

20 September 2018

# Eyeopener

## Industrial output decelerates

Moody's revises forecasts for Poland  
 Polish output data suggest slowdown  
 Zloty temporarily weaker, EURUSD still waiting for signal  
 Today, MPC minutes and numerous US data

Data from Polish industry released on Wednesday were worse than previously and slightly below market expectations. Globally, yields were seen rising (mostly in the US), accompanied by higher equity and commodity prices. EM currencies were also gaining. The zloty weakened temporarily, while bonds strengthened due to Moody's report and worse domestic data.

**In August, industrial output** decelerated to 5.0% y/y from 10.3% y/y in July, in line with our expectations and market consensus. This major drop was primarily due to statistical factors, but we are expecting the Polish industry to be further gradually slowing down in the months to come, given deterioration in European and Polish business sentiments. Construction output rose in August by 20% y/y, in line with our expectations and versus 18.7% y/y in July. In our view, construction is poised to a slowdown as the sector is operating almost at maximal capacity. In general, August output numbers support our forecast of a gradual economic slowdown below 5% y/y in 2H18.

**Moody's** agency upgraded Poland 2018 GDP forecast to 5.0% from 4.3% and for 2019 to 4.2% from 4.0%. The agency is more optimistic than the market consensus (4.6% and 3.6%, respectively). On the other hand, Moody's forecast of general government deficit has been lowered to 1.4% of GDP from 1.8% in 2018 and to 1.7% from 2.3% for 2019. According to the rating agency, the Polish economy has already reached the peak of the business cycle and slowdown anticipated later on will be driven by the situation on the labour market, demographic trends and lower inflow of EU funds. The improved deficit assessment resulted mainly from faster GDP growth, while the forecast of structural deficit is one of the highest in the region (above 2.0%, slightly less than Hungary and Romania).

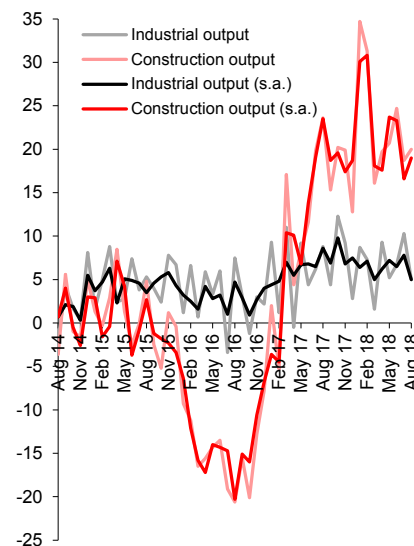
In September, **the index of current consumer sentiment** improved by 0.7pt m/m to 6.9 pt. It is 1.9pt higher than a year ago. The assessment of household situation (when it comes to finances and unemployment expectations) worsened somewhat, but on the other hand consumers remained highly optimistic about the outlook for the economy. It caught our attention that the seasonal deterioration of financial situation in September, as the school year starts, was deeper than a year ago despite the fact that households with pupils received an extra benefit for school kits this year. This could mean they feel less certain about further rise of incomes from work, against our assessment that labour demand remains strong and should lead to more acceleration of wage growth.

**On Wednesday EURUSD** still fluctuated around 1.168 despite still positive sentiment on the markets. The exchange rate stays close to significant resistance and is waiting for an impulse. Today we expect EURUSD to stay stable due to the lack of important data releases but tomorrow we will see important European figures.

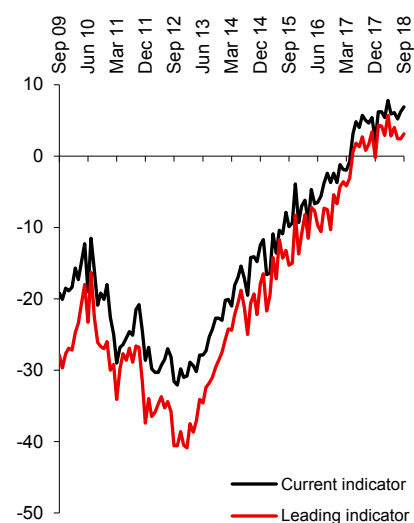
**EURPLN** started to rise soon after the opening of Wednesday session and reached 4.295 as the zloty reacted negatively to weaker than previous and below-consensus domestic industrial production data. Later in the day, the zloty recovered thanks to good sentiment on global markets and EURPLN ended the session below 4.29. At the beginning of the today's session, the sentiment is neutral so the exchange rate should stabilize waiting for the tomorrow's European data.

**Domestic bond yields** fell throughout most of Wednesday, despite strong yields rise in Europe and in the US. Before noon, our debt was supported by weaker data on industrial output and in the afternoon, by positive review of the Polish economy made by Moody's, which led to the domestic curve moving down by 2-3bp. Today, we expect a continuation of yields downward trend in response to Moody's report released yesterday.

### Output growth, % y/y



### Consumer confidence, pts



### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: ekonomia@santander.pl  
 website: skarb.santander.pl  
 Piotr Bielski +48 22 534 18 87  
 Marcin Łuziński +48 22 534 18 85  
 Grzegorz Ogonek +48 22 534 19 23  
 Konrad Soszyński +48 22 534 18 86  
 Marcin Sulewski +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.2878	CZKPLN	0.1680
USDPLN	3.6687	HUFPLN*	1.3261
EURUSD	1.1687	RUBPLN	0.0550
CHFPLN	3.7954	NOKPLN	0.4502
GBPPLN	4.8247	DKKPLN	0.5748
USDCNY	6.8516	SEKPLN	0.4138

\*for 100HUF

### Last session in the FX market 19/09/2018

	min	max	open	close	fixing
EURPLN	4.285	4.297	4.292	4.287	4.2929
USDPLN	3.662	3.684	3.681	3.670	3.6685
EURUSD	1.165	1.172	1.166	1.168	-

## Interest rate market 19/09/2018

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.54	-3	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.52	-2	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.21	-1	6 wrz 18	WS0428	3.249

### IRS on the interbank market\*\*

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	2.75	2	-0.25	0
2L	1.96	0	2.97	2	-0.13	0
3L	2.15	0	3.03	2	0.03	1
4L	2.33	0	3.05	2	0.20	1
5L	2.49	0	3.06	2	0.36	1
8L	2.80	0	3.10	3	0.76	1
10L	2.97	0	3.12	3	0.98	1

## WIBOR rates

Term	%	Change (bps)
O/N	1.50	4
T/N	1.50	1
SW	1.54	0
2W	1.59	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.73	0
3x6	1.75	0
6x9	1.78	0
9x12	1.82	0
3x9	1.84	0
6x12	1.88	0

## Measures of fiscal risk

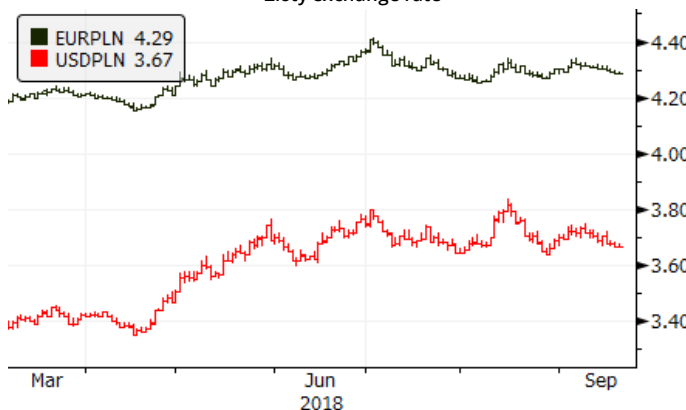
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.73 -1
France	24 0	0.31 0
Hungary	116 1	3.14 1
Spain	61 0	1.04 0
Italy	213 0	2.35 -2
Portugal	64 0	1.40 0
Ireland	25 0	0.49 2
Germany	10 0	- -

\* 10Y treasury bonds over 10Y Bunds

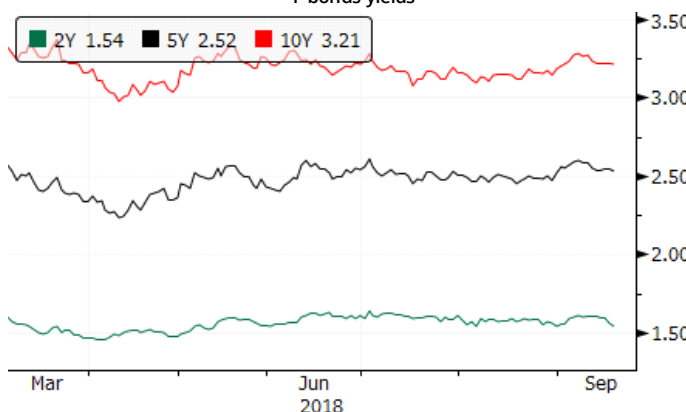
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

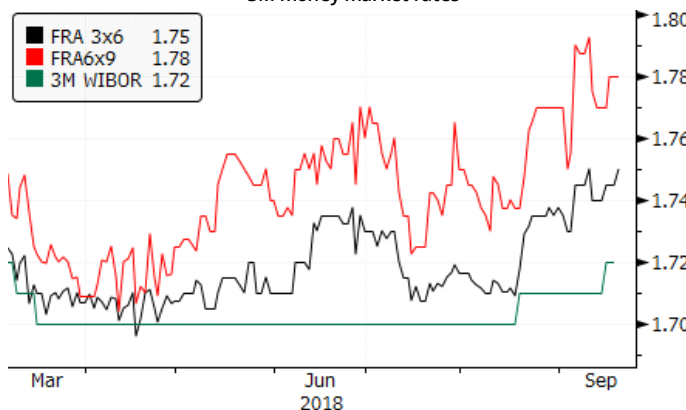
## Zloty exchange rate



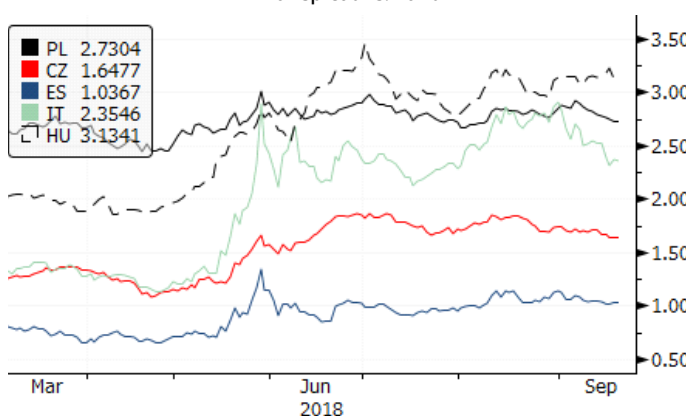
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

ECONOMIC CALENDAR					FORECAST		ACTUAL VALUE	LAST
TIME			INDICATOR	PERIOD				
CET					MARKET	SANTANDER		VALUE
FRIDAY (14 September)								
14:00	PL		CPI Core	Aug	% y/y	0.8	0.8	0.9
14:30	US		Retail Sales Advance	Aug	% m/m	0.6	-	0.1
15:15	US		Industrial Production	Aug	% m/m	0.4	-	0.4
16:00	US		Michigan Index	Sep	pts	96.2	-	100.8
	PL		Rating Review Moody's					
MONDAY (17 September)								
11:00	EZ		HICP	Aug	% y/y	2.0		2.0
TUESDAY (18 September)								
10:00	PL		Employment in corporate sector	Aug	% y/y	3.5	3.4	3.4
10:00	PL		Average Gross Wages	Aug	% y/y	7.0	6.9	6.8
14:00	HU		Central Bank Rate Decision		%	0.9		0.9
WEDNESDAY (19 September)								
10:00	PL		Sold Industrial Output	Aug	% y/y	5.0	5.2	5.0
10:00	PL		Construction Output	Aug	% y/y	18.5	19.0	20.0
10:00	PL		PPI	Aug	% y/y	3.0	2.8	3.0
14:30	US		Housing Starts	Aug	% m/m	5.82		9.2
THURSDAY (20 September)								
14:00	PL		MPC minutes					
14:30	US		Initial Jobless Claims	week	k	210		-
14:30	US		Index Philly Fed	Sep		18.0		-
16:00	US		Existing Home Sales	Aug	% m/m	0.4		-
FRIDAY (21 September)								
09:30	DE		Germany Manufacturing PMI	Sep	pts	55.7		-
09:30	DE		Markit Germany Services PMI	Sep	pts	55.0		-
10:00	EZ		Eurozone Manufacturing PMI	Sep	pts	54.5		-
10:00	EZ		Eurozone Services PMI	Sep	pts	54.4		-
10:00	PL		Retail Sales Real	Aug	% y/y	7.0	6.4	-

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.