

24 September 2018

Eyeopener

Retail sales rises slower

Weak European data hit euro

Domestic retail sales grows slightly slower

Zloty and its CEE peers under pressures despite stock prices rising

Polish bonds benefit from weak European data

Today: Domestic money supply and Ifo

Friday session on FX and interest rate markets went according to a different plan than witnessed earlier in the week. Weaker-than-projected flash estimates of September PMI for German and Euro zone industries contributed to a slowdown of EUR appreciation against USD and strengthening of bonds in Europe. Even though stock indices kept growing, CEE currencies have not resumed appreciation impulses and depreciated slightly as in the previous days. Stock indices have been falling since today morning, mainly due to uncertainties about trade negotiations between the USA and China after implementation of a new round of American tariffs on Chinese imports.

MPC's Kamil Zubelewicz said he is not as sure as he was earlier that the MPC will keep interest rates unchanged until end of 2020. Zubelewicz came to such a conclusion based on the course of MPC meetings. Comments of central bankers about 2020 became more cautious. According to Zubelewicz, behaviour of the Council after 2019 will depend on inflation path shown by new NBP economic forecasts – whether it will exceed 3.5% and show an upside risk. The central banker also said that hardly any MPC member is expecting a high inflation scenario. In our view, there is a higher risk that the first hike will be implemented later than in late 2019, which is our baseline forecast. This timing will depend on the scale of the upcoming economic slowdown.

Fitch's agency upgraded GDP forecast for Poland from 4.4% to 4.8% for 2018 and from 3.4% to 3.6% for 2019. According to Fitch, in 2H2018 investments will be the main driver of economic growth. Deceleration of investments in coming years will affect GDP dynamic negatively. Weaker foreign economic situation and labour market can influence GDP growth on the negative side. Fitch is showing Poland's rating on 12 October.

In August, **retail sales** rose 6.7% y/y in real terms, down from 7.1% previously. The result sits between the consensus (7%) and our forecast (6.4%). Nominal retail sales grew 9% y/y vs 9.3% y/y in July and 8% on average in 1H18. The details like sales in non-specialized stores (with y/y growth contribution still similar to the Jan-Jul average) and weighted growth of durable goods categories at 10.1% y/y vs 8.5% y/y on average in 2Q and 10.7% in July suggest the underlying consumer demand remains strong. Retail sales release, business sentiment in retail trade sector and very high consumer sentiment signal robust support from private consumption (still growing at c5% y/y) to economic growth also in 2H18.

EURUSD corrected on Friday almost a half of the strong Thursday rise. The euro gave up some of the gains because of weaker-than-expected data from Europe. As a result, at the end of the domestic session the fx pair was close to 1.173 vs. 1.18 at the opening. The vision of the Wednesday FOMC decision may limit the upside potential of EURUSD in the short run. Today we will learn German Ifo index, which, if weaker-than-expected, may help keep EURUSD below 1.18 in the coming days. We still think that breaking the local tops opens the road to further appreciation of the euro vs. the dollar in the coming weeks.

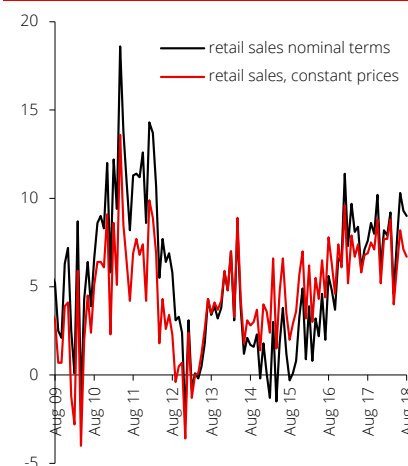
On Friday there was the biggest daily raise of **EURPLN** since the first week of September which was supported by drop of EURUSD and weaker by data from Poland. As a result during the day EURPLN broke 4.30 and USDPLN rebounded temporarily above 3.66 (from 3.64). In our opinion in coming days, the zloty will strengthen vs the euro and EURPLN can be closer to 4.32.

The other CEE currencies also depreciated. EURCZK rose for the third day in a row (to nearly 25.6), EURHUF second day (temporarily above 324). The ruble gave up part of Thursday's gains vs the dollar despite a jump in oil prices.

Polish bond yields fell quite noticeably at the beginning of the session but at the end of the day they were only fractionally below Thursday's closing. On Friday, Polish debt gained less than Bund and bonds from the South Europe but earlier in the week it was outperforming its foreign peers.

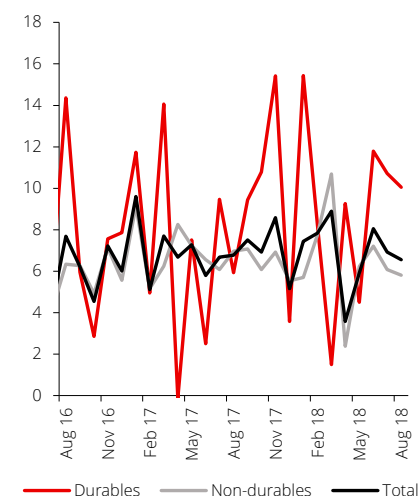
This week, market attention is likely to shift to the US, where we will see important data and the FOMC is likely to hike rates by 25bp third time this year. As far as the data releases are concerned, the US consumer confidence index, PCE and final GDP could be of particular importance. The market is already pricing-in the September 25bp rate hike and one more later this year. It is worth noticing that at the end of the week the zloty and its CEE peers did not benefit from the positive global market sentiment. This might suggest that there is little room for lower EURPLN in the short term. We think that Polish long-term market rates may go up due to the US events. On the belly and front end we should see lower yields.

Retail sales, %y/y



Source: Stats Office, Santander Bank Polska

Retail sales in main categories, % y/y



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3036	CZKPLN	0.1681
USDPLN	3.6692	HUFPLN*	1.3282
EURUSD	1.1729	RUBPLN	0.0552
CHFPLN	3.8220	NOKPLN	0.4497
GBPPLN	4.7965	DKKPLN	0.5769
USDCNY	6.8571	SEKPLN	0.4164

*for 100HUF

Last session in the FX market 21/09/2018

	min	max	open	close	fixing
EURPLN	4.288	4.308	4.291	4.307	4.2929
USDPLN	3.637	3.668	3.650	3.665	3.6402
EURUSD	1.173	1.180	1.176	1.175	-

Interest rate market 21/09/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.55	0	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.53	0	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.22	0	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	2.78	0	-0.25	0
2L	1.98	1	2.99	0	-0.13	0
3L	2.17	1	3.05	1	0.03	0
4L	2.35	0	3.07	1	0.19	0
5L	2.51	1	3.08	1	0.35	0
8L	2.82	1	3.11	1	0.75	0
10L	2.99	1	3.13	1	0.97	0

WIBOR rates

Term	%	Change (bps)
O/N	1.54	11
T/N	1.54	2
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

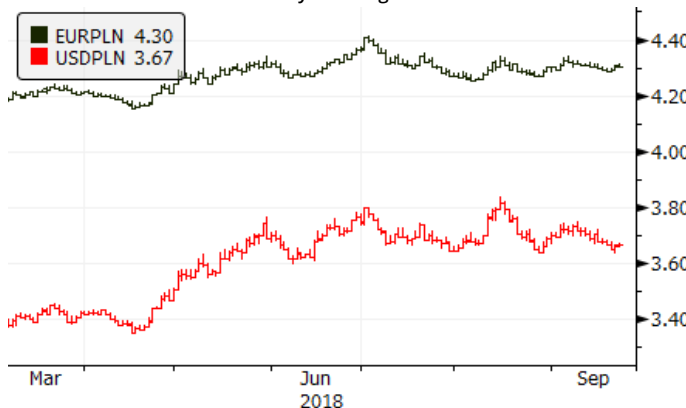
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.77 0
France	25 1	0.32 0
Hungary	116 1	3.15 1
Spain	65 4	1.04 0
Italy	221 8	2.41 4
Portugal	64 0	1.42 1
Ireland	25 0	0.50 1
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

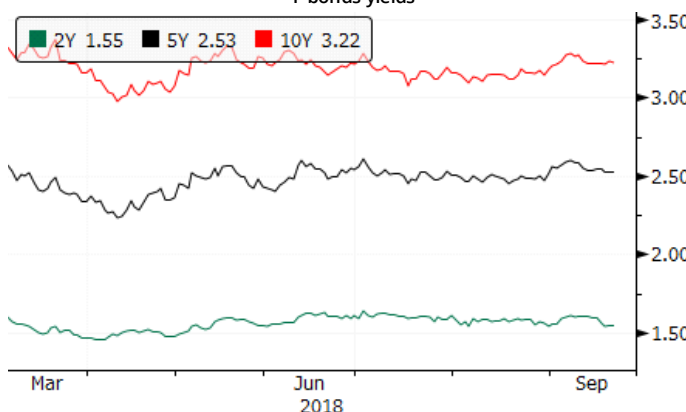
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

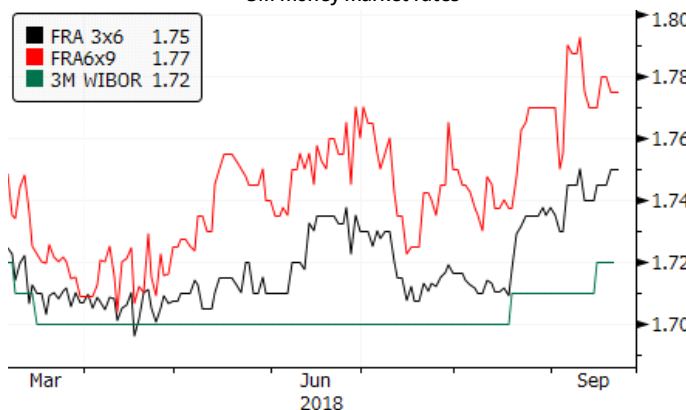
Zloty exchange rate



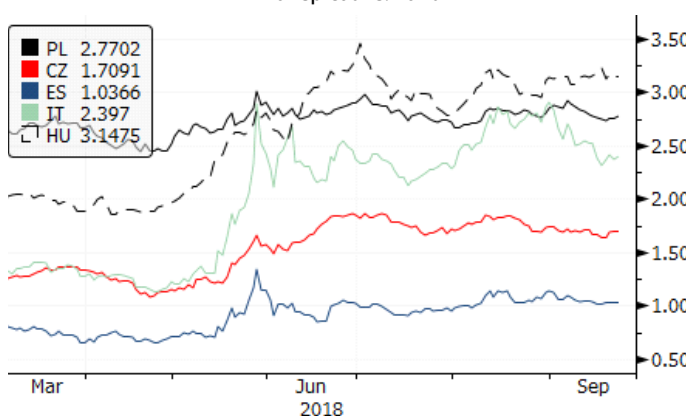
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar						FORECAST		ACTUAL	LAST
TIME		INDICATOR	PERIOD					VALUE	
CET					MARKET	SANTANDER		VALUE	
FRIDAY (21 September)									
09:30	DE	Flash Manufacturing PMI	Sep	pts	55.7	-	53.7	55.9	
09:30	DE	Flash Services PMI	Sep	pts	55.0	-	56.5	55.0	
10:00	EZ	Flash Manufacturing PMI	Sep	pts	54.5	-	53.3	54.6	
10:00	EZ	Flash Services PMI	Sep	pts	54.4	-	54.7	54.4	
10:00	PL	Retail Sales Real	Aug	% y/y	7.0	6.4	6.7	7.1	
MONDAY (24 September)									
10:00	DE	Ifo index	Sep	pt	103.0	-		103.8	
14:00	PL	Money supply M3	Aug	% y/y	7.5	7.4		7.3	
TUESDAY (25 September)									
10:00	PL	Unemployment rate	Aug	%	5.9	5.9		5.9	
16:00	US	Consumer confidence index	Sep	pt	131.0	-		133.4	
WEDNESDAY (26 September)									
13:00	CZ	Central bank decision		%	1.50	-		1.25	
16:00	US	New home sales	Aug	% m/m	0.8	-		-1.7	
20:00	US	FOMC decision		%	2.25	-		2.0	
THURSDAY (27 September)									
8:00	DE	Retail sales	Aug	% m/m	0.5	-		-0.4	
11:00	EZ	ESI	Sep	pt	0.0	-		111.6	
14:00	DE	HICP	Sep	% m/m	0.0	-		0.0	
14:30	US	Durable goods orders	Aug	% m/m	1.7	-		-1.7	
14:30	US	GDP	2Q	% q/q	4.2	-		4.2	
14:30	US	Initial jobless claims	week	k	210	-		204	
16:00	US	Pending home sales	Aug	m/m	-0.4	-		-0.7	
FRIDAY (28 September)									
11:00	EZ	Flash HICP	Sep	% y/y	2.0	-		2.0	
14:30	US	Personal spending	Aug	% m/m	0.3	-		0.4	
14:30	US	Personal income	Aug	% m/m	0.4	-		0.3	
14:30	US	PCE	Aug	% m/m	0.1	-		0.1	
16:00	US	Michigan index	Sep	pt	100	-		100.8	

Source: Santander Bank Polska, Bloomberg, Parkiet
* in case of the revision the data is updated

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