

# Weekly Economic Update

## What counsel against rising inflation?

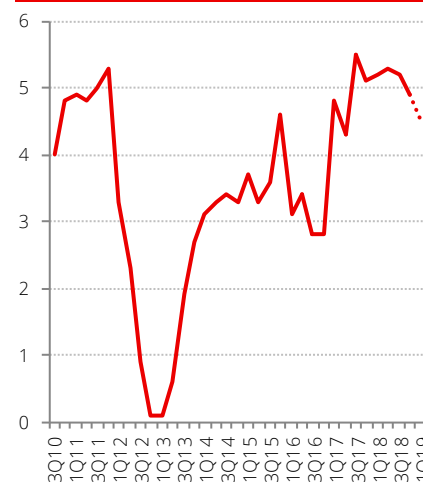
### What's hot next week

- This week we will get **1Q flash GDP** – the most important macro figure of the quarter. We expect a slowdown of y/y growth to 4.5% from 4.9% in 4Q18. Monthly indicators proved that the Polish economy remained quite strong at the start of the year, and industrial output rose even faster than in late 2018. The detailed structure of growth will be available at the end of the month and at that time we expect to see another strong print of private consumption and deceleration of investments. In the following quarters the GDP growth will be gradually getting smaller. This week other EU economies will also release their GDP readings. In our view the key publication will be the **economic growth of Germany**, which can show that the largest euro zone economy has started to recover after a q/q drop of GDP in 3Q18 and stagnation in 4Q.
- GUS will publish details of the April inflation, which surprised to the upside (2.2% y/y). We would not be surprised if the final reading was even higher than the flash print, as GUS might raise its estimate of the rise of fuel prices. NBP will release **core inflation**, which in our view rose to 1.7-1.8% y/y and was the highest in 6.5 years. Current account data are also due this week. We expect a solid rise of exports in March (possibly making the 1Q average y/y growth beat the readings from 2018) and a double-digit rise of imports.
- We do not expect the **official communication of the MPC** to change much during this week's meeting and press conference. While since February (when PIS pre-election promises were announced) already six members of the Council stated that it is no longer possible to guarantee rates stability until the end of the term, and April inflation was higher than expected, but in our view the opinion of the president Adam Glapiński will still dominate. The MPC's internal consensus is unlikely to change significantly as long as inflation remains below the 2.5% y/y target and before there is higher conviction that the upward tendency in consumer prices is persistent rather than transitory.
- Abroad, apart from the GDP growth, information about inflation and output in the euro zone will be released as well as US retail sales and production.

### Market implications

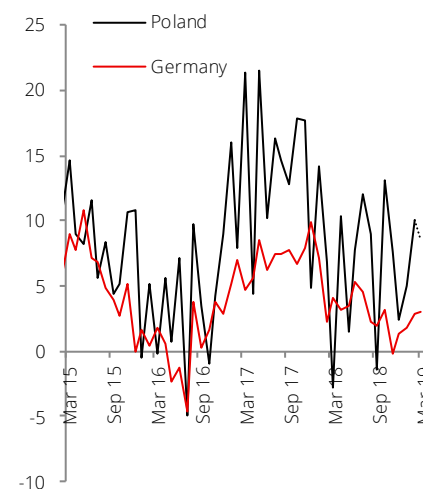
- This week, the EURPLN upward shift is expected to continue, as a response to the rising geopolitical tensions. The room for the EURPLN upward move will be limited by domestic flash GDP data release, which is likely to surprise on the positive side.
- After the strong decreases of yields over the last week, this week we expect the move to neutralise. The yields upward move will be supported in our view by German and Polish GDP flash data. As well as the US advance retail sales data. In the second half of week we anticipate the stabilisation of bonds market amid the lack of important data in the calendar.

Poland, Gross Domestic Product, %y/y



Source: GUS, Santander

Exports of goods, %y/y



Source: NBP, Bloomberg, Santander

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### Last two weeks in economy

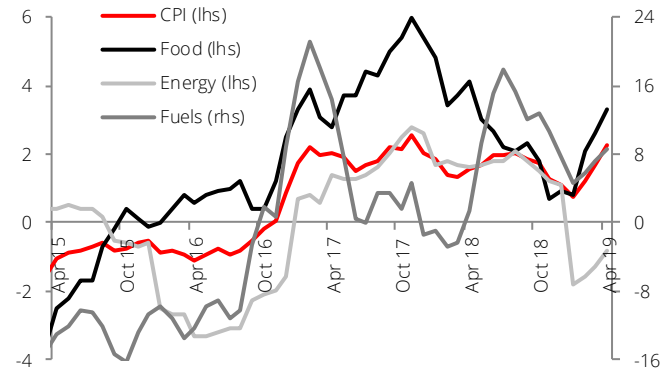
Flash estimate of **Polish CPI for April** was much higher than the market expected: 2.2% y/y vs 1.8% consensus and our 2.0% estimate. In April, all main categories worked towards such a high reading: m/m rise of food prices, by 1.0%, was the strongest for April in a decade (this is due to limited supply of vegetables, very dry weather, rapid rise of pork prices due to ASF). Fuel prices were also going up quickly throughout April. Based on the information from the flash release, we estimate that core CPI pushed from 1.4% to 1.7-1.8% in April (highest in 6.5 yrs). The previous readings have already shown that services price inflation is rising quite quickly and we expect this also happened in April. In our view the rise of inflation will continue this year, with the headline CPI possibly hitting the NBP target already in the middle of the year, and heading towards 3% by December. Core CPI should rise systematically, above 2.5% in 4Q19, given the background of still strong domestic demand, tight labour market and painful margin squeeze among enterprises.

**Upward revisions of GDP forecasts** for Poland continue. EBRD upgraded its forecast for the Polish economic growth to 4.1% in 2019 from 3.6% previously and to 3.5% in 2020. European Commission upgraded Poland's GDP growth forecast to 4.2% from 3.5% in 2019 and to 3.6% from 3.2% in 2020. At the same time, both institutions are expecting **problems with keeping the deficit below 3% of GDP**. The Commission revised its expectations about Poland's structural budget balance strikingly: the almost flat path at -2% of GDP from the autumn round has been replaced with a rapid deterioration from -1.4% in 2018 to -2.8% in 2019 and -3% in 2020. Such deterioration of the fiscal outlook theoretically could be enough to trigger Significant Deviation Procedure against Poland – something that the Ministry of Finance was concerned about not so long ago. However, we are not fully convinced if the EC will issue such recommendation already at the end of May. The EC triggered the procedure against Romania and Hungary after a release of actual data confirming the rise of structural deficit, not based on forecasts. Meanwhile, in 2018 Poland reduced its structural balance by 0.5pp (only Portugal, Bulgaria, Cyprus, Luxembourg and Germany did better).

The Polish **manufacturing PMI** rose in April to 49 from 48.7. The rebound was slight and only implies a deceleration of contraction in the manufacturing sector. The survey still shows a significant decline of export orders, which is offset by improvement of domestic orders. The assessment of current output was at the highest level since November, however it was accompanied by continuing declarations of cuts in employment. **ESI indicators**, on the other hand, showed further deterioration of business and consumer sentiment. The main index and most of sectoral ones reached the lowest levels in about two years. Also, indicators of current business activity decreased in industry, construction and services, and especially in the retail trade. This round of ESI included the semi-annual investment survey for industry, with still limited appetite for investment outlays in 2019 (indicated real growth was 2% vs. 4% shown in the November survey).

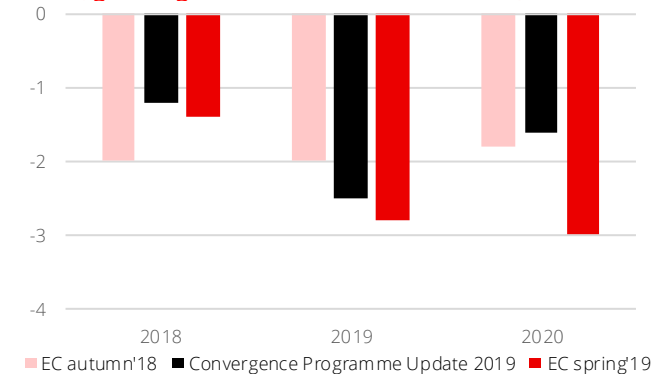
**Quarterly NBP senior loan officer opinion survey** indicated a further tightening of credit policies vs companies in 1Q19. The tightening is expected to continue in 2Q. Consumer credit was also made less available. The credit policy changes were caused by the following factors: in the case of households - expected deterioration of credit portfolio quality on the projected worsening of economic conditions; in the case of companies – sector-specific risks (expectations about future business conditions were considered neutral for credit policy).

### Inflation and selected components, %y/y



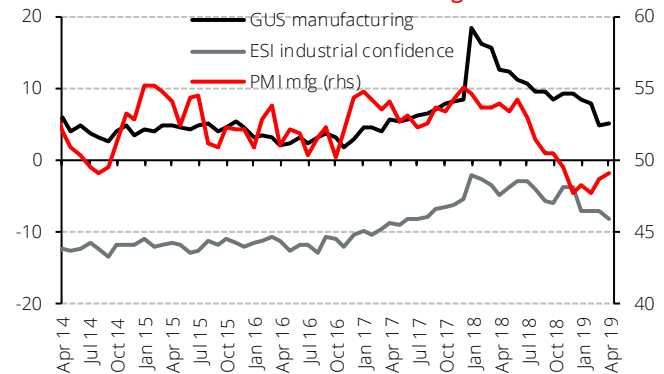
Source: GUS, Santander

### Poland, general gov't structural balance forecasts, % GDP



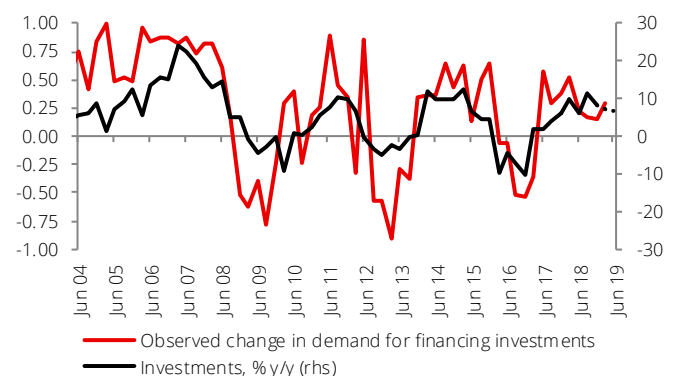
Source: European Commission, Ministry of Finance, Santander

### Business sentiment in Polish manufacturing



Source: GUS, Markit, European Commission, Santander

### Signals from senior loan officers' survey vs investment growth



Source: NBP, GUS, Santander

## FX and FI market

### Last two weeks on the market

**FX** EURPLN went down over the long weekend's week, fuelled by slight increase of Polish manufacturing PMI and March flash CPI reading which beat the forecasts. As a result EURPLN moved down to 4.2750 from 4.2970. Last week this downward move was erased, EURPLN increased to 4.2970 (on the road it hit 4.3030). The EURPLN jump was triggered by weaker than expected German factory orders data in March and information about trade negotiations between China and the US. The negotiations led to an increase of tariffs on another piece (USD200bn) of China exports to the US and an increase of risk aversion on the global markets.

**FI** At the turn of May and April the yields of domestic bonds were rising while waiting for the PMI and domestic inflation data releases. After the announcement of the flash Eurozone and Polish inflation data, the yield of POLGB10Y climbed to 3.02%. The domestic yields' upward shift was supported by increases of yields of German Bunds (which responded negatively to the unexpected rise of inflation). In the week the week that followed, yields were decreasing as a response to the increasing tension between the US and China, weaker than expected German factory orders data and the downgrade of economic forecasts by the European Commission.

### Key events

This week's calendar includes releases of Polish and German flash GDP data for 1Q19 (due Wednesday). In both cases we expect a surprise to the positive side. Also on Wednesday the US advance retail sales will be published, which is in our view likely to be above market forecast too. We do not anticipate the Wednesday MPC conference to bring changes of the overall rhetoric.

Next week investors will be focused on the Polish industrial production and retail sales. Simultaneously investors' eyes will be on the Ifo data release and Eurozone flash PMI.

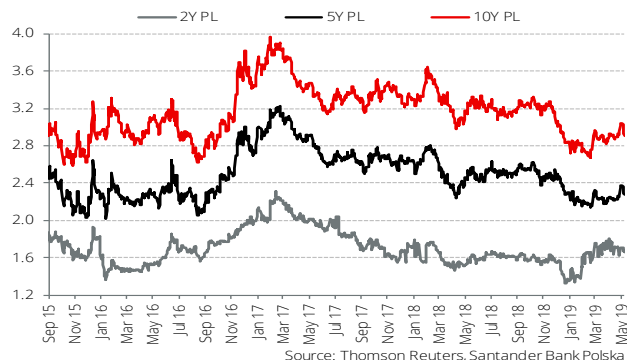
### Market implications

**FX** This week, the EURPLN upward shift is expected to continue, as a response to the rising geopolitical tensions. EURPLN broke the resistance at the 4.30 in 2H of April, which suggests the zloty depreciation will go on. The room for the EURPLN upward move will be limited by domestic flash GDP data release, which is likely to surprise on the positive side.

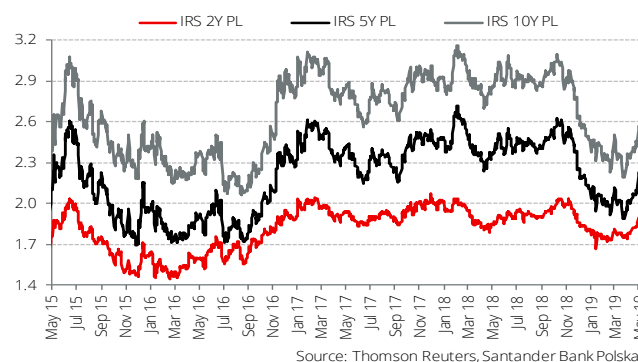
**FI** After the strong decreases of yields over the last week, this week we expect the move to be neutralised. The yields' upward move will be supported by German and Polish GDP flash data. Moreover, the US advance retail sales data is likely to support the yields increases. In the second half of the week we anticipate a stabilisation of bonds market amid the lack of important data in the calendar. In our opinion the MPC conference will be neutral for the bonds market.

Next week we expect the yields to return to the downward trend. In our opinion, the bonds market will be positively impacted by flash Eurozone PMI and Ifo data. We think that the published indicators will already include the negative impact of the new hike of US tariffs on the global trade. The falling FRA rates on core markets should also help bring domestic yields lower.

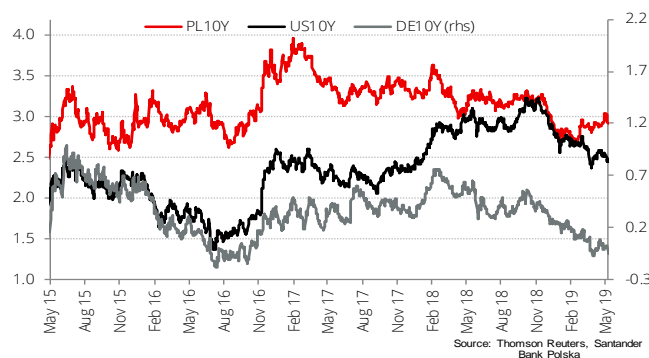
### EURPLN and EURUSD



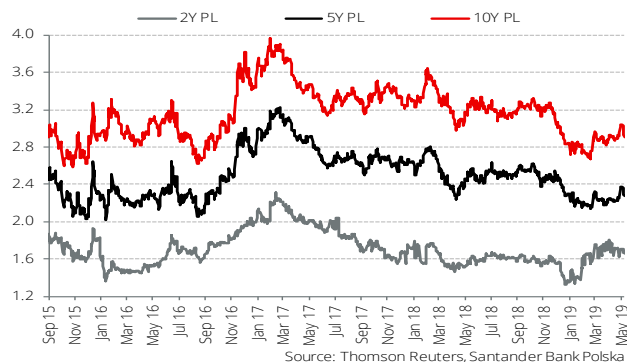
### IRS (%)



### Yield of the Polish, German and US 10Y bonds



### Yield of Polish Bonds (%)



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
<b>MONDAY (13 May)</b>						
09:00	CZ	CPI	Apr	% y/y	3.0	3.0
<b>TUESDAY (14 May)</b>						
08:00	DE	HICP	Apr	% m/m	1.0	1.0
11:00	EZ	Industrial Production SA	Mar	% m/m	-0.4	-0.2
11:00	DE	ZEW Survey Current Situation	May	pts	5.55	5.5
<b>14:00</b>	<b>PL</b>	<b>Current Account Balance</b>	<b>Mar</b>	<b>€mn</b>	<b>-1310</b>	<b>-1187</b>
<b>14:00</b>	<b>PL</b>	<b>Trade Balance</b>	<b>Mar</b>	<b>€mn</b>	<b>-1267</b>	<b>-961</b>
<b>14:00</b>	<b>PL</b>	<b>Exports</b>	<b>Mar</b>	<b>€mn</b>	<b>19682</b>	<b>19772</b>
<b>14:00</b>	<b>PL</b>	<b>Imports</b>	<b>Mar</b>	<b>€mn</b>	<b>20921</b>	<b>20733</b>
<b>WEDNESDAY (15 May)</b>						
	<b>PL</b>	<b>MPC decision</b>		<b>%</b>	<b>1.50</b>	<b>1.50</b>
08:00	DE	GDP WDA	1Q	% y/y	0.7	0.6
09:00	CZ	GDP SA	1Q	% y/y	2.35	2.6
09:00	HU	GDP	1Q	% y/y	5.4	5.1
<b>10:00</b>	<b>PL</b>	<b>CPI</b>	<b>Apr</b>	<b>% y/y</b>	<b>2.2</b>	<b>2.2</b>
<b>10:00</b>	<b>PL</b>	<b>GDP</b>	<b>1Q</b>	<b>% y/y</b>	<b>4.3</b>	<b>4.5</b>
11:00	EZ	GDP SA	1Q	% y/y	1.2	1.2
14:30	US	Retail Sales Advance	Apr	% m/m	0.2	1.6
15:15	US	Industrial Production	Apr	% m/m	0.1	-0.1
<b>THURSDAY (16 May)</b>						
<b>14:00</b>	<b>PL</b>	<b>CPI Core</b>	<b>Apr</b>	<b>% y/y</b>	<b>1.7</b>	<b>1.8</b>
14:30	US	Initial Jobless Claims	May.19	k	220.0	228.0
14:30	US	Housing Starts	Apr	% m/m	7.11	-0.3
14:30	US	Index Philly Fed	May		11.0	8.5
<b>FRIDAY (17 May)</b>						
11:00	EZ	HICP	Apr	% y/y	1.7	1.7
16:00	US	Michigan index	May	pts	97.9	97.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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