4.0	5.0
Serbia	-1.0	7.0	4.5	4.5
Slovakia	-4.4	3.0	4.2	3.7
Slovenia	-4.2	7.2	4.8	3.9
CEE8 avg	-3.9	5.2	4.5	4.5

Public debt (% of GDP)				
	2020	2021f	2022f	2023f
Croatia	87.1	82.6	79.7	81.4
Czechia	38.1	43.1	45.2	47.0
Hungary	80.1	79.6	77.8	76.5
Poland	57.5	56.1	55.0	52.0
Romania	47.4	49.4	50.7	50.2
Serbia	57.4	55.5	54.6	52.5
Slovakia	59.7	62.9	61.7	60.1
Slovenia	79.8	76.9	74.2	72.3
CEE8 avg	57.2	57.5	57.1	55.8

FX					
	current	2021Q4	2022Q1	2022Q2	2022Q3
EURHRK	7.52	7.53	7.53	7.48	7.48
EURCZK	25.42	25.20	25.00	24.78	24.69
EURHUF	367.95	355.00	355.00	350.00	350.00
EURPLN	4.69	4.60	4.55	4.55	4.52
EURRON	4.95	4.98	4.99	5.03	5.05
EURRSD	117.53	117.60	117.60	117.60	117.60
EURUSD	1.13	1.18	1.18	1.18	1.18

Key Interest Rate					
	current	2021Q4	2022Q1	2022Q2	2022Q3
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	2.75	3.00	3.25	3.25	3.00
Hungary	2.10	2.40	3.30	3.50	3.50
Poland	1.25	1.75	2.50	2.50	2.75
Romania	1.75	1.75	2.25	2.75	3.00
Serbia	1.00	1.00	1.00	1.00	1.00
Eurozone	0.00	0.00	0.00	0.00	0.00

Average inflation (%)				
	2020	2021f	2022f	2023f
Croatia	0.1	2.5	2.6	1.5
Czechia	3.2	3.8	4.5	2.2
Hungary	3.3	5.0	4.6	3.2
Poland	3.4	5.0	5.8	3.1
Romania	2.7	4.9	5.5	3.5
Serbia	1.6	3.9	3.9	2.5
Slovakia	1.9	3.0	5.0	3.5
Slovenia	0.0	1.5	1.7	1.6
CEE8 avg	2.8	4.4	5.0	2.9

C/A (%GDP)				
	2020	2021f	2022f	2023f
Croatia	-0.1	1.0	0.7	-0.2
Czechia	3.6	1.5	1.2	0.9
Hungary	-1.6	-2.3	-2.1	-1.4
Poland	3.5	-1.1	-0.6	0.3
Romania	-5.2	-6.5	-6.1	-5.9
Serbia	-4.2	-3.7	-3.8	-3.6
Slovakia	0.1	0.2	1.2	-1.3
Slovenia	7.0	5.3	4.5	4.3
CEE8 avg	1.0	-1.4	-1.1	-0.9

Unemployment (%)				
	2020	2021f	2022f	2023f
Croatia	7.5	8.2	7.1	6.1
Czechia	2.6	3.0	2.9	3.0
Hungary	4.1	4.1	3.8	3.5
Poland	5.9	6.0	5.5	5.4
Romania	5.0	5.5	5.4	4.9
Serbia	9.7	11.4	10.6	10.1
Slovakia	6.7	7.0	6.0	5.7
Slovenia	5.0	5.2	4.9	4.6
CEE8 avg	5.2	5.6	5.1	4.9

Budget Balance (%GDP)				
	2020	2021f	2022f	2023f
Croatia	-7.4	-4.5	-2.9	-2.0
Czechia	-6.1	-7.2	-4.6	-1.8
Hungary	-8.0	-7.3	-5.8	-4.0
Poland	-7.0	-2.1	-2.9	-3.0
Romania	-9.4	-7.8	-5.4	-4.3
Serbia	-8.0	-4.5	-3.0	-1.5
Slovakia	-5.5	-6.0	-4.0	-2.5
Slovenia	-8.4	-7.0	-4.5	-1.0
CEE8 avg	-7.3	-5.0	-4.0	-2.9

Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Country Update | Poland | Weekly Focus
22. November 2021

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

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