

26 April 2019

Bi-Weekly Economic Update

Crucial data at the turn of the month

What's hot in the next two weeks

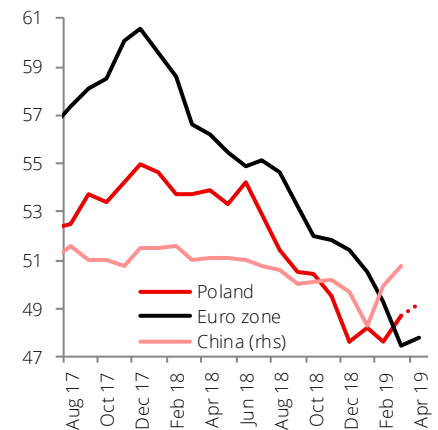
- Poland early May's traditional "long-weekend" is characterized by thin liquidity on the Polish market. However, in the next two weeks, we will see important data, particularly from the USA. In early May, the April **manufacturing ISM and monthly nonfarm payrolls** will be released. The former stabilized in early 2019 after a decline recorded in 2H18 while the latter recovered after a poor February.
- In the meantime, the **FOMC will hold a meeting**. In late March, the Committee removed two rate hikes previously planned for 2019. The tone of the statement is likely to remain dovish but likely the rhetoric should not be softened further.
- In Europe, we should see if the hard German economic activity data confirm a signs of a stabilization revealed in some sentiment indexes.
- In Poland, we will see **flash April CPI** that according to our forecasts has further gone up and reached 2% y/y. On top of the upward trend in the underlying inflation, we are observing a few new factors, which will now push CPI higher: (1) surge in pork prices caused by the ASF disease; (2) surge in vegetable prices due to low supply (drought in 2018) and extremely dry weather in April (further information on the food supply issue will be available on 30 April when GUS releases early assessment on the condition of winter crops); and (3) spike in fuel prices, gasoline in particular. We will also get business sentiment measures from the European Commission and PMI for April.

Market implications

- EURPLN retreated from the lower end of the 4.26-4.34 range in which it had been holding since August and we expect the gradual upside move to continue in the weeks to come. There is a strong seasonal pattern in the EUR/PLN market: in the last ten years, in May, the zloty lost vs the euro eight times. Furthermore, EURUSD broke the this year's low reached in March and this has opened the door for further dollar appreciation.
- Next week could be volatile on the core and Polish debt market. The outcome of the FOMC meeting should not generate an upside pressure on yields but there seems to be a chance for a positive surprise in the nonfarm payrolls that could pressure bonds. Polish CPI release, together with the recently less dovish comments of the Polish MPC members might generate an upside pressure on the rates on the front end of the curve.

This week, we released our April [MACROscope](#) where we write about emerging inflationary factors, nearing European Parliament elections and what could happen on the Polish FX and FI markets in the coming weeks.

Manufacturing PMIs



Source: Markit, Santander

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Last week in economy

The MPC's Jerzy Kropiwnicki said that CPI inflation is likely to exceed 3.5% in 2020 due to the rising wage pressure, higher energy prices and oil prices. Kropiwnicki concluded that a rate hike is possible at the start of 2020. Thus, the MPC member has joined the faction stating that stability of interest rates until the end of the MPC term cannot be secured. This faction counts 6 people and has built a majority.

We have released our **MACROscope monthly report** titled "Spring (of inflation) is in the air". We see growing evidence that the economic growth in Poland remains strong (our GDP forecast is unchanged: 4.5% y/y in Q1 and 4.1% in 2019) and fuelled mainly by domestic consumption. Moreover, it seems the inflation in Poland is going strongly up and it is likely to exceed the NBP's expectations.

GUS synthetic index of **business sentiment** and all of its sectoral components declined in April. Current assessment indicators dropped more m/m than the forward-looking ones, but in the case of the latter there was a large downside adjustment already at the start of the year. The GUS business sentiment indicators fit a picture of a gradual economic slowdown this year.

Central bank's quarterly economic activity survey showed a significant deterioration of the corporate earnings for 4Q18. This was partly caused by the one-off factors and falling margins due to rising wages. Forecasts of demand and exports for 2Q19 deteriorated sharply. The index of the new investments fell as well but the outlook remains moderately positive, according to NBP.

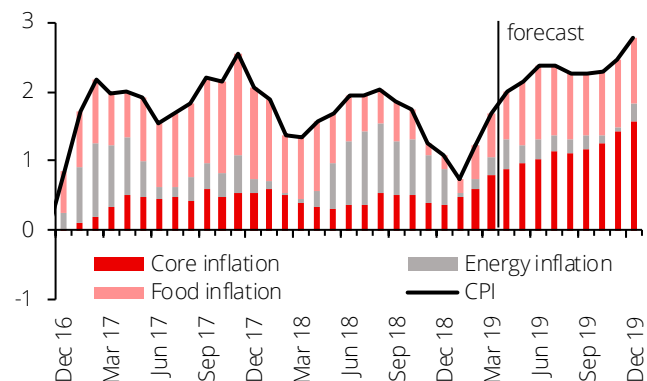
Retail sales rose 1.8% y/y in March in real terms. The reading was under a strong influence of a calendar effect – Easter expenditures were made in April this year vs in March last year. As a result we have the lowest growth of retail sales in four years, but if we look into details, we can see strong performance of durable goods, which rose by 15.3% y/y after two months of growing at an already solid 8-9% y/y. This is in line with very high consumer confidence. The March retail sales suggest private consumption will be supporting GDP growth this year, preventing the economy from a steeper slowdown. GUS also released quite positive data on the value of **industrial new orders** for March. The growth of foreign orders rose from 4.4% y/y to 9.6% and total orders grew by 11% y/y (11.9% previously). These are further signs of resilience of the economy to the euro zone slowdown.

Construction output rose in March by 10.8% y/y, slightly more than the market expected. Average 1Q growth of construction output was 9.7% y/y which is the lowest reading since 2Q17. We assume that there are a couple of strong months for the construction output ahead, but in 2H19 the average pace may drop below 9% y/y.

After March, the **central budget deficit** amounted to PLN4.5bn as compared to PLN3.1bn surplus in the corresponding period of 2018. In March alone the budget posted a deficit of PLN3.7bn, which is markedly higher than in 2017 and 2018 (PLN3.1bn and PLN1.3bn, respectively), but lower than in 2011-2016 on average (PLN5.0bn). In March, VAT and PIT revenues were rather disappointing (-8.5% y/y and -14% y/y, respectively), while CIT revenues expanded at a healthy rate (13% y/y). In our view, the full year result will be a deficit close to the assumed limit (PLN28.5bn) and amendment will not be necessary.

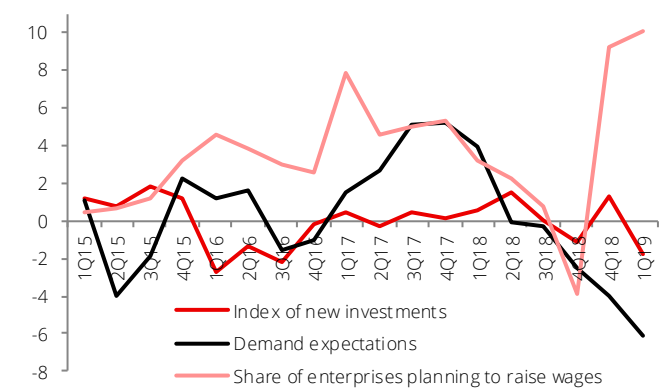
Moody's confirmed Poland's rating at A2 with stable outlook. According to the agency, the fiscal stimulus will break neither Polish nor the EU fiscal rules. It noted that the institutional strength is a weak spot, as the assessment of rule of law deteriorated over the last years. The agency increased its estimate of GG deficit in 2019 to 1.8% of GDP (from its 1.7% Sep 18 estimate). Deficit in 2020 is expected at 2.6% of GDP. The agency expects Poland's GDP growth at 4.4% in 2019 and 3.7% in 2020.

Structure of inflation, %/y



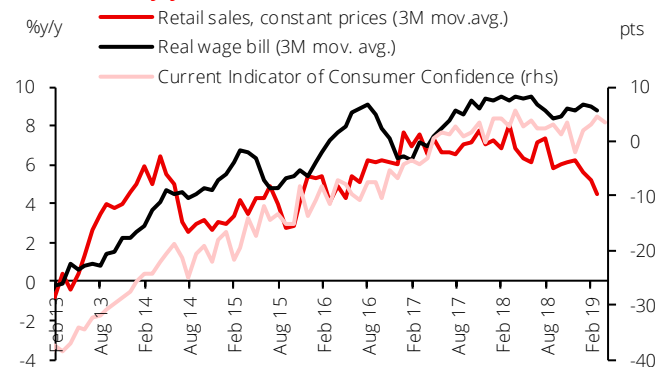
Source: GUS, Santander

Y/y change of selected NBP business sentiment indicators



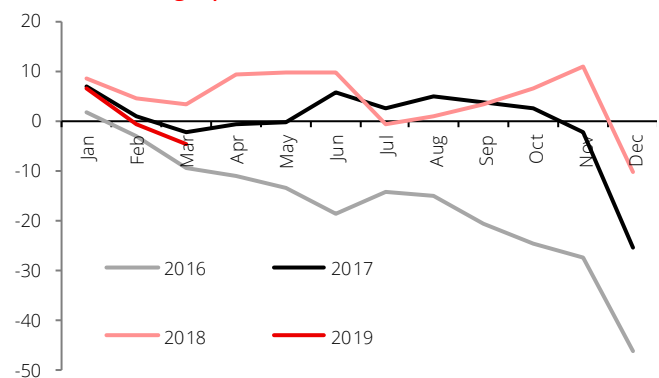
Source: NBP, Santander

Retail sales %/y, household incomes and sentiment



Source: GUS, Santander

Cumulative budget performance, PLN bn



Source: Ministry of Finance, Santander

FX and FI market

Last week on the market

FX In line with our expectations, EURPLN rebounded after three weeks of a decline. The zloty was pressured by the fast dollar appreciation on the global market amid disappointing European data. The exchange rate rose to c4.30, last time seen in early April. USDPLN jumped to 3.86, its highest since May 2017. CHFPLN rose to 3.78 from 3.75, GBPPLN to 4.97 from 4.93.

FI The 5Y and 10Y bond yields rose due to the Bund weakening at the beginning of the week and poor results of the Thursday's debt auction. The Ministry of Finance sold bonds for nearly PLN6bn (at the upper end of the planned supply) amid demand at PLN8bn. We expected that the buyback of OK0419 and coupon payments (PLN12bn in total) would result in a bigger demand at the auction.

Key events

In the next two weeks, we will see important data, particularly from the USA. In early May, when the liquidity on the Polish market is likely to be very thin, the April manufacturing ISM and monthly nonfarm payrolls will be released. The former stabilized in early 2019 after a decline recorded in 2H18 while the latter recovered after a poor February.

In the meantime, the FOMC will hold a meeting. In late March, the Committee removed two rate hikes previously planned for 2019. The tone of the statement is likely to remain dovish but likely the rhetoric should not be softened further.

In Poland, we will see flash April CPI that according to our forecasts has further gone up.

Market implications

FX EURPLN retreated from the lower end of the 4.26-4.34 range in which it had been holding since August and we expect the gradual upside move to continue in the weeks to come.

There is a strong seasonal pattern in the EUR/PLN market: in the last ten years, in May, the zloty lost vs the euro eight times. The 'sell in May and go away' phenomenon also can be clearly seen in the Polish equity market – the blue chip WIG20 index rose in May only twice in the last decade. The chart shows there seems to be a pretty strong relationship between EUR/PLN and WIG20. Should this hold, we could see the start of the weakening of the zloty in May, which could continue until 3Q19. Looking at the global stock indexes, the 'May effect' does not look to be that strong, but foreign equities started the year with a robust rise, while the data do not seem to indicate that concerns about the global growth have dissipated completely. We see a growing risk of a correction that could weigh on the zloty.

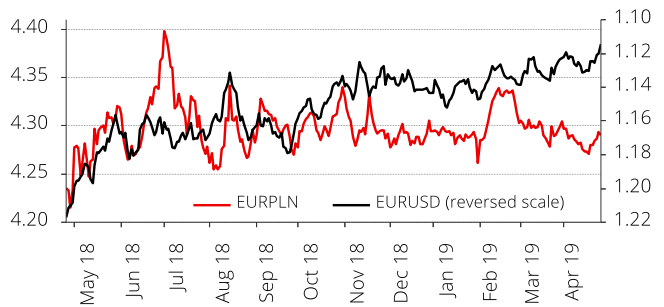
Furthermore, EURUSD broke the this year's low reached in March and this has opened the door for further dollar appreciation. This could be the case if the coming US data (manufacturing ISM and monthly nonfarm payrolls) surprise to the upside. Stronger dollar would also generate a negative pressure on the zloty. Beware of thin liquidity on the Polish FX market in early May.

FI Next week could be volatile on the core and Polish debt market. On Wednesday, the FOMC will decide on the interest rates (no change is broadly expected) and the tone of the statement should be key. After the March softening of rhetoric, we do not expect the bias to move further to the dovish side but the outcome of the meeting should not generate an upside pressure on yields either.

The initial jobless claims data published in the recent weeks suggest that the nonfarm payrolls change may be pretty strong while the market expects a moderate deterioration vs March. Thus, there seems to be a chance for a positive surprise that could push yields up.

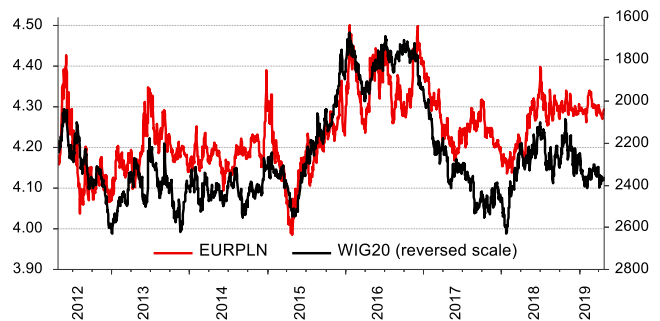
We forecast Poland CPI reached 2% y/y in April vs 1.7% y/y in March. This release, together with the recently less dovish comments of the Polish MPC members might generate an upside pressure on the rates on the front end of the curve.

EURPLN and EURUSD



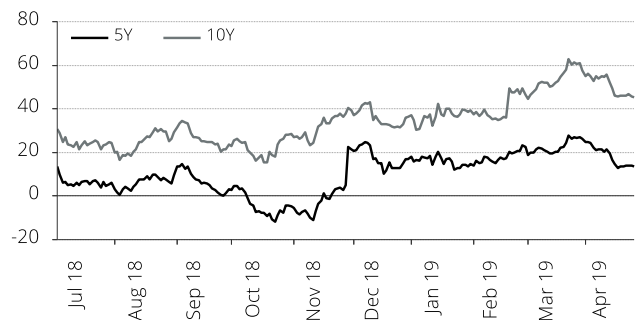
Source: Thomson Reuters Datastream, Santander Bank Polska

EURPLN and WIG20



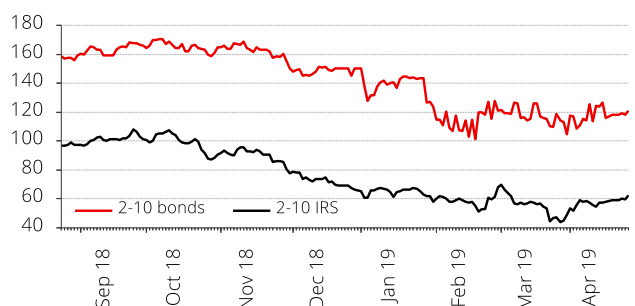
Source: Thomson Reuters Datastream, Santander Bank Polska

Poland asset swap spreads (bp)



Source: Thomson Reuters Datastream, Santander Bank Polska

2-10 spreads (bp)



Source: Thomson Reuters Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST			LAST
				MARKET	SANTANDER	VALUE	
MONDAY (29 April)							
11:00	EZ	ESI	Apr	pct.	105.0	-	105.5
14:30	US	Personal Spending	Mar	% m/m	0.7	-	0.1
14:30	US	Personal Income	Mar	% m/m	0.4	-	0.2
14:30	US	PCE Deflator SA	Mar	% m/m	0.3	-	-0.1
TUESDAY (30 April)							
10:00	PL	CPI	Apr	% y/y	1.7	2.0	1.7
11:00	EZ	GDP SA	1Q	% y/y	1.0	-	1.2
11:00	EZ	Unemployment Rate	Mar	%	7.8	-	7.8
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9
14:00	DE	HICP	Apr	% m/m	0.5	-	0.5
16:00	US	Consumer Conference Board	Apr	pts	126.0	-	124.1
16:00	US	Pending Home Sales	Mar	% m/m	1.0	-	-1.0
WEDNESDAY (1 May)							
14:15	US	ADP report	Apr	k	180	-	128
16:00	US	ISM manufacturing	Apr	pts	55.0	-	55.3
20:00	US	FOMC decision		%	2.50	-	2.50
THURSDAY (2 May)							
08:00	DE	Retail Sales	Mar	% m/m	-0.45	-	0.5
09:00	PL	Poland Manufacturing PMI	Apr	pts	48.5	49.2	48.7
09:55	DE	Germany Manufacturing PMI	Apr	pts	44.5	-	44.5
10:00	EZ	Eurozone Manufacturing PMI	Apr	pts	47.8	-	47.8
13:00	CZ	Central Bank Rate Decision		%	2.0	-	1.75
14:30	US	Initial Jobless Claims	week	k	200	-	230
16:00	US	Durable Goods Orders	Mar	% m/m	0.8	-	2.7
16:00	US	Factory Orders	Mar	% m/m	1.0	-	-0.5
FRIDAY (3 May)							
11:00	EZ	Flash HICP	Apr	% y/y	1.6	-	1.4
14:30	US	Change in Nonfarm Payrolls	Apr	k	181.0	-	196.0
14:30	US	Unemployment Rate	Apr	%	3.8	-	3.8
16:00	US	ISM services	Apr	pts	57.2	-	56.1
MONDAY (6 May)							
03:45	CN	Caixin China PMI Services	Apr	pts	54.4	-	54.4
09:55	DE	Markit Germany Services PMI	Apr	pts	-	-	55.6
10:00	EZ	Eurozone Services PMI	Apr	pts	-	-	52.5
11:00	EZ	Retail Sales	Mar	% m/m	-	-	0.4
TUESDAY (7 May)							
08:00	DE	Factory Orders	Mar	% m/m	-	-	-4.2
WEDNESDAY (8 May)							
08:00	DE	Industrial Production SA	Mar	% m/m	-	-	0.7
09:00	HU	Industrial Production SA	Mar	% y/y	-	-	5.9
THURSDAY (9 May)							
09:00	CZ	Industrial Production	Mar	% y/y	-	-	1.5
09:00	HU	CPI	Apr	% y/y	-	-	3.7
FRIDAY (10 May)							
08:00	DE	Exports SA	Mar	% m/m	-	-	-1.2
14:30	US	CPI	Apr	% m/m	0.3	-	0.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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