

21 February 2019

# Eyeopener

## Manufacturing still resilient

Industrial production rose more than expected in January  
 Zloty weaker, despite good data from Poland  
 Debt gained in reaction to news from ECB  
 Today, Polish retail sales and construction output, European PMIs

Wednesday was marked by declines of yields in Poland and on core markets. The zloty weakened relatively much compared to the scale of EURUSD decrease. The changes on the bond market were caused by remarks by ECB's chief economist Peter Praet, which suggested that the bank is considering a new series of long-term loans to banks (TLTRO). Polish industrial output surprised to the upside, making up for the December weakness (caused by calendar effects). Fed minutes released in the evening confirmed a turn to a more dovish stance – downside risks to growth were stressed, but Fed did not resign from finishing the process of balance sheet reduction.

**Industrial output** expanded by 6.1% y/y in January and was stronger than expected (consensus: 3.7%, our forecast: 5.5%). Seasonally-adjusted output advanced 1.7% m/m, confirming our call that the weak December (-0.4% m/m) was caused primarily by calendar effects. So far, Polish industry has not been affected much by the slowdown in Europe, and export-oriented sectors had strong results. Still, we expect some slowdown to come, with output growth sliding to c3% y/y in 4Q19. In our view, the Polish economy will see a rather soft landing in 1Q19 (we see GDP growth at 4.3% y/y versus 4.9% y/y in 4Q18), but the incoming data will be crucial to fine-tune forecasts.

**PPI inflation** rose in January to 2.2% y/y from 2.1%; we and the market had expected a minor slowdown. Utilities had a major contribution to PPI acceleration, so the 'electricity price freeze' act did not shield companies from rising energy prices. We have to wait to see whether these costs are passed on to households.

**Consumer sentiment indicators** increased slightly in February, continuing their rebound after a temporary decline at the end of 2018 (likely related to concerns regarding the surge in energy prices). There was a sharp improvement in the expected future financial situation of households (the highest reading on record), which we see as a reflection of upbeat forecasts for wage growth. The results of the survey support our call that private consumption growth should remain relatively healthy in the coming quarters, although we would note that the assessment of major shopping expenditures decreased slightly in February.

The **NBP President Adam Glapiński** said that given strong anchoring of inflation in the NBP target, there is no need for the MPC to act. However, if there is a 'catastrophic decline in business activity', then rates may go down, as according to the latest NBP findings, effects for the Co-op banking sector would not be as negative as feared before. Earlier the central bank would rather rule out rate cuts. On the contrary, **Kamil Zubelewicz** said in today's interview for the Polish Press Agency that should inflation reach 2.5% y/y or a risk for the price growth acceleration emerges, the rate hike could be considered and more MPC members could support such move. At the same time, he added that the probability for a rate hike is now low.

**EURUSD** eased to 1.133 from 1.136 after the next comments of the ECB officials suggesting uncertainty regarding the European economic outlook for 2H19. Only in the afternoon the exchange rate rebounded slightly after the FOMC minutes were released. The rise to 1.137 was only temporary but we expect the dollar to depreciate today which could be triggered by flash European PMIs.

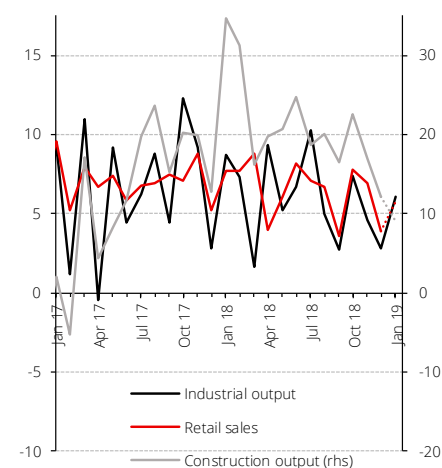
**EURPLN** was on the rise for the better part of the day driven by NBP's Glapiński comment that currently rate cuts are more likely than hikes. As a result, EURPLN jumped to 4.339 from 4.332 but at the end of the day was back near the opening level. Today we expect the zloty could gain slightly if the euro zone PMIs stop the decline, as we expect.

In case of the **other CEE currencies**, EURCZK remained in a narrow range of 25.68-25.70 while EURHUF oscillated between 317.2 and 317.7. USDRUB was stable near 65.7.

On Wednesday **domestic yield curve** decreased by 1-3bp, mainly on the long end. It was a reaction to US and German market behaviour, where the yields declined after the Peter Praet's comments. Today the dovish FOMC minutes may support the bond market.

**Today at 10:00 CET** the data on retail sales and construction data will be released. We expect positive surprise by retail sales data, while the construction sector reading is likely to be below consensus, in our view.

Production and retail sales, % y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.3351	CZKPLN	0.1690
USDPLN	3.8240	HUFPLN*	1.3669
EURUSD	1.1336	RUBPLN	0.0584
CHFPLN	3.8190	NOKPLN	0.4439
GBPPLN	4.9867	DKKPLN	0.5809
USDCNY	6.7136	SEKPLN	0.4095

\*for 100HUF

### Last session in the FX market 20/02/2019

	min	max	open	close	fixing
EURPLN	4.330	4.345	4.331	4.334	4.3371
USDPLN	3.810	3.834	3.817	3.813	3.8221
EURUSD	1.133	1.137	1.135	1.137	-

## Interest rate market 20/02/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.53	-1	7 lut 19	OK0521	1.493
PS0424 (5L)	2.12	-2	7 lut 19	PS0424	2.158
DS1029 (10L)	2.73	9	7 lut 19	DS1029	2.820

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

Risks on the Interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	2.66	-1	-0.22	0
2L	1.74	-1	2.60	-2	-0.17	0
3L	1.77	-2	2.55	-2	-0.09	0
4L	1.85	-3	2.53	-1	0.01	-1
5L	1.94	-4	2.53	-1	0.11	-1
8L	2.14	-5	2.61	-1	0.43	-2
10L	2.25	-6	2.67	0	0.63	-1

### WIBOR rates

Term	%	Change (bps)
O/N	1.58	0
T/N	1.58	-1
SW	1.55	0
2W	1.57	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	1.72	-1
3x6	1.69	-2
6x9	1.69	-1
9x12	1.68	-1
3x9	1.78	0
6x12	1.76	0

### Measures of fiscal risk

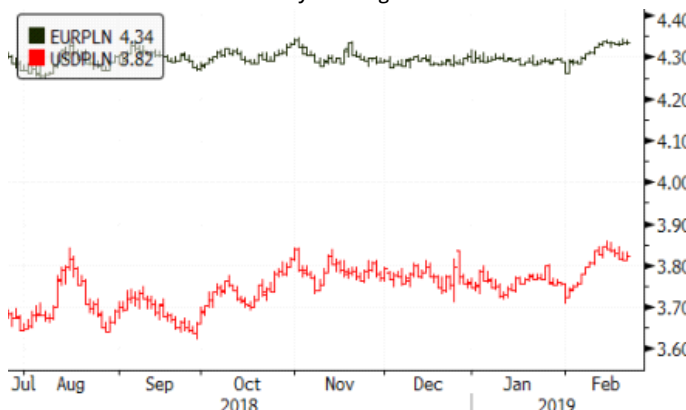
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.62	8
France	37	-1	0.42	0
Hungary			2.56	-1
Spain	77	-1	1.10	0
Italy	225	2	2.79	3
Portugal	87	-1	1.41	0
Ireland	41	0	0.73	-1
Germany	13	0	-	-

\* 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



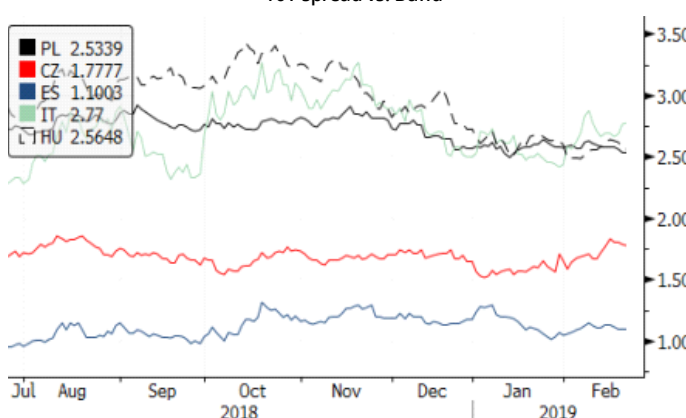
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (15 February)							
09:00	CZ	GDP SA	4Q	% y/y	2.4	2.9	2.4
10:00	PL	CPI	Jan	% y/y	1.0	0.9	1.1
15:15	US	Industrial Production	Jan	% m/m	0.1	-0.6	0.1
16:00	US	Michigan index	Feb	pts	93.5	95.5	91.2
MONDAY (18 February)							
No important events							
TUESDAY (19 February)							
10:00	PL	Employment in corporate sector	Jan	% y/y	1.75	1.5	2.9
10:00	PL	Average Gross Wages	Jan	% y/y	6.65	6.9	7.5
11:00	DE	ZEW Survey Current Situation	Feb	pts	-	15.0	27.6
WEDNESDAY (20 February)							
10:00	PL	Sold Industrial Output	Jan	% y/y	3.8	5.5	6.1
10:00	PL	PPI	Jan	% y/y	2.1	1.9	2.2
20:00	US	FOMC Meeting Minutes	Jan/19		-	-	0.0
THURSDAY (21 February)							
08:00	DE	HICP	Jan	% m/m	-0.8	-0.8	-1.0
09:30	DE	Germany Manufacturing PMI	Feb	pts	49.8	-	49.7
09:30	DE	Markit Germany Services PMI	Feb	pts	52.9	-	53.0
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	50.3	-	50.5
10:00	EZ	Eurozone Services PMI	Feb	pts	51.3	-	51.2
10:00	PL	Construction Output	Jan	% y/y	5.5	5.0	-
10:00	PL	Retail Sales Real	Jan	% y/y	4.9	5.7	-
11:30	PL	Bond Switch Auction			-		
14:30	US	Durable Goods Orders	Dec	% m/m	1.7	-	0.7
14:30	US	Initial Jobless Claims		k	225.0	-	239.0
14:30	US	Index Philly Fed	Feb		14.5	-	17.0
16:00	US	Existing Home Sales	Jan	% m/m	0.2	-	-6.4
FRIDAY (22 February)							
	PL	Central Budget Cumul.	Jan	mn PLN	-	7000.0	-
08:00	DE	GDP WDA		% y/y	0.7	-	0.6
10:00	DE	IFO Business Climate	Feb	pts	99.0	-	99.1
11:00	EZ	HICP	Jan	% y/y	1.4	-	1.4
14:00	PL	Money Supply M3	Jan	% y/y	9.4	9.4	-

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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