Bank Zachodni WBK Grupa Santander

WEEKLY ECONOMIC UPDATE

20 – 26 August 2018

We argued last week that the room for the PLN appreciation was limited given the poor sentiment in the emerging markets and indeed the increase in global risk aversion weighed on the Polish zloty and other CEE currencies. Despite the solid GDP data from the region and from the euro zone and even though the Turkish lira rebounded substantially, the zloty, forint and koruna did not manage to trim all the losses suffered at the end of the previous week, as worries about emerging markets' economic growth outlook remained elevated. The debt markets remained quite stable.

There will be a number of new data releases to watch in the coming week, both in Poland and abroad. But the market sentiment may remain more vulnerable to news regarding further developments in Turkey and new information regarding the international trade arrangements. Robust data from Poland and from the euro zone theoretically could be supportive for the zloty, but we think that in the current environment investors will pay more attention to general sentiment in the EM world. The Turkey's economic problems are still far from being solved, in our view, and the recent currency rebound was probably only a short-term break in a downward trend. Worries about growth outlook in other emerging economies may also persist. At the end of the week the global markets could be under influence of the starting central bankers' annual conference in Jackson Hole.

Economic calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST BZWBK	LAST VALUE
		MONDAY (20 August)					
10:00	**PL**	**Sold Industrial Output**	**Jul**	**% y/y**	**9.8**	**9.9**	**6.8**
10:00	**PL**	**Construction Output**	**Jul**	**% y/y**	**22.4**	**21.9**	**24.7**
10:00	**PL**	**PPI**	**Jul**	**% y/y**	**3.5**	**3.4**	**3.7**
		TUESDAY (21 August)					
14:00	HU	Central Bank Rate Decision	Aug/18	%	0.9		0.9
		WEDNESDAY (22 August)					
10:00	**PL**	**Retail Sales Real**	**Jul**	**% y/y**	**7.4**	**7.6**	**8.2**
16:00	US	Existing Home Sales	Jul	% m/m	1.3		-0.55
20:00	US	FOMC Meeting Minutes	Aug/18		-		0.0
		THURSDAY (23 August)					
09:30	DE	Germany Manufacturing PMI	Aug	pts	56.6		56.9
09:30	DE	Markit Germany Services PMI	Aug	pts	54.3		54.1
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	55.3		55.1
10:00	EZ	Eurozone Services PMI	Aug	pts	54.4		54.2
11:30	**PL**	**Bond Switch Auction**			**-**		
14:00	**PL**	**Money Supply M3**	**Jul**	**% y/y**	**7.3**	**7.3**	**7.3**
14:00	**PL**	**MPC minutes**	**Jul/18**		**-**		
14:30	US	Initial Jobless Claims	week	k	215		212
16:00	US	New Home Sales	Jul	% m/m	3.0		-5.3
		FRIDAY (24 August)					
08:00	DE	GDP WDA	2Q	% y/y	2.0		2.0
10:00	**PL**	**Unemployment Rate**	**Jul**	**%**	**5.9**	**5.9**	**5.9**
14:30	US	Durable Goods Orders	Jul	% m/m	0.95		0.8

Source: BZ WBK, Reuters, Bloomberg

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

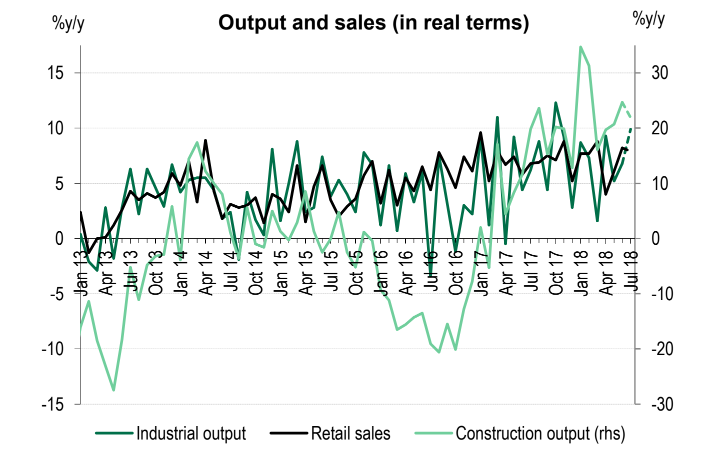
TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

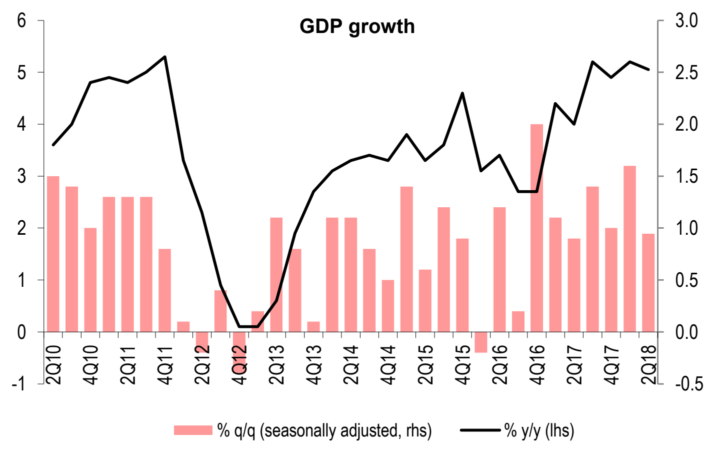
Wrocław +48 71 369 9400

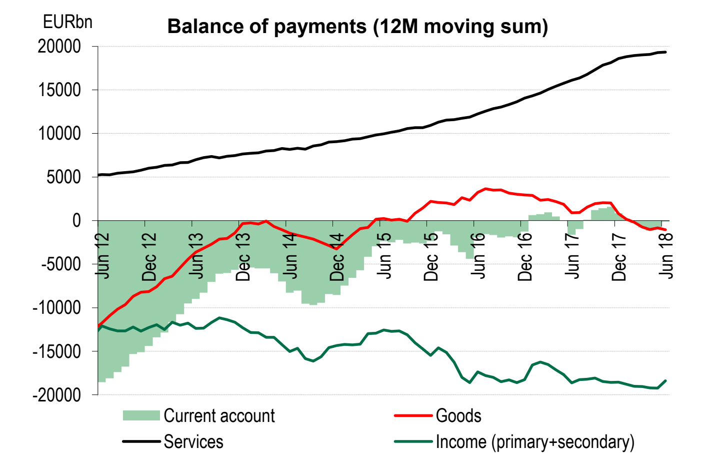
What's hot next week – Strong economic momentum carried into 2H18



- While we expect some economic slowdown in 2H18 the output and retail sales figures in its opening month may be quite strong. Industrial output could have approached 10% y/y in July, construction output growth most likely stayed above 20% and retail sales growth close to 8% y/y in real terms.
- Registered unemployment rate and M3 growth for July both probably staying at previous levels (5.9%, 7.3% respectively).
- MPC minutes from July meeting will be out this week, with most likely unchanged rhetoric and possibly with a broader transcript of the discussion surrounding new projections. We remind our readers that the NBP governor Adam Glapiński considered the July update of NBP projections to support the current MPC approach of holding rates stable for another couple of years, Grażyna Ancyparowicz suggested this MPC could refrain from changing rates at all (its term ends in 2022), while for the Council's hawks (Zubelewicz, Gatnar) it was a reason to become more radical in their views.

Last week in economy – GDP growth above 5% again, CPI stuck to 2%





- GDP growth in 2Q18 reached 5.1% y/y, only a notch below 1Q's 5.2%. The seasonally adjusted growth reached 0.9% q/q (in line with our forecast), vs 1.6% in 1Q18. This was a flash release without GDP breakdown. We think that the pace of economic growth in Poland will decelerate slightly in 2H18, amid slowing expansion of investments (construction sector reaching its capacity limits) and a bit more negative contribution from net exports (strong import boosted by domestic demand, export slowly feeling the impact of global trade wars). Still, after much better than expected performance in 1H18 the average pace of GDP growth this year is likely to be even slightly above the last year's 4.6%.
- CPI inflation in July stayed at 2% y/y, in line with the flash estimate. Core inflation ex food and energy remained also unchanged at 0.6% y/y. We think that June-July saw the local peak for the headline inflation and in the coming months CPI growth should gradually subside due to high base effects, towards 1.6% y/y in December. Meanwhile, the underlying inflation should be moving the opposite way (towards 1.2% y/y by year-end), as the cost pressures are mounting.
- Current account balance in June reached -€240m, with market consensus at -€276m and our forecast at -€174m. The 12M rolling deficit was zero after June, following several months of deficit of. -c0.2% of GDP. Trade balance showed deficit of €413m while it was widely expected to be nearly balanced. Both exports and imports surprised to the upside with the bigger surprise in the case of the latter (import growth reached 10.2% y/y and export 9.0% y/y).
- Labour market data for July were in line with our expectations and weaker than the market expected. Employment growth has slowed to 3.5% y/y from 3.7%, mostly due to high base effect. In our view, the demand for labour remains strong. Wages decelerated to 7.2% y/y from 7.5% (normalization after June's big one-off payments).

Quote of the week – It is possible to smartly use a country's monetary sovereignty

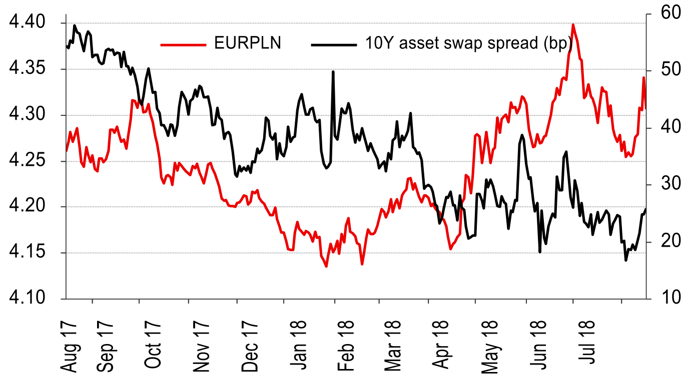
Eryk Łon, MPC member, PAP, August 14

I am not sure if I will file a motion to cut interest rates this year. Particularly important will be external conditions of the development of the Polish economy. The fact of downgrading eurozone economic growth forecasts and its key economies would be one of arguments calling for a rate cut in Poland. I will be following attentively the developments in Turkey. Dynamic speeches of president R.T. Erdogan, filled with very high national pride, sent the exchange rate of the Turkish lira to a level that is beneficial for Turkish exports and Turkish tourism. This is an example how it is possible to smartly use a country's monetary sovereignty, that is the right to run its own monetary policy and of the fact of having its own currency.

Eryk Łon proved many times to have views far from the consensus in the Monetary Policy Council. He is the only member to systematically consider cutting interest rates further from the current historical low. He has also been called (indirectly) by the NBP governor Adam Glapiński a sole supporter of the doctrine of 'national economics' seeing fx depreciation as a tool to promote growth and competitiveness. This is important when reading his recent remarks. Praising a person who has put his country at the brink of a currency crisis and who deprived the central bank of its independence seems a bold statement for an MPC member. It seems investors did not treat Łon's remarks seriously, as an official signal how the Polish central bank wants to support the domestic economy and align its policy with the needs of key politicians.

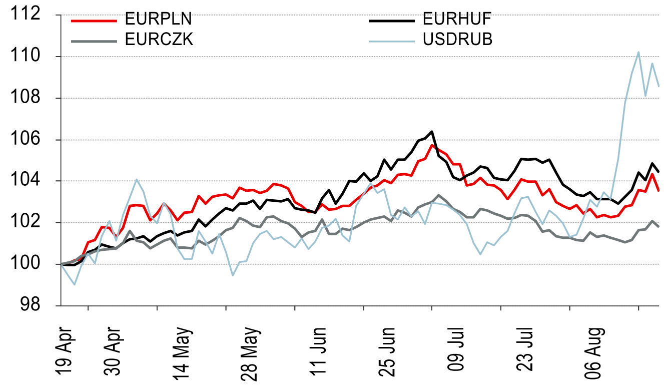
FX and FI market – Silence after the storm

EURPLN and 10Y asset swap spread



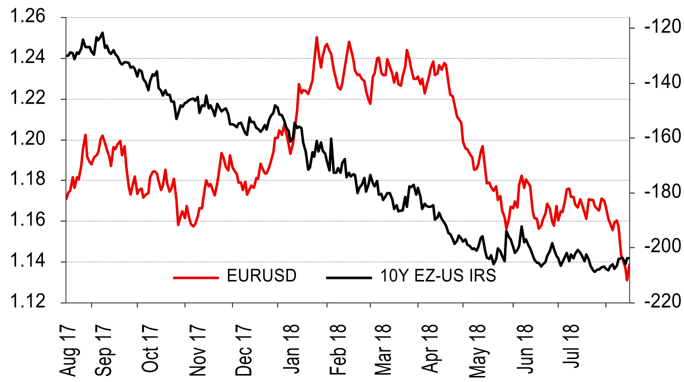
Source: Thomson Reuters Datastream, Bank Zachodni WBK

CEE currencies (April 17 = 100)



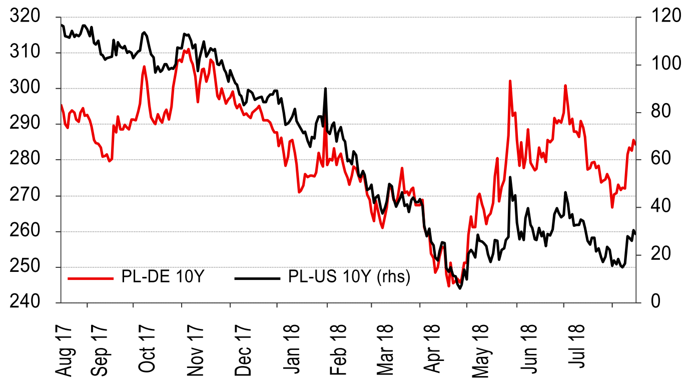
Source: Thomson Reuters Datastream, Bank Zachodni WBK

EURUSD and 10Y IRS EZ-US spread



Source: Thomson Reuters Datastream, Bank Zachodni WBK

Bond yield spread



Source: Thomson Reuters Datastream, Bank Zachodni WBK

Last week on the market

- **FX** We argued last week that the room for the PLN appreciation was limited given the poor sentiment in the emerging markets and indeed the increase in global risk aversion weighed on the Polish currency. Despite the solid GDP data from the CEE region and the euro zone and even though the Turkish lira rebounded substantially after the peak weakness recorded on Monday, EURPLN did not manage to drop below 4.30, as worries about emerging markets' economic growth outlook remained elevated. Even the news about the new round of EU-China trade talks scheduled for late August, which improved the general sentiment somehow at the end of the week, did not provide a visible boost for the PLN. Other CEE currencies were also hovering at levels weaker than before the end of the previous week, although partly corrected their recent depreciation.
- **FI** The risk-off mood resulting from the Turkish turmoil last Friday pushed yields on core bond markets lower, while in emerging markets and euro zone peripheries higher (the latter due to concerns about European banks' exposure to Turkey). After that, the debt markets remained in horizontal trend in the recent week. In the case of the Polish market, the stability was additionally supported by the reduced investors' activity due to market holiday on Wednesday. The asset swap spreads widened in the Polish market over the week, reflecting a rise of the general risk aversion.

What to watch for next week

- There will be a number of new data releases to watch in the coming week, both in Poland and abroad. But the market sentiment may remain more vulnerable to news regarding further developments in Turkey and new information about the international trade arrangements.
- Polish data about industrial and construction output and retail sales should confirm, in our view, that the third quarter started on a solid note as regards the pace of economic expansion, but probably with limited market implications.
- Hint about the health of European economy given by the flash PMI indices could be important for the euro and we expect to see signs of strength in these data.
- FOMC minutes from the August meeting are unlikely to change market expectations regarding the monetary policy outlook in the USA, in our view.

Market implications

- **FX** Robust data from Poland and from the euro zone theoretically could be supportive for the zloty, but we think that in the current environment investors will pay more attention to general sentiment in the EM world. The Turkey's economic problems are still far from being solved, in our view, and the recent currency rebound was probably only a short-term break in a downward trend. Worries about growth outlook in other emerging economies may also persist. Thus, we still believe that the room for the zloty appreciation is limited and EURPLN should not continuously drop below 4.29 in the coming days.
- **FI** Still low net supply of domestic debt (no outright bond auctions until September), still favourable fiscal situation and still limited investors' activity at the end of the holiday period should keep Polish bonds quite stable in the coming days, in our view. The room for stronger rebound could be limited by the still unresolved Turkey's problems. The solid economic data about production and sales are unlikely to change the monetary policy outlook, as inflation remains well contained. At the end of the week the global debt markets could be under influence of comments from the starting central bankers' annual conference in Jackson Hole.

Additional information is available on request. Please contact Bank Zachodni WBK S.A., Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl