

23 May 2019

Eyeopener

Higher output growth

April production growth beat expectations

Złoty and CEE fx stable

Polish bonds stable strengthened together with core markets

Today Poland's retail sales and construction output data

On Tuesday we got to see industrial output data, which proved better than expected. There were no important data releases, while comments of Fed representatives during the day, expressing worries that a rate cut may be needed, and minutes from the last FOMC meeting (showing that the hiking cycle is only paused and numerous FOMC members see the last decline in inflation as a temporary phenomenon) and words of Stephen Mnuchin from the Treasury Department were not embraced by investors. Thus, stock markets, oil prices and yields (in Poland and globally) headed south. Fx market reaction was moderate.

Industrial production rose 9.2% y/y in April, slightly more than expected and confirming our view that the weakness seen in March was mainly calendar-related one-off. The seasonally adjusted output growth reached 6.5% y/y, which confirms decent activity. Importantly, the growth was driven mainly by manufacturing, and in particular by export-oriented branches, which shows that Poland still defends itself from the euro zone economic slowdown. We expect that the production growth will decelerate later in the year amid worsening outlook for global trade, but the economy still grow at c4% y/y.

PPI inflation climbed in April to 2.6% y/y from 2.5% y/y, in line with expectations. In monthly terms, prices went up by 0.4% m/m, mostly driven by higher oil prices. In the upcoming months this inflation measure is likely to slide below 2% y/y due to high statistical base effect. Construction price index inched up to 3.8% y/y from 3.7% y/y and reaching the highest level in more than 10 years. Higher inflation in construction is driven mostly by higher materials and wage costs and in our view this can negatively affect public investment, which is often based on tenders with limited budget.

The NBP president **Adam Glapiński** said yesterday that Poland will not enter the euro zone nor the ERM-2 during his term, as there are no economic or political reasons to do so. Glapiński also said that 2019 GDP growth may exceed 4.5% (we are expecting 4.1%, March NBP forecast shows 4.0%). **MPC's Rafał Sura** said that a rate hike cannot be ruled out in 2020, but so far there are no reasons to tighten the policy and a one-off jump in inflation should not affect the Council.

EURUSD was hovering in a narrow range of 1.115-1.117 amid lack of important data releases or events. Investors ignored speeches of James Bullard and John Williams waiting for the evening release of the FOMC minutes. We think today's flash euro zone PMIs will not surprise. Moreover, it seems that investors are aware that these releases may not accurately reflect the current business sentiment as most of the data was collected before Donald Trump imposed more tariffs on China and said he may impose tariffs on the European auto sector. Thus, we expect EURUSD volatility to remain moderate.

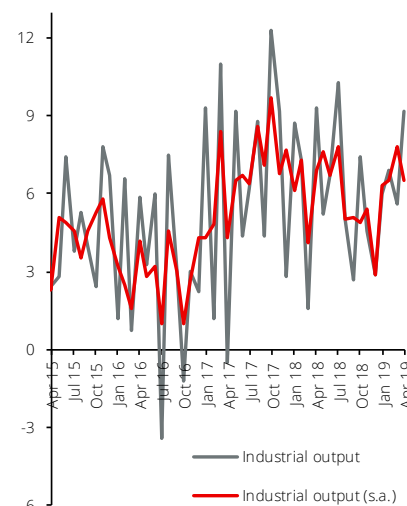
EURPLN was yesterday somewhat more volatile than on Tuesday. It rose to 4.311 and then fell to 4.306. Today we see room for a slightly stronger złoty in reaction to Poland retail sales data.

In case of the **other CEE currencies**, EURHUF was trading in a narrow range of 326.2-326.7 while EURCZK was hovering around 25.78 recorded some minor rise at the end of the day. USDRUB eased to 64.3 from 64.4 despite a noticeable drop of oil prices and thanks to the surprisingly strong April industrial output reading (4.9% y/y vs consensus at 2.0% y/y).

On the **domestic debt market** yields were falling over the day with marginal trading activity. Morning falls were driven by domestic industrial production data, while afternoon decrease of yields was fuelled by a slide of yields on the core markets. Today we expect the yields to continue falling, as a response to the gloomy mood on the equity market.

Today at 10:00 CEE the domestic retail sales and construction sector data will be released. Retail sales data is likely to surprise on the positive side, confirming high consumer activity and their good mood.

Industrial output, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3053	CZKPLN	0.1668
USDPLN	3.8622	HUFPLN*	1.3184
EURUSD	1.1148	RUBPLN	0.0599
CHFPLN	3.8298	NOKPLN	0.4406
GBPPLN	4.8754	DKKPLN	0.5765
USDCNY	6.9120	SEKPLN	0.4006

*for 100HUF

Last session in the FX market 22/05/2019

	min	max	open	close	fixing
EURPLN	4.303	4.312	4.307	4.306	4.3098
USDPLN	3.850	3.867	3.859	3.859	3.862
EURUSD	1.115	1.118	1.116	1.116	-

Interest rate market 22/05/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.67	1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.23	-4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.85	-5	21 mar 19	DS1029	2.877

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.74	0	2.46	-1	-0.26	0
2L	1.82	-2	2.29	-2	-0.25	0
3L	1.88	-3	2.21	-3	-0.20	0
4L	1.95	-3	2.19	-3	-0.12	-1
5L	2.03	-4	2.20	-3	-0.04	-2
8L	2.24	-4	2.28	-4	0.24	-2
10L	2.37	-4	2.34	-4	0.43	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-2
T/N	1.60	-1
SW	1.58	-1
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.73	-1
9x12	1.75	0
3x9	1.80	0
6x12	1.81	0

Measures of fiscal risk

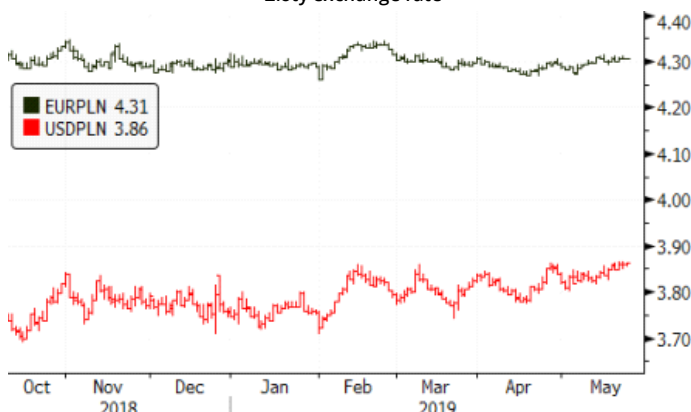
Investment of fiscal risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.96	-4
France	30	1	0.39	0
Hungary			3.26	1
Spain	55	1	0.96	1
Italy	213	1	2.74	2
Portugal	62	1	1.12	1
Ireland	33	0	0.61	1
Germany	12	1	-	-

* 10Y treasury bonds over 10Y Bunds

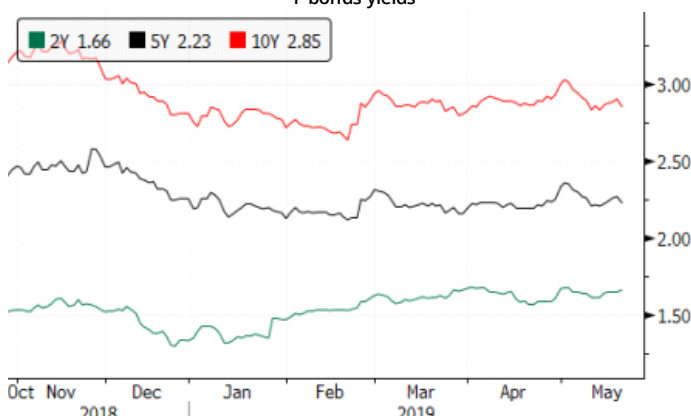
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



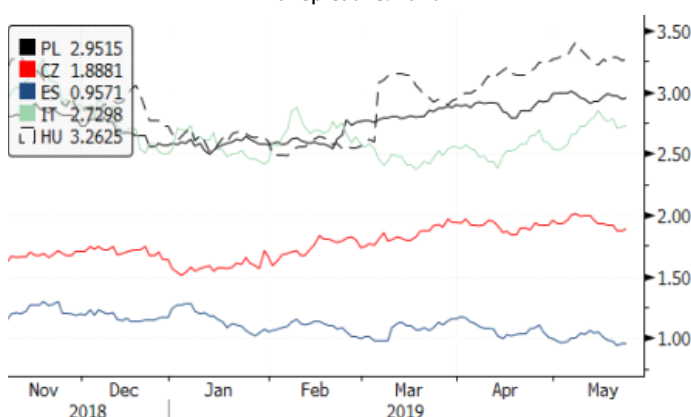
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (17 May)							
11:00	EZ	HICP	Apr	% y/y	1.7	-	1.4
16:00	US	Michigan index	May	pts	97.15	-	97.2
MONDAY (20 May)							
No important events							
TUESDAY (21 May)							
10:00	PL	Employment in corporate sector	Apr	% y/y	3.0	3.1	2.9
10:00	PL	Average Gross Wages	Apr	% y/y	6.5	6.7	7.1
16:00	US	Existing Home Sales	Apr	% m/m	2.7	-0.4	-4.9
WEDNESDAY (22 May)							
10:00	PL	Sold Industrial Output	Apr	% y/y	8.7	8.7	9.2
10:00	PL	PPI	Apr	% y/y	2.6	2.7	2.6
20:00	US	FOMC Meeting Minutes	May.19		-	-	
THURSDAY (23 May)							
08:00	DE	GDP WDA	1Q	% y/y	0.7	0.7	-
09:30	DE	Germany Manufacturing PMI	May	pts	44.8	-	44.4
09:30	DE	Markit Germany Services PMI	May	pts	55.4	-	55.7
10:00	DE	IFO Business Climate	May	pts	99.2	-	99.2
10:00	EZ	Eurozone Manufacturing PMI	May	pts	48.2	-	47.9
10:00	EZ	Eurozone Services PMI	May	pts	53.0	-	52.8
10:00	PL	Construction Output	Apr	% y/y	18.3	17.4	-
10:00	PL	Retail Sales Real	Apr	% y/y	8.5	9.2	-
11:30	PL	Bond Switch Auction			-		
14:30	US	Initial Jobless Claims	May.19	k	220.0	-	212.0
16:00	US	New Home Sales	Apr	% m/m	-2.24	-	4.5
FRIDAY (24 May)							
14:00	PL	Money Supply M3	Apr	% y/y	10.1	10.2	-
14:30	US	Durable Goods Orders	Apr	% m/m	-2.0	-	2.8

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated **estimate after inflation data

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