

19 April 2019

# Eyeopener

## Polish industry immune to slowdown

Eurozone manufacturing PMI finally higher, but still below forecasts  
 Industrial production in Poland surprised positively  
 Strong drop of EURUSD negative for PLN and other CEE currencies  
 Polish bonds underperforming core debt markets  
 Today Moody's rating review, US housing market data, market holiday in London

The Thursday session was significantly affected by data releases. Flash April's PMIs for Germany and the euro zone showed the first m/m increase after the 8-month streak of deterioration. However, the improvement of sentiment vs March was smaller than the market had expected. As a result, the euro lost rapidly vs the dollar and bond yields dropped. US data about retail sales and weekly report on jobless claims were better than forecast, which put the positive impulse on the bond market on hold and was an additional support for the dollar relative to other major currencies.

The government has found a way to deliver the costly election promises without breaching the expenditure rule or even without halting the fiscal consolidation. The fiscal trajectory presented in the **Convergence Programme Update** suggests that (our) worries about fiscal easing and increased debt issuances were overblown. Please read more on the subject in our [Economic comment](#) released yesterday.

Polish **industrial output** surprised positively in March, rising 5.6% y/y vs 4.4% market expectations. Production in manufacturing rose 6.3% y/y, above the 2018 average for the category, while contribution to y/y growth from mining and utilities dropped. The report mentions substantial growth in export-oriented industries, suggesting continued resilience to the euro zone slowdown. Also, there is further evidence of rebound in production of investment and intermediate goods after surprisingly poor results at the turn of the year - both categories are now growing at a higher pace than 2018 average. The seasonally and working day adjusted measure showed an acceleration from 6.5% y/y to 7.8% y/y - the strongest reading since July 2018. The data seem to confirm our view that economic slowdown this year will be mild. **PPI** growth was 2.5% y/y in March, down from 2.9% y/y, vs 2.6% market expectations and our 2.4% call. We expect the PPI to ease some more in the following months.

According to the **minutes from the April MPC meeting**, the majority of the Council's members was of the opinion that there is a limited risk of inflation permanently deviating from the target and slower growth abroad generates uncertainty regarding the scale of GDP growth deceleration in Poland. In their view, the scenario of stable interest rates is the most likely in the quarters to come. Some MPC members said that rate hikes could be considered if the implementation of the recently announced fiscal package, tensions on the labour market, and rise in energy price generate a significant inflation rise. As far as the energy prices are concerned, it will be crucial if the recent news that energy prices rise will not be compensated for companies is confirmed. For the time being, despite a noticeable rebound of CPI in early 2019, the MPC considers headline and core inflation as still low. While this is true so far, we see more and more factors that make us think that later in the year and in 2020 the pace of inflation growth will be faster than the central bank currently assumes.

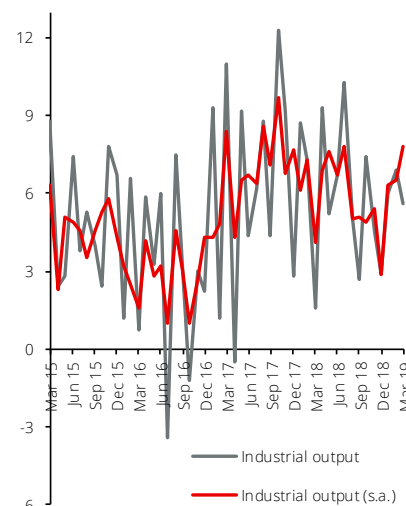
**EURUSD** saw yesterday the largest daily drop since the second half of March. This drop, as well as the March one, were caused by worse than expected flash PMIs in German and euro zone manufacturing. Yesterday, another factor causing the decline of the fx rate were the strong US data. Today we expect a stable session as many important markets are closed and there are no key data releases.

**EURPLN** jumped above 4.28 after a four session of a decline in a row in reaction to the EURUSD plunge. USDPLN rebounded to 3.81 from 3.78. The other CEE currencies have also been pressured by the strong dollar. Today, we expect the zloty and its CEE peers to stabilize while in the next weeks we could see a profit taking from the Polish currency appreciation observed since mid-February.

On the domestic **fixed income market** IRS did not change significantly, but the POLGBs market performed worse than core markets and Europeriphery bonds. The yields of Bund and UST decreased by 4-6pb on the long end, owing to the Eurozone data release, while the yields of domestic bonds of corresponding maturity decreased by only 1bp. The price of 5Y POLGB dropped while 2Y increased. Today we expect Polish debt to stabilise.

Today in the evening **Moody's** may announce the result of Polish rating review. We do not expect any changes, as was the case in Fitch and S&P rating agencies.

### Industrial output, % y/y



Source: GUS, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2786	CZKPLN	0.1665
USDPLN	3.8055	HUFPLN*	1.3369
EURUSD	1.1243	RUBPLN	0.0595
CHFPLN	3.7515	NOKPLN	0.4473
GBPPLN	4.9457	DKKPLN	0.5730
USDCNY	6.7043	SEKPLN	0.4093

\*for 100HUF

### Last session in the FX market 18/04/2019

	min	max	open	close	fixing
EURPLN	4.270	4.283	4.271	4.280	4.279
USDPLN	3.778	3.813	3.781	3.812	3.8002
EURUSD	1.123	1.130	1.130	1.123	-

## Interest rate market

18/04/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.58	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.20	0	21 mar 19	PS0424	2.209
DS1029 (10L)	2.87	-1	21 mar 19	DS1029	2.877

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

Term	PL	US	EZ
	%	%	%
	Change (bps)	Change (bps)	Change (bps)
1L	1.75	2.60	-0.23
2L	1.84	2.48	-0.20
3L	1.91	2.41	-0.14
4L	2.00	2.40	-0.03
5L	2.08	2.40	0.07
8L	2.31	2.49	0.38
10L	2.43	2.55	0.58

### WIBOR rates

Term	%	Change (bps)
O/N	1.59	-4
T/N	1.59	-5
SW	1.57	-2
2W	1.58	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.87	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.74	0
9x12	1.74	-1
3x9	1.79	0
6x12	1.80	-1

### Measures of fiscal risk

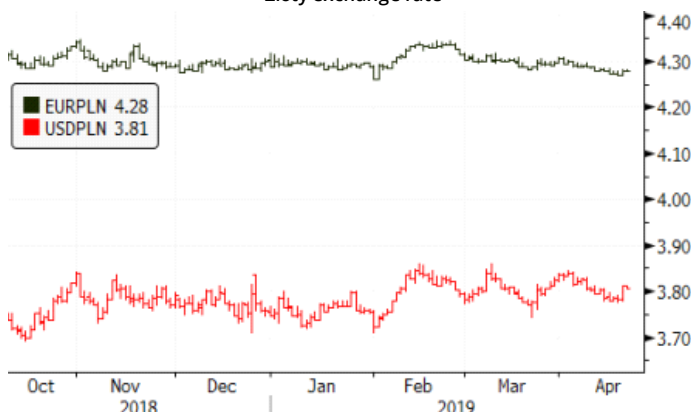
Country	CDS 5Y USD Level	Change (bps)	10Y spread* Level	Change (bps)
Poland			2.85	5
France	28	1	0.35	0
Hungary			3.14	0
Spain	58	0	1.04	2
Italy	193	1	2.58	5
Portugal	68	-1	1.14	1
Ireland	30	0	0.50	1
Germany	12	0	-	-

\* 10Y treasury bonds over 10Y Bunds

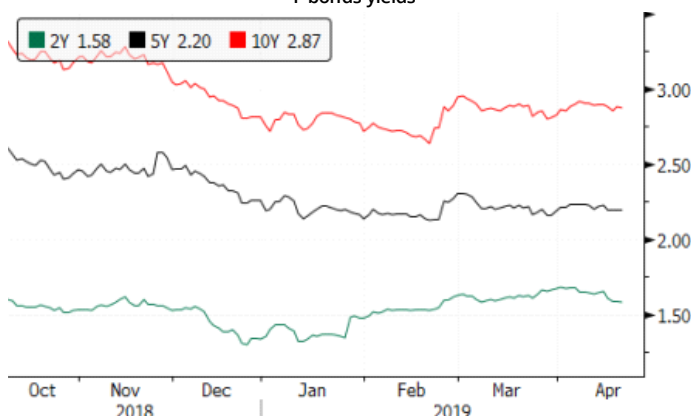
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

### Zloty exchange rate



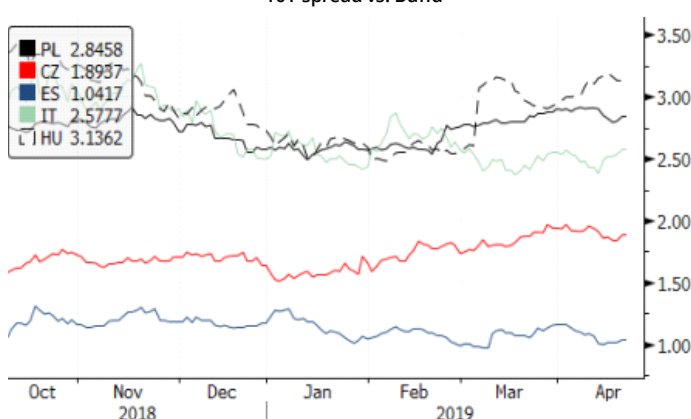
### T-bonds yields



### 3M money market rates



### 10Y spread vs. Bund



## Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (12 April)								
11:00	EZ	Industrial Production SA	Feb	% m/m	-0.5	-	-0.2	1.9
14:00	PL	Current Account Balance	Feb	€mn	-400	-597	-1 386	1 825
14:00	PL	Trade Balance	Feb	€mn	-262	-506	-1 327	290
14:00	PL	Exports	Feb	€mn	17 963	-	18 324	18 445
14:00	PL	Imports	Feb	€mn	18 133	-	19 651	18 735
16:00	US	Michigan index	Apr	pts	98.2	-	96.9	98.4
MONDAY (15 April)								
10:00	PL	CPI	Mar	% y/y	1.7	1.7	1.7	1.7
TUESDAY (16 April)								
11:00	DE	ZEW Survey Current Situation	Apr	pts	8.5	-	5.5	11.1
14:00	PL	CPI Core	Mar	% y/y	1.3	1.4**	1.4	1.0
15:15	US	Industrial Production	Mar	% m/m	0.2	-	-0.1	0.1
WEDNESDAY (17 April)								
10:00	PL	Employment in corporate sector	Mar	% y/y	2.9	2.9	3.0	2.9
10:00	PL	Average Gross Wages	Mar	% y/y	7.3	7.4	5.7	7.6
11:00	EZ	HICP	Mar	% y/y	1.4	-	1.4	1.4
THURSDAY (18 April)								
09:30	DE	Flash Germany Manufacturing PMI	Apr	pts	45.0	-	44.5	44.1
09:30	DE	Flash Markit Germany Services PMI	Apr	pts	55.0	-	55.6	55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Apr	pts	47.8	-	47.8	47.5
10:00	EZ	Flash Eurozone Services PMI	Apr	pts	53.05	-	52.5	53.3
10:00	PL	Sold Industrial Output	Mar	% y/y	4.3	4.1	5.6	6.9
10:00	PL	PPI	Mar	% y/y	2.6	2.4	2.5	2.9
14:30	US	Initial Jobless Claims	week	k	210.0	-	192	197
14:30	US	Retail Sales Advance	Mar	% m/m	0.8	-	1.6	-0.2
14:30	US	Index Philly Fed	Apr	pts	11.0	-	8.5	13.7
FRIDAY (19 April)								
14:30	US	Housing Starts	Mar	% m/m	5.85	-	-	-8.7

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

\*\* estimate after inflation data

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