

25 March 2019

Eyeopener

Weak PMIs worsened market sentiment

Zloty under pressure, bonds gained after weak European PMIs
Construction surprised positively, retail sales confirmed strong consumption
PM Morawiecki hinted on fiscal deficit rise to 2-3% of GDP
Today, German Ifo and Polish unemployment rate

At the end of the week, the market mood turned quite negative given that no Brexit breakthrough occurred during the European Council summit and flash PMIs for Europe and USA surprised to the downside. This fuelled a rise of uncertainty which was supportive for bonds and negative for the single currency. Moreover, the dollar was supported by higher than expected Philly Fed in March.

Prime Minister Mateusz Morawiecki said over the weekend that the government decided to increase the fiscal deficit to 2% or even 3% of GDP. It dispels doubts whether the new fiscal package will be financed via higher deficit. However, we still do not know how is the government going to deal with limitations stemming from the stabilizing expenditure rule.

In February, **retail sales** rose more than expected in real terms, 5.6% y/y vs 5.4% and saw a sizeable upward revision of January data — from 5.2% y/y to 6.1%. The January revision was all about reclassifying price growth to volume growth. We highlighted a month ago that retail sales deflators showed a historically high rise of car prices and shoes and clothing prices; this is no longer the case after the revision GUS has made. January-February average growth is still comparable to quarterly real retail sales averages from the previous quarters, suggesting a limited slowdown in private consumption in 1Q. Also, bear in mind that the new fiscal package should boost household income in the upcoming quarters while the real wage bill growth is also not losing pace. Consumer confidence remains at record highs.

February Polish **construction output** data provided a big, positive surprise. Construction production rose 15.1% y/y vs 4.9% market consensus and out 8% call. The sector continues to face capacity constraints as well as strong demand due to EU co-financed infrastructural projects (civil engineering rose 16.3% y/y vs 15.3% previously) and booming housing investments (construction output for buildings rose 27.9% y/y, up from 2.3% in January).

Financial results of Polish non-financial companies deteriorated sharply in 4Q18. Gross financial results fell 33.4% y/y, and net financial result slumped 40% y/y — the biggest deterioration since 2012. Revenue growth slowed to 5.6% y/y, much more than cost growth (7.5%), which was kept high by still rapid increase in costs of materials, energy and wages. The proxy for corporate profit margins (i.e., the ratio of gross financial result to total revenue) declined sharply to 2.9% (its lowest level since 4Q14) from an average of 5.0% in the preceding quarters. The data confirm our view that the process of margin compression in Polish companies advances, which should support a gradual acceleration of inflation growth in the coming quarters.

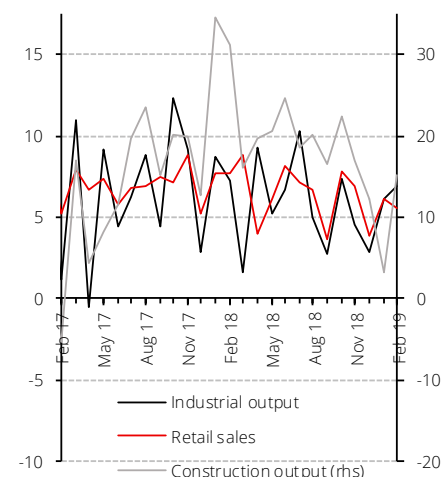
EURUSD fell at the week-end as it neutralized the Wednesday's evening jump to 1.144 registered after the FOMC meeting. The euro was under the strong pressure of Brexit, better-than-expected Philly Fed and strongly disappointing euro zone PMIs. As a result, EURUSD plummeted to 1.127 on Friday from 1.143 seen on Wednesday. Today's Ifo release could fuel further down move of the exchange rate.

EURPLN climbed to 4.30 from 4.2779 while USDPLN to 3.805 from 3.742 at the end of the week due to plunge of EURUSD and rise of risk aversion. Today we expect the zloty weakening to continue amid poor global market sentiment.

On the **domestic debt market** yields of bonds decreased (after the slight increases in Thursday) following the core markets (as a reaction to weak PMI reading and inversion of US yield curve). The domestic bonds prices increased despite the information about the tensions between the PM and the finance minister (later denied by the PM). Thursday's auction was relatively successful. After the auction, this year's gross borrowing needs were covered in 64%. Ultimately, between Wednesday and Friday the domestic yield curve decreased by 7-8bp in the 5-10Y segment and stayed stable on the short end. We believe that today's Ifo data (expected to be weak) will help to maintain downward pressure on the yield curve.

This week will be another one with Brexit in the fore. PM May is struggling with her own party's pressure to resign, a third meaningful vote is possible and we should be prepared for cliffhangers. Moreover, US and European data may gather some focus. Also central bank meetings in the Czech Republic and Hungary are scheduled. In Poland, Friday will be the key day, as we will get to see flash inflation reading and Fitch decision on Polish rating in the evening.

Output and retail sales growth (real), %y/y



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2975	CZKPLN	0.1669
USDPLN	3.7999	HUFPLN*	1.3573
EURUSD	1.1309	RUBPLN	0.0589
CHFPLN	3.8200	NOKPLN	0.4446
GBPPLN	5.0037	DKKPLN	0.5758
USDCNY	6.7090	SEKPLN	0.4111

*for 100HUF

Last session in the FX market 22/03/2019

	min	max	open	close	fixing
EURPLN	4.280	4.302	4.289	4.298	4.2894
USDPLN	3.758	3.814	3.778	3.804	3.7948
EURUSD	1.127	1.139	1.135	1.130	-

Interest rate market 22/03/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.61	-2	7 lut 19	OK0521	1.493
PS0424 (5L)	2.16	-5	7 lut 19	PS0424	2.158
DS1029 (10L)	2.82	-7	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	1.72	0	2.57	-5	-0.22	0
2L	1.76	-3	2.40	-10	-0.18	-1
3L	1.79	-4	2.31	-11	-0.12	-1
4L	1.84	-6	2.28	-11	-0.03	-2
5L	1.91	-8	2.29	-10	0.05	-3
8L	2.10	-10	2.36	-11	0.32	-4
10L	2.22	-11	2.42	-11	0.50	-5

WIBOR rates

Term	%	Change (bps)
O/N	1.56	-1
T/N	1.58	0
SW	1.55	0
2W	1.58	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	1.71	0
6x9	1.70	-1
9x12	1.69	-3
3x9	1.78	-1
6x12	1.77	-2

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.83 -8
France	31 -1	0.37 0
Hungary		2.91 -9
Spain	63 1	1.09 1
Italy	201 3	2.50 4
Portugal	72 1	1.28 1
Ireland	37 1	0.60 0
Germany	12 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



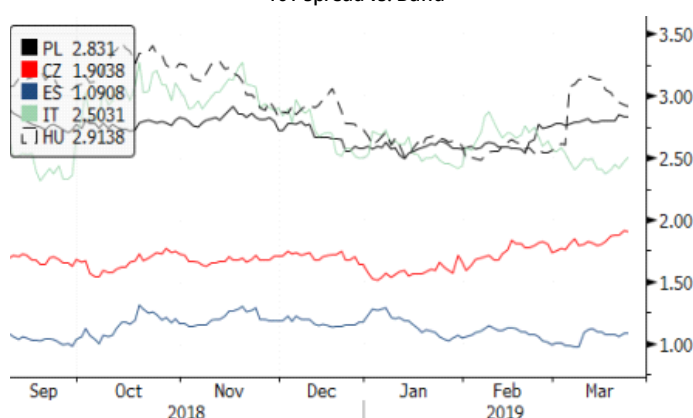
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
THURSDAY (21 March)								
10:00	PL	Construction Output	Feb	% y/y	4.9	8.0	15.1	3.2
10:00	PL	Retail Sales Real	Feb	% y/y	5.6	5.0	5.6	6.1
13:30	US	Initial Jobless Claims	week	k	225	-	221	230
13:30	US	Index Philly Fed	Mar	pts	4.8	-	13.7	-4.1
FRIDAY (22 March)								
09:30	DE	Germany Manufacturing PMI	Mar	pts	48.0	-	44.7	47.6
09:30	DE	Markit Germany Services PMI	Mar	pts	54.8	-	54.9	55.3
10:00	EZ	Eurozone Manufacturing PMI	Mar	pts	49.5	-	47.6	49.3
10:00	EZ	Eurozone Services PMI	Mar	pts	52.7	-	52.7	52.8
14:00	PL	Money Supply M3	Feb	% y/y	9.0	-	9.8	8.8
15:00	US	Existing Home Sales	Feb	% m/m	3.2	-	11.8	-1.2
MONDAY (25 March)								
10:00	DE	IFO Business Climate	Mar	pts	98.5	-		98.5
10:00	PL	Unemployment Rate	Feb	%	6.1	6,1		6.1
TUESDAY (26 March)								
13:30	US	Housing Starts	Feb	% m/m	-0.4	-		-14.0
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
15:00	US	Consumer Conference Board	Mar	pts	132.0	-		131.4
WEDNESDAY (27 March)								
8:00	DE	Retail Sales	Feb	% m/m	-0.1	-		2.9
THURSDAY (28 March)								
11:00	EZ	ESI	Mar	pct.	-	-		106.1
13:00	CZ	Central Bank Rate Decision		%	1.88	-		1.75
13:30	US	GDP Annualized	4Q	% Q/Q	2.35	-		2.6
13:30	US	Initial Jobless Claims	week	k	225	-		229
14:00	DE	HICP	Mar	% m/m	0.0	-		0.5
15:00	US	Pending Home Sales	Feb	% m/m	0.5	-		4.6
FRIDAY (29 March)								
	PL	Fitch Rating Review						
10:00	PL	CPI	Mar	% y/y	-	1.6		1.2
11:00	EZ	Flash HICP	Mar	% y/y	0.0	-		1.5
13:30	US	Personal Spending	Feb	% m/m	0.3	-		0.6
13:30	US	Personal Income	Feb	% m/m	0.3	-		-0.1
13:30	US	PCE Deflator SA	Jan	% m/m	0.02	-		0.1
15:00	US	Michigan index	Mar	pts	97.7	-		97.8
15:00	US	New Home Sales	Feb	% m/m	1.6	-		-6.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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