

21 December 2018

Bi-Weekly Economic Update

Silently waiting for the data

What's hot in next two weeks

- There are not many important data releases and events scheduled for the coming two weeks. Christmas break is likely make investors and politicians less active and so the market is likely to be waiting for the data due in early 2019.
- In Poland, we shall see December manufacturing PMI and flash December CPI. The PMI reading should not trigger any meaningful market reaction. In the recent months, the index has deviated from the other surveyed economic sentiment indexes (like those calculated by the stat office or the European Commission) that have performed more closely to the hard data. On the other hand, CPI release is likely to stay below the surprisingly low 1.2% y/y recorded in November which would be a dovish signal.
- Abroad, the market attention could focus on the monthly US job report. In November, the number of new nonfarm payrolls disappointed and now an improvement is expected.

Market implications

- EURPLN is holding in a narrow range and we think it would be difficult for the volatility to stay that low undisturbed in the months to come. Recall that rise in volatility is usually a negative phenomenon for the EM currencies and this makes us cautious as regards chances for a significant zloty appreciation in the short term. We expect EURPLN to stay within 4.26-4.34 range in the coming weeks with the higher chances for the exchange rate to near the upper end.
- We expect Polish bond yields to stay low until the year-end thanks to the "window dressing" effect, outstanding budget performance and the expected low CPI reading. In early 2019, yields could go up slightly amid profit taking. Also, the US market does not seem to be pricing even the March 25bp Fed rate hike and this might start to change if the nonfarm payrolls improved in December.

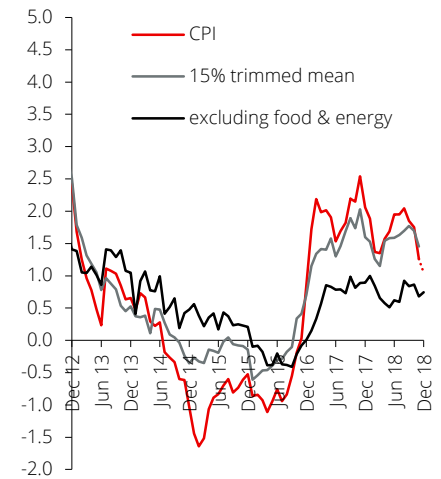
Please be advised that today's Weekly Economic Update will be the last for 2018.

We will resume publication on January 4, 2019.

We wish our readers Merry Christmas
and a prosperous New Year!

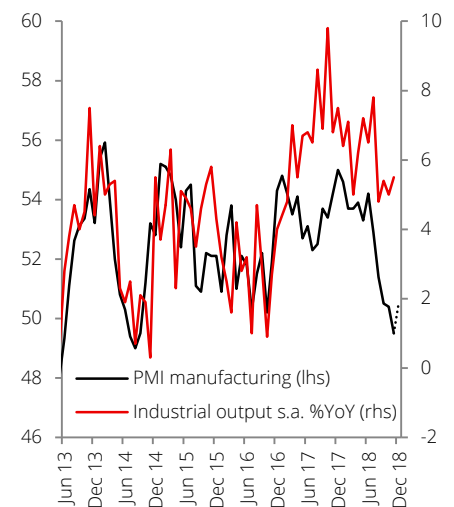


CPI and core inflation, % y/y



Source: GUS, Santander Bank Polska

PMI vs y/y industrial output growth



Source: GUS, NBP, Santander Bank Polska

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What's hot next week

The decline of euro zone **PMI** indicators has not stopped, but we think the Polish equivalent can stick around the 50-pt neutral level instead of going down further into the territory corresponding to economic slowdown.

CPI for December could prove even lower than the surprisingly low November print of 1.2% y/y due to further decline of contribution from food and fuel. We expect core inflation to at least stabilise in y/y terms at 0.7% in December.

Last week in economy

Wages in the corporate sector surprised strongly to the upside in November, advancing by 7.7% y/y (consensus: 7.2% y/y, our forecast 7%). This is the second strongest growth rate this year (just a tick below 7.8% y/y in April). Wages excluding the mining sector accelerated to 7.4% y/y from 7.2%, against the negative effect of working day differences. The wage growth remains robust and we expect it to run close to 7-8% also in 2019. **Employment** rose in November by 3.0% y/y, in line with expectations. In monthly terms, employment rose by 5k and this was the weakest result for this month since 2013. Positive tendencies in employment are clearly losing momentum and we are expecting the 2019 employment growth to be minute. Unemployment rate stayed at 5.7% in November.

Poland **industrial output** surprised to the upside in November, adding 4.7% y/y, while construction expanded by 17.1% y/y, also above consensus. In the quarters to come, we are expecting the industry to slow amid weaker sentiment in German industry and exports. Construction is likely to remain strong as we are expecting the EU-financed public investment to peak in 2019.

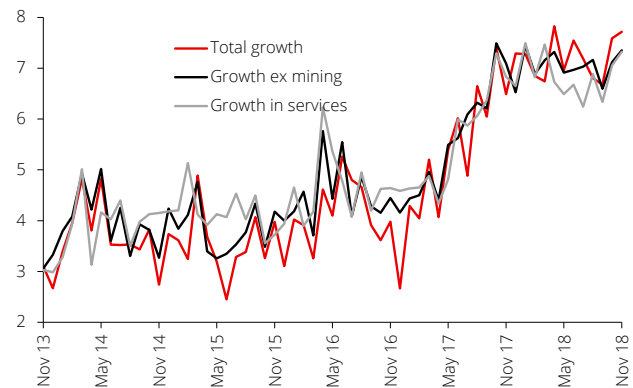
Retail sales rose 8.2% y/y in nominal terms in November, exactly as we expected and slightly stronger than market consensus (7.9%). Car sales weakness was offset by other categories, surprising us positively - mainly non-auto durables (home appliances, furniture) and semi-durables (clothing, shoes, other textiles). November and October economic activity data are in line with GDP slowing down in 4Q18 only slightly from 5.1% recorded in 3Q18.

Sentiment of consumers worsened substantially in December. It does not have to translate to weaker growth of private consumption as household incomes are still growing at a reasonable pace. Stat office's **business sentiment** indicators showed a rebound of expected future business conditions after autumn decline. Sentiment improved to the highest level in more than 10 years in construction and was also very strong in retail trade sector and manufacturing.

The **budget** surplus in the January-November period totalled PLN11.06bn, exceeding once again our expectations. Revenues were at PLN343.4bn (96.5% of the plan) and expenses PLN332.3bn (83.7%) year-to-date. VAT income was higher by 7.6% y/y, PIT income - by 13.9% and CIT - by 16.4%. As announced by the Minister of Finance a few days ago, the full-year general government deficit is to reach the all-time low 0.5% of the GDP.

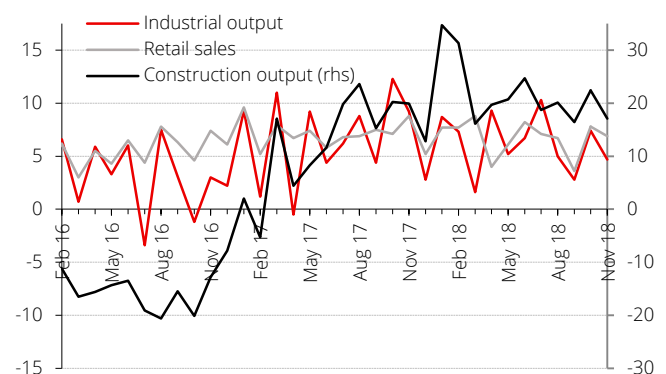
During the November NBP meeting a **motion for interest rate hike** was submitted. The only MPC member voting for the hike was Kamil Zubelewicz.

Wage growth in the corporate sector, %y/y



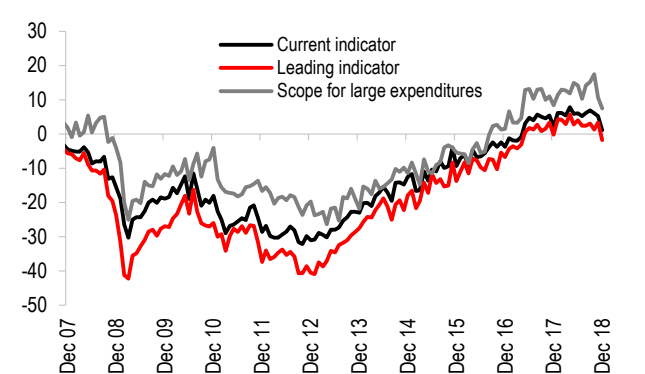
Source: GUS, Santander Bank Polska

Output and sales (in real terms), % y/y



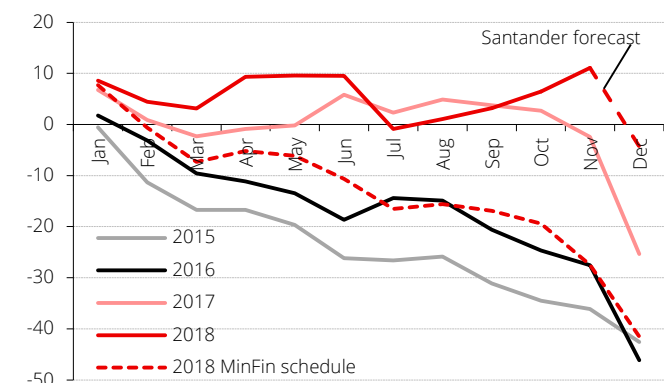
Source: GUS, Santander Bank Polska

Consumer confidence indicators



Source: GUS, NBP, Santander Bank Polska

Cumulative budget performance



Source: Ministry of Finance, Santander Bank Polska

FX and FI market

Last week on the market

FX Nothing has changed on the Polish FX market in the last few days. Global stock plummeted amid fears that Fed monetary policy will hit the economic growth. On the other hand, less hikes expected by the FOMC members in 2019 pushed EURUSD up and this has neutralized the negative pressure from the equity market. As a result, EURPLN was moving around 4.285 and at the moment of writing, the weekly high-low spread is the lowest since June 1997.

FI Polish bond yields and IRS fell amid strengthening on the core debt markets and robust state budget performance. Investors ignored Poland above-consensus economic activity data as it appeared that only one MPC member voted for a rate hike in November. The 10Y bond yield touched 2.81%, the 5Y reached 2.25% and 2Y plummeted to 1.30%.

Key events

For the coming two weeks, the economic calendar does not include numerous important data.

In Poland, we will see December manufacturing PMI that fell below 50pts in November.

Abroad, the market attention should focus on the US labour market data.

Market implications

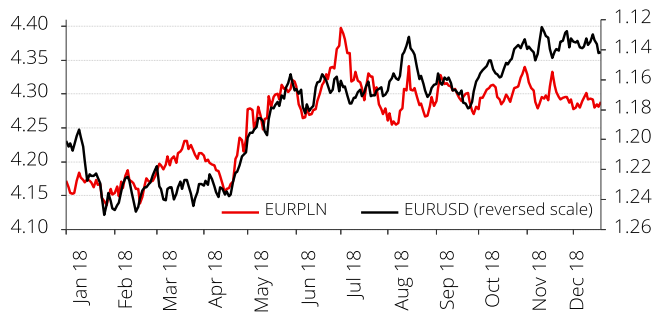
FX According to the Thomson Reuters data, at the time of writing, the weekly EURPLN high-low spread is the lowest since June 1997, monthly spread is the lowest ever since the data is available (1993) and the quarterly spread is the lowest since 2Q93. Low volatility is also recorded in the case of G10 currencies or bond yields with only equities and LatAm currencies moving more sharply. We think it would be difficult for the low volatility to stay undisturbed in the months to come. Recall that rise in volatility is usually a negative phenomenon for the EM currencies and this makes us cautious as regards chances for a significant zloty appreciation in the short term.

We expect EURUSD to rise in the weeks to come driven by the lower Fed rate path which should limit the EURPLN upside potential in the short term. Also, recent Poland macro data have been better than expected which should also stabilize the zloty at the turn of the year. We expect EURPLN to stay within 4.26-4.34 range in the coming weeks with the higher chances for the exchange rate to near the upper end.

FI We expect Polish bond yields to stay low until the year-end thanks to the "window dressing" effect, lower liquidity on the market and an outstanding budget performance. Also, the CPI December flash estimate is expected to stay below the surprisingly low November 1.2% helping bonds to stay strong at the turn of the year.

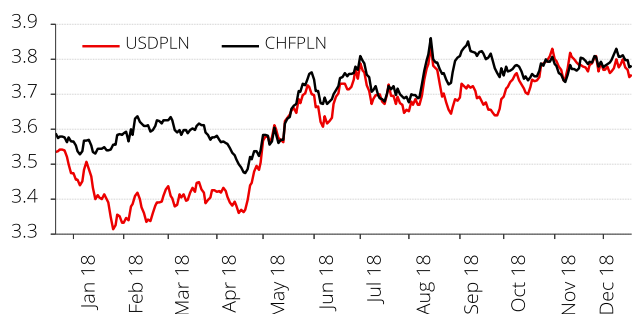
In early 2019, yields could go up slightly amid profit taking and outlook for a bigger net issuances at the bond auctions. Also, the US market does not look to be pricing even the March 25bp Fed rate hike and this might start to change if the December nonfarm payrolls show an improvement vs somewhat weak 155k November reading.

EURPLN and EURUSD



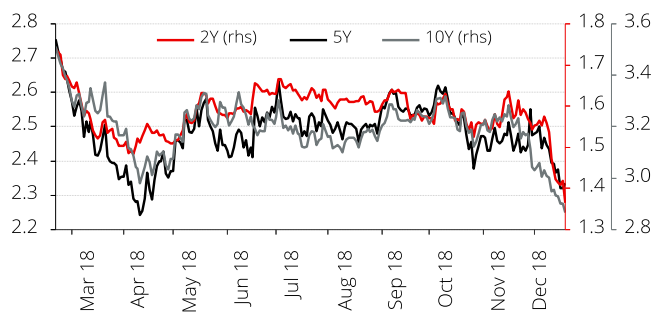
Source: Thomson Reuters Datastream, Santander Bank Polska

USDPLN and CHFPLN



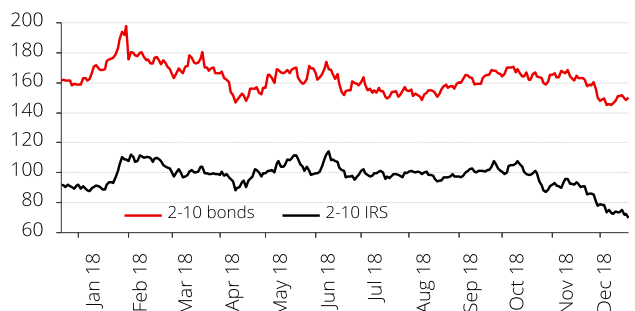
Source: Thomson Reuters Datastream, Santander Bank Polska

Poland bond yields



Source: Thomson Reuters Datastream, Santander Bank Polska

2-10 bond and IRS spreads



Source: Thomson Reuters Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (24 December)							
14:00	PL	Money Supply M3	Nov	% y/y	8.5	8.1	8.3
THURSDAY (27 December)							
14:30	US	Initial Jobless Claims	week	k	215	-	214
16:00	US	Consumer Conference Board	Dec	pts	133.6	-	135.7
16:00	US	New Home Sales	Nov	% m/m	4.14	-	-8.9
FRIDAY (28 December)							
14:00	DE	HICP	Dec	% m/m	0.4	-	0.1
16:00	US	Pending Home Sales	Nov	% m/m	0.25	-	-2.6
WEDNESDAY (2 January)							
	DE	Retail Sales	Nov	% m/m	0.5	-	0.1
09:00	PL	Poland Manufacturing PMI	Dec	pts	49.5	50.5	49.5
09:55	DE	Germany Manufacturing PMI	Dec	pts	51.5	-	51.5
10:00	EZ	Eurozone Manufacturing PMI	Dec	pts	51.4	-	51.4
THURSDAY (3 January)							
14:15	US	ADP report	Dec	k	175	-	178
16:00	US	ISM manufacturing	Dec	pts	58.2	-	59.3
FRIDAY (4 January)							
02:45	CN	Caixin China PMI Services	Dec	pts	-	-	53.8
09:55	DE	Markit Germany Services PMI	Dec	pts	52.5	-	52.5
10:00	EZ	Eurozone Services PMI	Dec	pts	51.4	-	51.4
10:00	PL	Flash CPI	Dec	% y/y	1.1	1.0	1.3
11:00	EZ	Flash HICP	Dec	% y/y	1.8	-	2.0
14:30	US	Change in Nonfarm Payrolls	Dec	k	180	-	155
14:30	US	Unemployment Rate	Dec	%	3.7	-	3.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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