

18 October 2018

Eyeopener

Industry decelerates at the end of 3Q

Polish industry in poor shape at the end of 3Q
Zloty and its CEE peers under pressure, dollar gains after FOMC minutes
Polish and core bond yields down
Today, US data

On Wednesday we got to see data from the domestic industry, which were close to our pessimistic call, but below the market consensus. Earnings of the US companies disappointed, which triggered a weakening on stock markets and EM currencies, while bonds gained. Minutes from the September FOMC meeting were interpreted by the market as hawkish. Investors noted that the US central bankers mull raising interest rates above the neutral level (currently estimated at 3%). As a result, the dollar gained while core bond yields climbed.

Consumer confidence indicators deteriorated in October. The current indicator (BWUK) fell to 6.1 from 6.9pts but is still close to all-time highs. The leading indicator (WWUK) slid to 1.3pts from 3.1pts and is at the lowest level this year. Downside pressure on WWUK was put by weaker forecasts of general economic situation, conditions for saving and expectations about unemployment. The latter measure is 10pts below its April's peak and this is the most considerable decline among all BWUK and WWUK subindices. The unemployment subindicator is quite reasonably correlated with actual unemployment and its decline fits into recent series of disappointing labour market data. Thus, it is supporting our view that positive tendencies on the labour market are running out of steam.

September's data on **industrial output** surprised to the downside but were close to our pessimistic calls, with industry adding 2.8% y/y (market forecast: 4.1% y/y, our forecast: 2.3% y/y). In the months to come, we expect the industrial output growth to rebound to c5% on average, i.e. well below the pace we have seen in 1H18 (6-7%). The output data fit our expectations that the Polish economy has already recorded a business cycle peak and the slowdown has started in 2H18 with GDP growth well below 5% expected ([more](#)).

HICP inflation in Poland rose from 1.4% y/y to do 1.5% y/y in September. Core inflation rebounded clearly, from 0.2% to 0.5% y/y, in contrast to CPI data, which showed its decline. Behind the acceleration of HICP inflation to its highest level since January were higher price growths in both tradables and non-tradables. HICP growth wasn't even the highest this year, but a look closer into its details reveals a broad-based, although still not very sharp, rebound in prices.

Energy minister Krzysztof Tchórzewski said that the energy bill for households will not increase by more than 5% (the final decision will be taken by market regulator URE). Such hike for retail customers would imply a rise in CPI inflation by 0.2-0.3pp in 2019. If we assume that energy prices for households rise proportionally to the recent spike in wholesale prices (c.20% in case of electricity and c.15% in case of gas), it would add 1.0-1.5pp to the headline inflation.

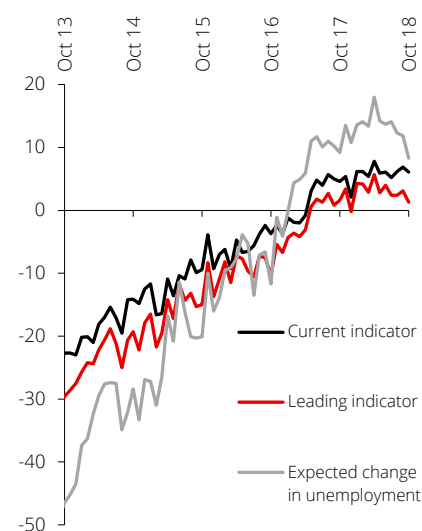
EURUSD was falling amid decreasing stock indexes and as a reaction for the tensions in EC-Italy relationship. The down trend accelerated in the evening after the release of the FOMC minutes. As a consequence, EURUSD was at 1.148 this morning. In the afternoon, the US data will be released and the key driver for EURUSD would be UST reaction. If yields jump, EURUSD might go further down.

EURPLN moved up in response to a growing aversion to risky assets and appreciating dollar. The zloty weakened amidst below-consensus Polish industrial output data. EURPLN climbed to 4.296 intraday to finish the session close to 4.29. As the dollar appreciated overnight, EURPLN has begun the Thursday session close to the yesterday peak and we think that leaves a slim chance for the zloty to strengthen today.

The other CEE currencies also depreciated, reacting negatively to the sell-off on the stock exchanges and a gaining dollar. EURHUF climbed to 322.40 from 321.80 and EURCZK to 25.85 from 25.82. As regards USDRUB, the Russian currency was additionally pressured by below-consensus data on the retail sales and real income. In effect, USDRUB finished the day at 65.50 vs. 65.30 at the opening.

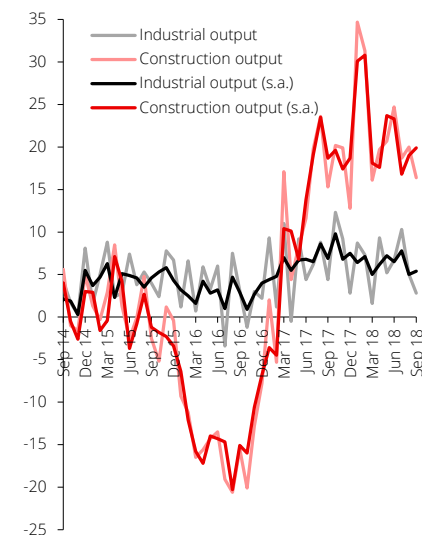
Domestic bonds gained on Wednesday, following growing prices of Bunds and UST. Higher debt prices resulted from falling stock exchanges and worse-than-expected sector data in Europe and U.S. companies performance. In Poland, the yields were decreasing, driven by unsatisfactory industrial readings. As a result, the Polish curve shifted down by 1-2bp. The ASW spreads remained fairly stable after one week of strong declines. The Bund yields have been growing at the opening of today's session due to a hawkish tone of the FOMC minutes, which may exert pressure on Polish debt.

Consumer confidence indexes (pts)



Source: Stats Office, Santander Bank Polska

Output growth, % y/y



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2959	CZKPLN	0.1662
USDPLN	3.7396	HUFPLN*	1.3320
EURUSD	1.1488	RUBPLN	0.0569
CHFPLN	3.7569	NOKPLN	0.4544
GBPPLN	4.8918	DKKPLN	0.5758
USDCNY	6.9387	SEKPLN	0.4161

*for 100HUF

Last session in the FX market 17/10/2018

	min	max	open	close	fixing
EURPLN	4.284	4.296	4.285	4.286	4.2936
USDPLN	3.698	3.726	3.699	3.718	3.7123
EURUSD	1.152	1.159	1.158	1.153	-

Interest rate market 17/10/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.55	-1	4 paź 18	OK0720	1.517
DS1023 (5L)	2.50	-2	4 paź 18	PS0424	2.732
WS0428 (10L)	3.19	-2	4 paź 18	WS0428	3.303

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	0	2.85	1	-0.24	0
2L	2.05	-1	3.07	1	-0.12	-1
3L	2.27	-2	3.14	1	0.05	-1
4L	2.45	-1	3.16	1	0.22	-2
5L	2.59	-2	3.17	1	0.39	-2
8L	2.89	-2	3.20	2	0.79	-3
10L	3.03	-2	3.23	1	1.01	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.59	0
SW	1.59	0
2W	1.60	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	1.76	0
6x9	1.79	-1
9x12	1.84	-1
3x9	1.84	0
6x12	1.90	0

Measures of fiscal risk

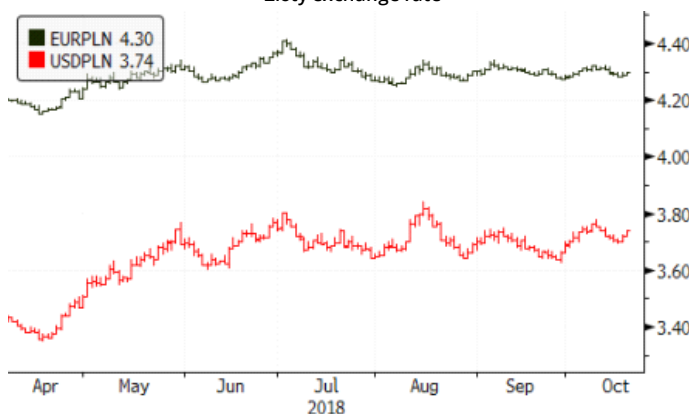
Credit Default Swaps (CDS) of selected countries				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.72	-3
France	25	1	0.36	0
Hungary	116	1	3.24	-15
Spain	65	4	1.18	0
Italy	221	8	3.09	0
Portugal	64	0	1.48	-1
Ireland	25	0	0.54	-4
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

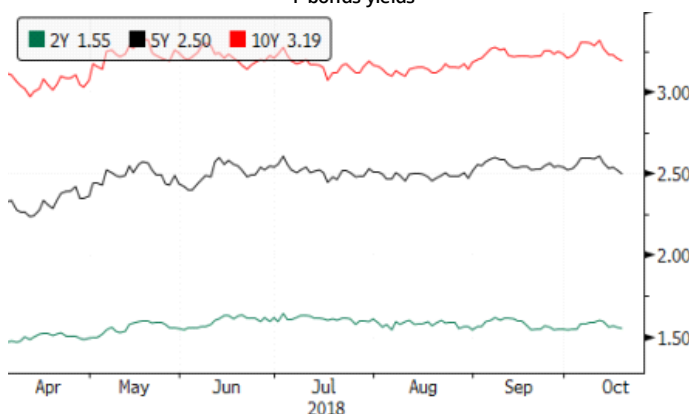
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

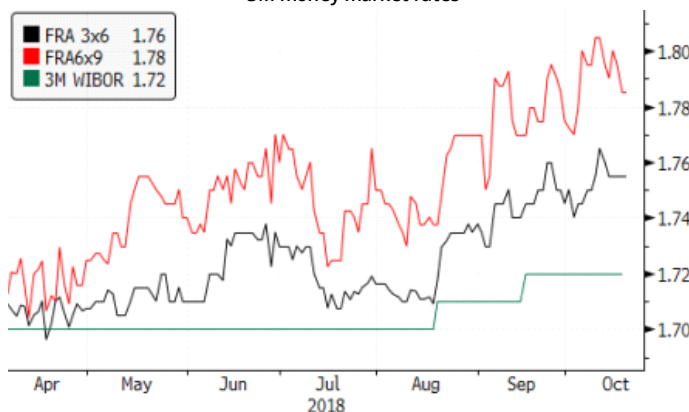
Zloty exchange rate



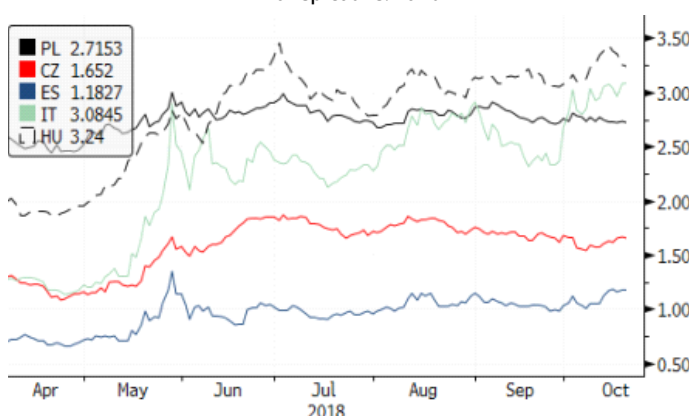
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (12 October)								
	PL	Fitch Rating Review						
	PL	S&P Rating Review						
08:00	DE	HICP	Sep	% m/m	0.4	-	0.4	0.4
11:00	EZ	Industrial Production SA	Aug	% m/m	0.5	-	1.0	-0.8
16:00	US	Michigan index	Oct	pts	100.5	-	99.0	100.1
MONDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	-	1.8	1.9	1.8
14:00	PL	Current Account Balance	Aug	€mn	-396	-287	-549	-809
14:00	PL	Trade Balance	Aug	€mn	-321	-415	-329	-432
14:00	PL	Exports	Aug	€mn	16 944	16 874	17 195	17 115
14:00	PL	Imports	Aug	€mn	17 254	17 289	17 524	17 547
14:30	US	Retail Sales Advance	Sep	% m/m	0.7	-	0.1	0.1
TUESDAY (16 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	3.4	3.4	3.2	3.4
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	6.9	6.7	6.8
11:00	DE	ZEW Survey Current Situation	Oct	pts	74.3	74.4	70.1	76.0
14:00	HU	Central Bank Rate Decision		%	0.90	0.90	0.90	0.90
14:00	PL	CPI Core	Sep	% y/y	0.8	0.9	0.8	0.9
15:15	US	Industrial Production	Sep	% m/m	0.2	-	0.3	0.41
WEDNESDAY (17 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	4.5	2.3	2.8	5.0
10:00	PL	Construction Output	Sep	% y/y	18.5	15.8	16.4	20.0
10:00	PL	PPI	Sep	% y/y	2.8	2.9	2.9	3.0
11:00	EZ	HICP	Sep	% y/y	2.1	-	2.1	2.1
14:30	US	Housing Starts	Sep	% m/m	-5.6	-	-5.3	9.2
20:00	US	FOMC Meeting Minutes						
THURSDAY (18 October)								
14:30	US	Initial Jobless Claims	week	k	207	-		214
14:30	US	Index Philly Fed	Oct		21.0	-		22.9
FRIDAY (19 October)								
10:00	PL	Retail Sales Real	Sep	% y/y	6.2	6.5		6.7
16:00	US	Existing Home Sales	Sep	% m/m	-0.5	-		0.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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