

## Weekly Focus Poland

This week, labor market and industrial production data for May will be released. We expect wage growth to remain even at around 7% y/y, while employment growth is to arrive at 2.9% y/y. A positive calendar effect and strong manufacturing sentiment could support industrial output growth. We see industry expanding 6.2% y/y in May. The FOMC meeting on Wednesday should shape developments on the bond and FX market this week. Lower liquidity due to a public holiday could add further pressure on yields and the zloty.

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### This week:

- **June 17: Core inflation to stabilize**

The NBP will publish the core inflation figure for May and the market expects it to remain stable at 1.7% y/y, while our forecast stands at 2.0% y/y. However, the recent easing of services inflation to 3.3% y/y in May, from 3.6% y/y in April, could suggest lower pressure on the core figure.

- **June 19: Wage growth remains solid**

We expect wage growth to somewhat ease and increase by 6.5% in May, while the market consensus stands at 7.1% y/y. On the other hand, employment growth should come in at 2.9% y/y in May. The labor market remains tight, but recent trends point to stabilization. According to the draft of the budget bill, the government plans to increase the minimum wage by almost 9% in 2020, which could put pressure on the labor market and be a pro-inflationary factor as well.

- **June 21: Industry keeps flourishing**

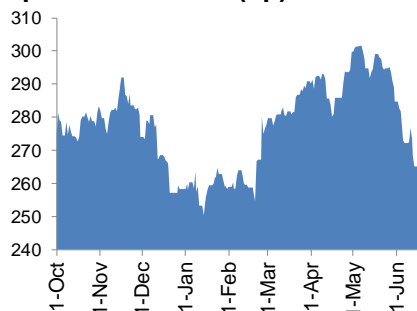
After the strong April reading at 9.2% y/y, industrial output growth should remain solid and is expected to land at 8.0% y/y in May. We are a bit less optimistic and see the growth at 6.2% y/y. The positive calendar effect (+1 working day more) could, however, move the overall figure up. On the other hand, manufacturing sentiment somewhat dropped in May, which could point to a lower reading. Furthermore, PPI is expected to arrive at 1.6% y/y in May, suggesting low price pressure.

### Last week's highlights

- The flash CPI reading for May has been revised up to 2.4% y/y (0.2% m/m), due to stronger food price growth.
- The government accepted the draft of the budget bill for 2020. Details on the reform of the tax system and the planned increase in the minimum wage have been outlined.
- MPC member Gatnar sees a possible rate hike at the end of this year, due to higher inflation, which could exceed the target.

## Bond market drivers

### Spread vs. Bunds (bp)

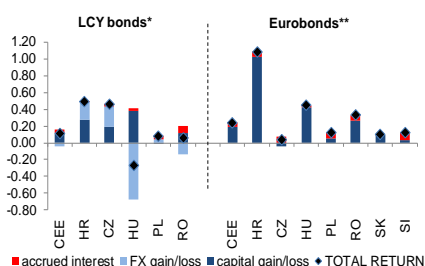


Source: Erste Group Research, Bloomberg

- Polish 10Y yields under global pressure

After a short-lived recovery in the first half of the week, 10Y yields went down by roughly 10bp and dropped visibly below 2.4%. Polish yields followed global developments, as both US Treasuries and Bunds went down last week. As a result, the spread vs. the 10Y Bund narrowed to 265bp and stands well below the 1Y average. This week promises to be quite eventful, with the FOMC meeting taking place on Wednesday. Markets are expecting clear signals of a rate cut soon and could be disappointed. As a result, the volatility on financial markets could be higher. In Poland, due to a public holiday on Thursday, the liquidity on the market will most likely be lower; hence, the moves of yields could be more volatile.

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



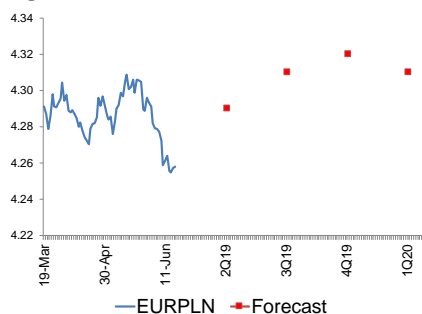
Source: Erste Group Research, Bloomberg

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

Yields moderated further in the region, with the greatest decline happening in Croatia. 10Y yields plummeted by around 25bp last week alone, continuing the decline that was already apparent in the weeks before. The major rally in Croatian HRK (and euro-denominated) bonds is due to the rating upgrade by Fitch to 'BBB-' with the outlook kept at positive, with the latter a surprise to the markets. Perhaps an even stronger trigger came from the successful Eurobond sale in the amount of EUR 1.5bn in 10Y bonds, while the order book reached EUR 5.5bn.

## FX market drivers

### EURPLN



Source: Erste Group Research, Bloomberg

- Zloty holds strong vs. EUR

Over the course of the week, the zloty remained on the stronger side of 4.30 vs. the EUR and closed the week at around 4.26, which is the highest level since mid-2018. The upcoming FOMC meeting will most likely add volatility to the EURUSD development and could impact the zloty as well.

## Calendar

Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
<b>18-Jun</b>							
No releases scheduled							
<b>19-Jun</b>							
	RS	Current Account Balance	Apr			-468.7	
	SK	Unemployment Rate	May		4.87%	4.9%	Minor decrease in rate of unemployment is expected.
10:00	PL	Wages (y/y)	May	7.2%	6.5%	7.1%	Wages to maintain moderate growth.
<b>20-Jun</b>							
10:30	SI	PPI (y/y)	May			1.2%	
<b>21-Jun</b>							
8:30	HU	Current Account Balance	1Q		75	-348.8	
10:00	PL	Industrial Production (y/y)	May	7.9%	6.2%	9.2%	Positive calendar effect might put upward pressure on our estimate.
10:00	PL	PPI (y/y)	May	1.6%	2.2%	2.6%	PPI to ease somewhat.

## Market Forecasts

Government bond yields						FX					
	current	2019Q3	2019Q4	2020Q1	2020Q2		current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia 10Y	1.28	1.20	1.30	1.30	-	EURHRK	7.40	7.42	7.42	7.42	-
spread (bps)	154	150	140	120	-	forwards		7.40	7.40	7.40	-
Czech Rep. 10Y	1.58	2.00	2.15	2.25	2.36	EURCZK	25.53	25.55	25.30	25.14	24.88
spread (bps)	184	230	225	215	226	forwards		25.70	25.84	25.96	26.09
Hungary 10Y	2.75	2.93	2.98	3.06	3.12	EURHUF	322.4	325.0	325.0	325.0	325.0
spread (bps)	301	323	308	296	302	forwards		322.9	323.5	324.2	325.0
Poland 10Y	2.39	2.60	2.65	2.70	2.70	EURPLN	4.26	4.31	4.32	4.31	4.30
spread (bps)	265	290	275	260	260	forwards		4.28	4.31	4.33	4.35
Romania10Y	4.58	5.10	5.20	5.40	5.40	EURRON	4.72	4.75	4.77	4.79	4.82
spread (bps)	484	540	530	530	530	forwards		4.77	4.82	4.87	4.93
Slovakia 10Y	0.26	0.55	0.65	0.80	-	EURRSD	117.9	118.0	118.3	118.0	117.9
spread (bps)	52	85	75	70	-	forwards		-	-	-	-
Slovenia 10Y	0.31	0.40	0.40	0.50	0.60	EURUSD	1.12	1.10	1.13	1.15	-
spread (bps)	57	70	50	40	50						
Serbia 5Y	3.45	3.65	3.80	3.80	3.70						
DE10Y*	-0.26	-0.30	-0.10	0.10	0.10						
3M Money Market Rate						Key Interest Rate					
	current	2019Q3	2019Q4	2020Q1	2020Q2		current	2019Q3	2019Q4	2020Q1	2020Q2
Croatia	0.47	0.50	0.50	0.50	-	Croatia	0.30	0.30	0.30	0.30	-
Czech Republic	2.17	2.16	2.16	2.22	2.36	Czech Republic	2.00	2.00	2.00	2.00	2.25
Hungary	0.18	0.22	0.25	0.35	0.45	Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.72	1.72	1.72	1.72	1.72	Poland	1.50	1.50	1.50	1.50	1.50
Romania	3.24	3.70	3.60	3.50	3.50	Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.96	2.95	2.98	2.97	2.98	Serbia	3.00	3.00	3.00	3.00	3.00
Eurozone	-0.32	-0.30	-0.30	-0.30	-	Eurozone	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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