

Poland springs into 2020

January real economy data is due this week. Industry might return to red, due to unfavorable calendar effect. Retail sales are likely to lose some of their strong dynamics, as trends on labor market stabilize. Markets are to focus on global news regarding Coronavirus development.

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Watch this week

February 19 | Mixed labor market data

Wage and employment growth in January should show a mixed picture. The market expects wage growth to accelerate to 7.0% y/y (up from 6.2% y/y in December), while employment growth is set to lose some of its dynamics and drop towards 2.2% y/y (from 2.6% y/y at the year-end). In our view, the labor market will show a reversed pattern, with slowing wage growth to 5.9% y/y and employment growing at around 2.6% y/y.

February 20 | Weak start of year for industry

We see industrial production output to increase by a meager 1.4% y/y in January, while the market is more pessimistic and expects a decrease of 0.4% y/y. The negative calendar effect (-1WD) as well as dropping market sentiment (PMI Index at 47.4 in January) will likely weigh on the performance of industry.

February 21 | Retail sales to remain strong

Retail sales growth has been oscillating around 6% y/y in 2H19, and we expect this trend to continue in January. We see retail sales to increase by 5.6% y/y (4.5% y/y in real terms) at the beginning of the year, while the market is a bit more optimistic and expects the figure to land at 6.1% y/y. With GDP landing at 4.0% in 2019 and private consumption slowing down to 3.9%, from 4.3% in 2018, the retail sales development will likely be carefully watched in the coming months. More considerable weakening of the consumption trend could weigh on the economic growth in Poland this year, as household consumption remains the key driver of the growth. We see GDP growth at 3.0% in 2020.

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

Last week's highlights

- [Headline inflation surged in January to 4.4% y/y](#) (0.9% m/m), beating our and market expectations. We revised our FY20 inflation forecast up to 3.6%. Food and services prices remain the main drivers of CPI.
- [4Q19 GDP growth arrived at 3.1% y/y](#); detailed data is due at the end of the month.

Market developments

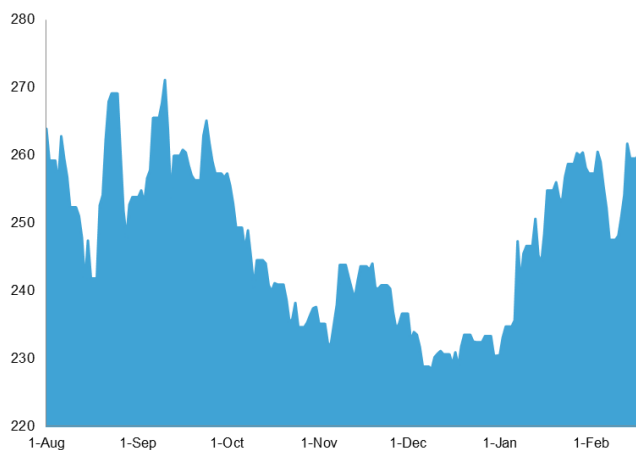
Bond market drivers | Spreads widened due to inflation fears

Over the course of the week, the whole Polish yield curve moved up by roughly 10bp. The 10Y yield increased to 2.2%, while the spread over the 10Y German Bund widened to 260bp. We think that regional factors were in play last week, especially the higher than expected inflation readings. In Hungary, inflation surged to 4.7% y/y in January, triggering a reaction from the central bank. Vice Governor Nagy reassured the markets that the MNB is doing what it possibly can to get inflation back under control. We believe it could have an influence on the whole region by building up expectations for a similar reaction in Poland, especially as the inflation number had been forecasted to land above 4% y/y in January. After the release on Friday, we saw a correction on the long end of the Polish curve, as the MPC reaction was not as hawkish as in the cases of Hungary or Czechia. This week, macro releases should be neutral for the market, given the limited reaction to the surge in inflation in January.

FX market drivers | EURPLN returned below 4.25

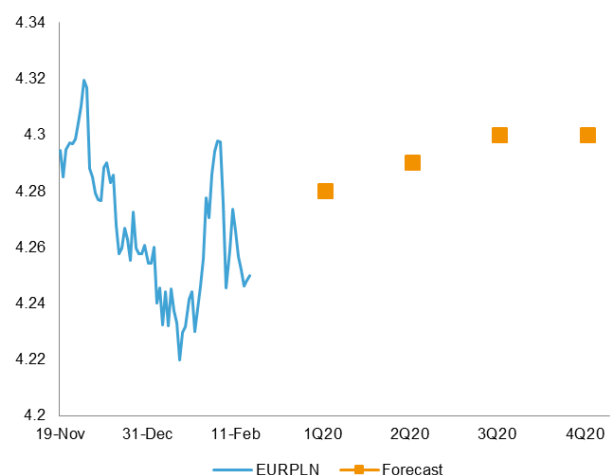
Despite renewed fears about the Coronavirus outbreak in China, the zloty remained strong and appreciated over the course of the week. Unlike in the case of the Hungarian forint, which appreciated visibly following the January inflation reading, the zloty's reaction was mild. We see the zloty remaining under the sway of global factors in the coming weeks and moving towards 4.28 vs. the EUR until the end of 1Q20.

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
19.Feb		SK	Unemployment Rate	Jan		5.1%	4.9%	Mild seasonal uptick in unemployment rate expected.
	10:00	PL	Wages (y/y)	Jan	7.0%	5.9%	6.20%	We see wage growth losing some of its dynamics.
	10:00	PL	Employment (y/y)	Jan	2.1%		2.60%	
20.Feb	10:00	PL	Industrial Production (y/y)	Jan	-0.9%	1.4%	3.8%	Negative calendar effect (-1WD) and falling market sentiment to weigh on industrial performance.
	10:00	PL	PPI (y/y)	Jan	1.2%	0.9%	1.0%	Price pressure to remain low.
	11:00	HR	Unemployment Rate	Jan			7.9%	
	11:00	HR	Wages (y/y)	Dec			4.2%	
21.Feb	10:00	PL	Retail Sales (y/y)	Jan	6.0%	5.6%	7.5%	Retail sales to mean strong start to new year.
	11:00	HR	CPI (y/y)	Jan		1.6%	1.4%	
	11:00	HR	CPI (m/m)	Jan			-0.1%	
	12:00	RS	CPI (y/y)	Jan		1.7%	1.9%	We expect inflation to land at 1.7% y/y. As for drivers, food likely to continue pushing inflation higher, while slump in oil prices observed during January should work in opposite direction.
	12:00	RS	CPI (m/m)	Jan			0.5%	

Source: Bloomberg, Erste Group Research

Market forecasts

Government bond yields

	current	2020Q1	2020Q2	2020Q3	2020Q4
Croatia 10Y	0.6	0.4	0.4	0.4	0.4
spread (bps)	99	60	60	50	50
Czechia 10Y	1.5	1.6	1.7	1.7	1.8
spread (bps)	193	182	189	184	187
Hungary 10Y	2.3	2.1	2.2	2.3	2.4
spread (bps)	272	231	241	235	246
Poland 10Y	2.2	2.2	2.3	2.3	2.3
spread (bps)	259	240	245	235	240
Romania 10Y	3.9	4.5	4.5	4.6	4.6
spread (bps)	431	470	470	470	470
Slovakia 10Y	0.0	0.2	0.2	0.3	0.4
spread (bps)	41	37	42	42	52
Slovenia 10Y	0.03	0.20	0.30	0.30	0.30
spread (bps)	43	40	50	40	40
Serbia 5Y	2.4	2.5	2.3	2.2	2.1
spread (bps)	281	270	250	230	220
DE10Y	-0.4	-0.2	-0.2	-0.1	-0.1

3M Money Market Rate

	current	2020Q1	2020Q2	2020Q3	2020Q4
Czechia	2.39	2.29	2.29	2.30	2.30
Hungary	0.58	0.70	0.75	0.80	0.85
Poland	1.71	1.71	1.71	1.71	1.71
Romania	3.12	3.00	2.90	3.10	3.00
Serbia	1.62	1.55	1.37	1.37	1.12
Eurozone	-0.41	-0.40	-0.40	-0.40	-0.40

Source: Bloomberg, Erste Group Research

FX

	current	2020Q1	2020Q2	2020Q3	2020Q4
EURHRK	7.45	7.42	7.38	7.40	7.42
forwards		7.45	7.45	7.45	7.45
EURCZK	24.79	24.90	24.85	24.74	24.60
forwards		24.86	25.02	25.17	25.31
EURHUF	334.73	335.00	335.00	335.00	335.00
forwards		335.28	336.48	337.85	339.14
EURPLN	4.25	4.28	4.29	4.30	4.30
forwards		4.26	4.28	4.31	4.33
EURRON	4.77	4.79	4.82	4.85	4.87
forwards		4.79	4.84	4.88	4.92
EURRSD	117.58	117.60	117.40	117.20	117.30
forwards		-	-	-	-
EURUSD	1.08	1.11	1.13	1.15	1.15

Key Interest Rate

	current	2020Q1	2020Q2	2020Q3	2020Q4
Croatia	0.30	0.30	0.30	0.30	0.30
Czechia	2.25	2.25	2.25	2.25	2.25
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.50
Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.25	2.25	2.00	2.00	1.75
Eurozone	0.00	0.00	0.00	0.00	0.00

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