

Growth dynamics to lose some color

Flash estimate of 3Q19 GDP growth to be released this week. We expect 4.0% y/y dynamics to be driven by domestic demand, with slowing industrial sector likely downplaying figure. November inflation and growth report to be published by NBP.

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Watch this week

November 12 | NBP to publish inflation and growth report

The National Bank of Poland will publish its November inflation and growth report. The basic assumptions and findings were discussed during the press conference after last week's MPC meeting. The projection was prepared with the assumption of stable rates in Poland and unfreezing of energy prices for households next year. Therefore, energy prices should increase by around 8% y/y in 2020. Inflation should be marginally higher compared to the July projection. CPI should land at 2.3% in 2019 (2.0% as of July) and at 2.9% in 2020 (2.8% as of July). Economic growth is expected to be slightly slower than previously anticipated. GDP growth should arrive at 4.3% in 2019 (vs. 4.5% as of July) and at 3.6% in 2020 (vs. 3.9% as of July). The November forecast is mostly in line with our expectations for this and next year.

November 14 | Growth to lose some momentum

We expect GDP growth to somewhat ease in 3Q19, to 4.0% y/y (1.0% q/q), in line with market expectations. Domestic demand should remain the key growth driver, as evidenced by solid retail sales growth, which is benefitting from the tight labor market. However, weaker industrial production will likely weigh on the overall growth figure. The trade balance narrowed in 3Q19 compared to last year, suggesting a positive contribution to growth in 3Q19. All in all, we see GDP growth at 4.2% in 2019.

November 14 | October inflation to be confirmed

We expect the flash inflation reading for October to be confirmed at 2.5% y/y. The headline figure arrived at the target for the first time in half a year on the back of lower food price growth and dropping oil prices. Moreover, we expect core inflation to slightly increase and land at 2.4% y/y.

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

Last week's highlights

- MPC kept rates unchanged at 1.5%, as broadly expected.

Market developments

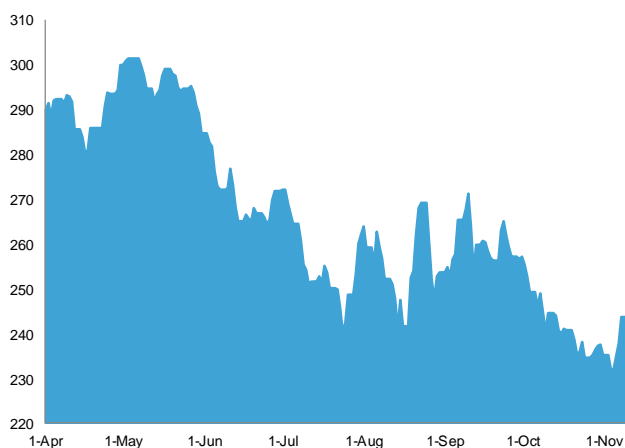
Bond market drivers | 10Y yield jumps above 2.2%

On the back of improving global sentiment and increasing prospects for a resolution of the trade war between the US and China, yields on core markets went significantly up. The 10Y German Bund increased by 10bp, while 10Y US Treasuries jumped by an impressive 20bp. The Polish local curve followed core market developments and the long end of the curve surged by almost 20bp, testing July's highs of close to 2.25%. As a result, the spread over the 10Y Bund widened by more than 10bp to 244bp. If improved market sentiment persists, we see risks to the upside to our current year-end forecast of 1.95%. The bond market will closely watch the 3Q19 GDP growth release. In the event of a negative surprise, we could see the long end of the curve going down.

FX market drivers | Zloty weakened marginally

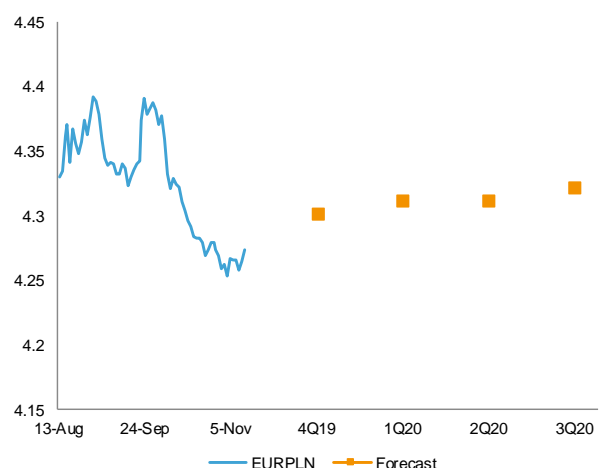
Over the course of the week, the zloty weakened somewhat against the EUR and the EURPLN went slightly above 4.27. Bearing in mind the recent strong appreciation of the zloty, we revised our year-end forecast and see the EURPLN at 4.30 by the end of the year. We believe that the flash GDP release will likely be a non-event for the zloty and the EURPLN will focus on global developments and trade war news.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
12. Nov	8:00	RO	CPI (y/y)	Oct	3.4%	3.4%	3.49%	Temporary decline in inflation in October due to base effect.
	12:00	RS	CPI (y/y)	Oct		1.6%	1.1%	Benign inflation movement close to lower band of targeted range.
13. Nov		RO	Current Account Balance (monthly)	Sep			-7080	
	8:00	RO	Industrial Production (y/y)	Sep		-5.9%	-6.7%	Weak external demand and eroded price competitiveness of low value-added industries after strong increases in minimum wage in recent years.
14. Nov		RS	Current Account Balance (monthly)	Sep			-137.9	
	8:00	RO	GDP (y/y)	3Q A		4.30%	4.35%	Retail sales and services probably remained top economic growth drivers in 3Q19.
	9:00	CZ	GDP (y/y)	3Q A	2.6%	2.8%	2.8%	GDP growth driven mainly by households and government consumption. Despite slowdown in Germany, dynamics of exports also remained relatively favorable: however, contribution
	9:00	HU	GDP (y/y)	3Q P		4.8%	4.9%	Strong consumer demand (consumption, investments) could have remained main driver of GDP growth.
	9:00	SK	CPI (y/y)	Oct		2.7%	2.9%	Slower pace of inflation anticipated for October.
	9:00	SK	GDP (y/y)	3Q P		2.1%	2%	We expect growth at 2.1% y/y, driven by domestic demand as external environment remains overcast.
	10:00	PL	CPI (y/y)	Oct F			2.5%	
	10:00	PL	GDP (y/y)	3Q P	4.1%	4.0%	4.5%	Weaker performance of industry to weigh on GDP growth dynamics. Private consumption to remain pillar of growth.
	15. Nov	11:00	HR	CPI (y/y)	Oct		0.7%	0.8%

Source: Bloomberg, Erste Group Research

Market forecasts

Government bond yields

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia 10Y	0.5	0.4	0.4	0.4	0.4
spread (bps)	78	80	70	60	60
Czechia 10Y	1.6	1.5	1.6	1.7	1.7
spread (bps)	183	188	190	188	194
Hungary 10Y	2.1	2.1	2.2	2.2	2.2
spread (bps)	235	249	245	241	245
Poland 10Y	2.2	2.0	2.0	2.1	2.1
spread (bps)	244	235	230	225	225
Romania10Y	4.3	4.4	4.5	4.5	4.6
spread (bps)	460	480	480	470	480
Slovakia 10Y	0.1	-0.1	0.1	0.1	0.2
spread (bps)	41	35	35	30	40
Slovenia 10Y	0.17	0.00	0.00	0.00	0.00
spread (bps)	44	40	30	20	20
Serbia 5Y	2.6	2.6	2.6	2.4	2.3
spread (bps)	283	300	285	255	245
DE10Y	-0.3	-0.4	-0.3	-0.2	-0.2

3M Money Market Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.41	0.50	0.50	0.50	0.50
Czechia	2.18	2.13	2.12	2.12	2.12
Hungary	0.19	0.21	0.22	0.25	0.25
Poland	1.71	1.72	1.72	1.72	1.72
Romania	2.97	3.00	2.90	2.90	3.20
Serbia	1.79	1.82	1.82	1.82	1.82
Eurozone	-0.39	-0.40	-0.40	-0.40	-0.40

Source: Bloomberg, Erste Group Research

FX

	current	2019Q4	2020Q1	2020Q2	2020Q3
EURHRK	7.44	7.42	7.42	7.38	7.40
forwards		7.44	7.44	7.44	7.44
EURCZK	25.51	25.50	25.34	25.04	24.86
forwards		25.57	25.71	25.86	26.00
EURHUF	334.49	334.00	335.00	335.00	335.00
forwards		334.74	335.09	335.59	336.09
EURPLN	4.28	4.30	4.31	4.31	4.32
forwards		4.29	4.31	4.34	4.36
EURRON	4.76	4.77	4.79	4.82	4.85
forwards		4.78	4.83	4.87	4.91
EURRSD	117.22	118.00	118.00	117.70	117.70
forwards		-	-	-	-
EURUSD	1.10	1.13	1.15	1.15	1.15

Key Interest Rate

	current	2019Q4	2020Q1	2020Q2	2020Q3
Croatia	0.3	0.3	0.3	0.3	0.3
Czechia	2.0	2.0	2.0	2.0	2.0
Hungary	0.9	0.9	0.9	0.9	0.9
Poland	1.5	1.5	1.5	1.5	1.5
Romania	2.5	2.5	2.5	2.5	2.5
Serbia	2.3	2.5	2.5	2.5	2.5
Eurozone	0.0	0.0	0.0	0.0	0.0

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