

22 February 2019

# Eyeopener

## Acceleration of retail sales price growth

Good print of retail sales and poor construction output in January  
 Services PMIs rebound in Europe but industry in bad shape  
 Domestic debt lost in line with core markets  
 Today money supply and business sentiment in Poland, German Ifo and GDP

On Thursday we got to see Polish retail sales and construction output data for January. Flash PMIs for the euro zone and the USA proved slightly better than expected, but manufacturing surprised to the downside yet again (euro zone indicator slid below 50pts for the first time since mid-2013). US durable goods orders and housing market numbers were also weak, also one of the main regional business climate indicators plummeted. As a consequence, the zloty weakened a bit. Bond yields climbed slightly following core markets reaction to progress in Sino-US trade talks. Today Donald Trump is to meet with Chinese chief negotiator.

The Sejm amended the 'energy cost freeze' act, removing the obligation to keep net prices unchanged (in reaction to doubts expressed by the European Commission) despite lower excise duty and transition charge. Thus, the decline in households' electricity prices recorded in January is likely to be reversed in the months to come, in our view.

Poland **retail sales** recorded a 5.2% y/y rise in January, in line with market consensus and slightly below our call. According to our estimates, sales excluding autos rose 6.9% y/y vs 4.7% y/y in December and 8.1% y/y on average in 2H18. The weakness in the headline figure seen in December proved temporary, as was also the case with output and wages. Sales of durables returned to double-digit y/y growth. Interesting detail from retail sales data was a sharp spike in deflator to 1.3% y/y from 0.8% y/y despite a drop in inflation recorded in this period. This might have been due to a rise in prices of autos (2.6% y/y) and clothing&footwear (0.9% y/y). Both categories were in deep deflation for the last five years and this may help explain the surprising surge of core inflation in January (that we expect based on the CPI data).

**Construction output** advanced by 3.2% y/y in January, markedly below expectations and 12.2% y/y in December. The result was most likely dragged lower by high statistical base of January 2018 as well as by severe weather conditions. Note however that civil engineering rose by 15.3% y/y and actually accelerated versus December (11.4% y/y). This is in our view mostly public investment related to EU funds, which we estimate to be close to its peak and to support construction in 1H19. Second half of the year may prove however more challenging and we see construction stagnating in that time period.

According to the **minutes from the MPC's February meeting**, the outlook for the Polish economy has deteriorated, although the slowdown should be mild. At the same time, inflation should run below the path presented in the recent central bank projections and so the majority of the Council members considered stable rates as the most appropriate scenario for the coming quarters. Some of them underlined the uncertainty related to the CPI performance in the medium-term and believe that a rise in inflation expectations and wages should prompt the MPC to consider rate hikes. According to the document, there has been an opinion that should economic activity "slump", "it might be justified to consider a decrease in interest rates or the introduction of unconventional monetary policy instruments". In our view, the February minutes do not change outlook for the monetary policy in Poland – we expect rates to stay flat in 2019.

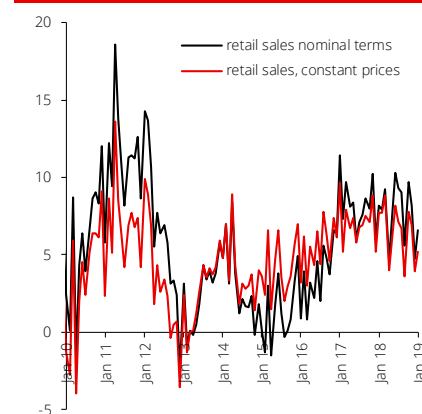
On Thursday **EURUSD** was hovering between 1.1330 and 1.1360 reacting to incoming data and news. Today we are expecting EURUSD to go down in reaction to Ifo, which is likely to be below expectations..

On Thursday **EURPLN** climbed, as a reaction to the poor German and Eurozone PMI releases and slightly weaker than expected domestic data (construction and assembly output). As a consequence EURPLN ticked up to 4.3370 from 4.3330. Today we expect further weakening of the zloty as the German Ifo data might disappoint.

On the **domestic fixed income market** yields increased slightly following the core bonds markets. More significant changes were visible on the IRS curve, which went up by 1-3bp. Today we expect Polish yields to go up some more, due to the yesterday evening rise of UST yields.

On the **switch auction** Ministry of Finance sold PLN9.49bn bonds. MoF sold OK0521, PS0424, WZ0524, WZ0528 and DS1029 bonds.

Retail sales growth, % y/y



Source: GUS, Santander

### 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, CFA** +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.3332	CZKPLN	0.1690
USDPLN	3.8185	HUFPLN*	1.3648
EURUSD	1.1348	RUBPLN	0.0583
CHFPLN	3.8169	NOKPLN	0.4433
GBPPLN	4.9804	DKKPLN	0.5807
USDCNY	6.7186	SEKPLN	0.4082

\*for 100HUF

### Last session in the FX market 21/02/2019

	min	max	open	close	fixing
EURPLN	4.326	4.341	4.334	4.336	4.3322
USDPLN	3.809	3.832	3.813	3.827	3.8247
EURUSD	1.132	1.137	1.137	1.133	-

## Interest rate market 21/02/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.54	1	7 lut 19	OK0521	1.493
PS0424 (5L)	2.14	2	7 lut 19	PS0424	2.158
DS1029 (10L)	2.75	11	7 lut 19	DS1029	2.820

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

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	2.67	1	-0.22	0
2L	1.76	1	2.63	2	-0.16	1
3L	1.79	2	2.58	3	-0.07	2
4L	1.87	2	2.57	4	0.03	2
5L	1.96	3	2.57	4	0.14	3
8L	2.16	2	2.65	4	0.46	3
10L	2.29	3	2.71	4	0.66	2

### WIBOR rates

Term	%	Change (bps)
O/N	1.57	-1
T/N	1.58	0
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	0
3x6	1.70	1
6x9	1.70	1
9x12	1.70	1
3x9	1.78	0
6x12	1.76	0

### Measures of fiscal risk

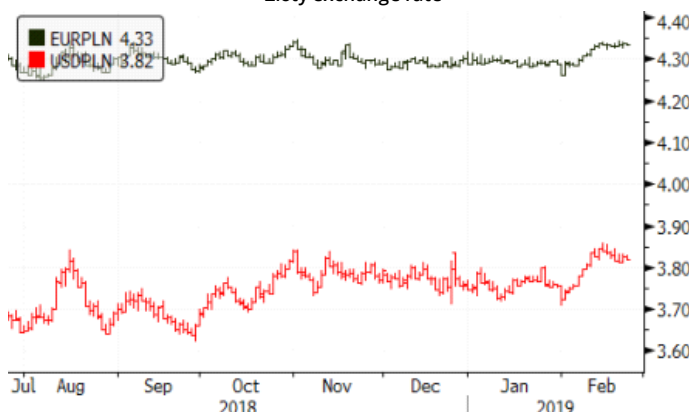
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.63	12
France	36	-1	0.41	0
Hungary			2.59	1
Spain	76	-1	1.08	1
Italy	225	-4	2.74	3
Portugal	87	-4	1.39	1
Ireland	41	1	0.72	0
Germany	13	1	-	-

\* 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 (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	47.6	49.7
09:30	DE	Markit Germany Services PMI	Feb	pts	52.9	55.1	53.0
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	50.3	49.2	50.5
10:00	EZ	Eurozone Services PMI	Feb	pts	51.3	52.3	51.2
10:00	PL	Construction Output	Jan	% y/y	5.5	5.0	3.2
10:00	PL	Retail Sales Real	Jan	% y/y	4.9	5.7	5.2
11:30	PL	Bond Switch Auction			-		
14:30	US	Durable Goods Orders	Dec	% m/m	1.7	1.2	0.7
14:30	US	Initial Jobless Claims		k	225.0	216	239.0
14:30	US	Index Philly Fed	Feb		14.5	-4.1	17.0
16:00	US	Existing Home Sales	Jan	% m/m	0.2	-1.2	-6.4
FRIDAY (22 February)							
	PL	Central Budget Cumul.	Jan	bn PLN	-	7.0	-10.4
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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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>.