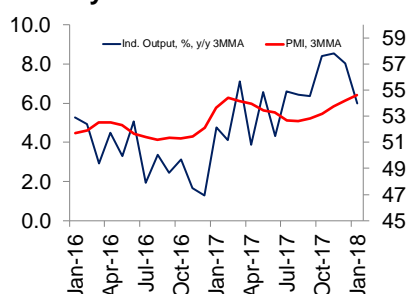


# Weekly Focus Poland

4Q17 GDP arrived at 5.1% y/y, while inflation rate eased to 1.9% y/y in January. Trade balance was negative and current account posted deficit. Labor market continued to tighten (nominal wage up 7.3% y/y in January, while employment grew 3.8% y/y). This week, industrial output and retail sales growth should set tone for economic growth in 1Q18. We expect to see solid growth of both indicators.

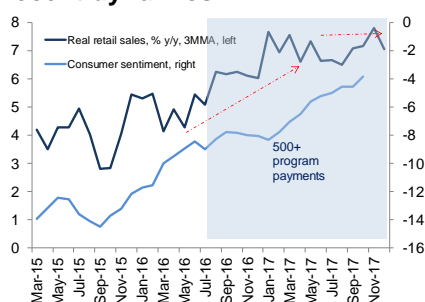
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## Strong market sentiment supports solid growth of industry



Source: BBG, CSO, Erste Group Research

## Retail sales growth to sustain recent dynamics



Source: BBG, CSO, Erste Group Research

## This week:

### February 20: Industry is expected to sustain solid growth

Industrial output growth is expected to accelerate in January compared to the previous month (2.7% y/y in December). The market expects to see robust 8.5% y/y growth, while our estimate is more conservative at close to 6% y/y. All in all, market sentiment has been strong (PMI index at 54.6 in January), which supports the ongoing expansion of industry.

### February 20: Retail sales should sustain growth above 6%

We expect retail sales growth to remain solid and sustain dynamics above 6% y/y in January (our estimate is at 6.2% y/y, while the consensus is at 6.9% y/y). Tight labor market conditions, in particular, accelerating wage growth, support a high level of household spending.

### February 23: Unemployment rate to increase in January

The unemployment rate is expected to increase in January to 6.9% (market consensus). Such an increase is driven by seasonal factors, and throughout the year we expect a further drop of unemployment.

## Last week's highlights

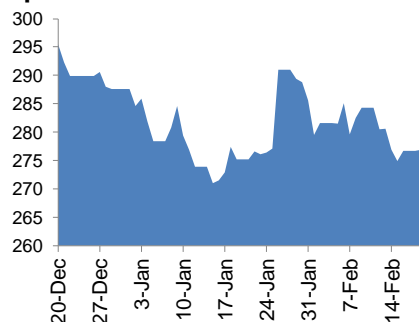
- The economy expanded by 5.1% y/y in 4Q17, slightly below our forecast and the market consensus.
- In January, the inflation rate eased to 1.9% y/y, as was broadly expected.
- The trade deficit reached EUR 1,268mn and the current account deficit hit EUR 1,152mn in December.
- Wages increased by 7.3% y/y in January, surprising the market to the upside. Simultaneously, employment grew by 3.8% y/y.

## Bond market drivers

- **10Y yields hold close to 3.5%**

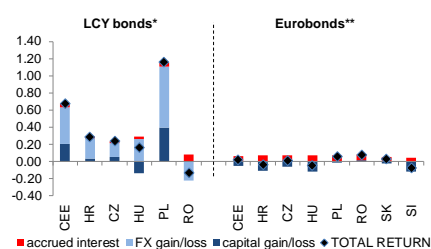
The long end of the curve moved down over the last week, following developments on core markets, as German long-term rates went down by 5bp last week. At the same time, the spread vs. Bunds remains relatively narrow below 280bp. Despite the important domestic releases, the yield curve was driven by global sentiment. This week, it may continue to impact the Polish yield curve, while sentiment indicators in the Eurozone will also be released. As far as domestic releases are concerned, the strong growth of industry and retail sales should set the tone for the economic growth in 1Q18.

### Spread vs. Bunds



Source: Erste Group Research, Bloomberg

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



Source: Erste Group Research, Bloomberg

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

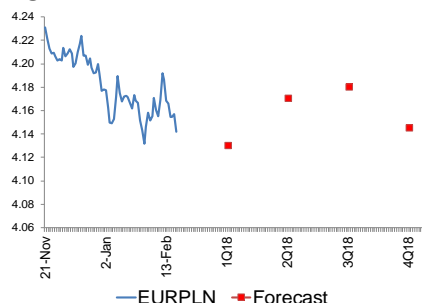
The CEE LCY bond market ended the week with a positive return, driven to a great extent by the FX gains across CEE. Apart from the Romanian leu, all CEE currencies seem to have recovered after the global sell-off increased the return in EUR terms. Poland notably outperformed its peer countries.

## FX market drivers

- **Zloty has recovered**

The zloty returned to a strengthening trend last week reversing the correction from the previous week. The EURPLN returned toward 4.15 at the end of the last week. As not just the Polish zloty appreciated last week, we believe there were global factors that pushed the EURPLN lower.

### EURPLN



Source: Erste Group Research, Bloomberg

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment	
20. Feb.	HR	Unemployment Rate	Jan			12.2%		
	SK	Unemployment Rate	Jan	5.9%		5.9%		
10:00	PL	Industrial Production (y/y)	Jan	8.2%	5.9%	2.7%	Industry to remain on solid expansion path	
10:00	PL	Retail Sales (y/y)	Jan	7.3%	6.2%	6.0%	Solid retail sales growth supported by increasing wages	
10:00	PL	PPI (y/y)	Jan	0.1%	0.5%	0.3%	Cost pressure has eased and should remain limited	
21. Feb.	10:30	SI	PPI (y/y)	Jan		2.2%		
22. Feb.	No releases scheduled							
23. Feb.	10:00	PL	Unemployment Rate	Jan	6.9%	7.0%	6.6%	Unemployment rate is expected to rise, due to seasonal factors
	11:00	HR	CPI (y/y)	Jan		1.1%	1.2%	We see headline figure remaining in tight band in January
	11:00	HR	CPI (m/m)	Jan			-0.3%	
	12:00	RS	CPI (y/y)	Jan		2.8%	3.0%	Base effect and seasonal factors are kicking in
	12:00	RS	CPI (m/m)	Jan			0.0%	

## Market Forecasts

Government bond yields					
	current	2018Q1	2018Q2	2018Q3	2018Q4
Croatia 10Y	2.26	2.20	2.20	2.30	2.40
spread (bps)	154	157	147	148	146
Czech Rep. 10Y	1.87	1.86	1.89	1.92	1.93
spread (bps)	115	123	116	110	99
Hungary 10Y	2.53	2.00	2.00	2.00	2.00
spread (bps)	181	137	127	118	106
Poland 10Y	3.45	3.40	3.45	3.71	3.91
spread (bps)	274	277	272	289	297
Romania 10Y	4.74	4.60	4.80	5.10	5.40
spread (bps)	402	397	407	428	446
Slovakia 10Y	0.88	1.05	1.10	1.15	1.25
spread (bps)	17	42	37	33	31
Slovenia 10Y	1.24	0.90	1.10	1.20	1.30
spread (bps)	53	27	37	38	36
Serbia 7Y	4.08	4.30	4.30	4.40	4.50
DE10Y (BBG)*	0.72	0.63	0.73	0.82	0.94

3M Money Market Rate					
	current	2018Q1	2018Q2	2018Q3	2018Q4
Croatia	0.50	0.50	0.50	0.50	0.50
Czech Republic	0.90	0.89	1.11	1.11	1.34
Hungary	0.02	0.02	0.02	0.02	0.02
Poland	1.72	1.73	1.75	1.75	1.79
Romania	2.07	2.15	2.45	2.70	2.75
Serbia	3.10	3.10	3.10	3.10	3.10
Eurozone	-0.33	-0.30	-0.30	-0.30	-0.30

FX					
	current	2018Q1	2018Q2	2018Q3	2018Q4
EURHRK	7.44	7.45	7.35	7.45	7.50
forwards		7.44	7.44	7.44	7.44
EURCZK	25.34	25.40	25.30	25.10	25.00
forwards		25.36	25.36	25.36	25.36
EURHUF	311.4	315.0	315.0	315.0	315.0
forwards		314.5	314.5	314.5	314.5
EURPLN	4.15	4.13	4.14	4.18	4.15
forwards		4.16	4.16	4.16	4.16
EURRON	4.66	4.65	4.65	4.70	4.73
forwards		4.66	4.66	4.66	4.66
EURRSD	118.3	119.0	119.0	119.0	119.0
forwards		-	-	-	-
EURUSD	1.24	1.18	1.15	1.14	1.13

Key Interest Rate					
	current	2018Q1	2018Q2	2018Q3	2018Q4
Croatia	0.50	0.30	0.30	0.30	0.30
Czech Republic	0.75	0.75	1.00	1.00	1.25
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.50
Romania	2.25	2.25	2.50	2.75	2.75
Serbia	3.50	3.50	3.50	3.50	3.50
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](#)

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