

3 June 2019

# Eyeopener

## GDP stronger than forecasts

Domestic bonds gained in line with core markets  
 Polish GDP slightly stronger than expected  
 Zloty and CEE currencies stronger on rising EURUSD  
 Today PMIs from Europe

On Friday we got to see the second GDP release in Poland for 1Q19 - a bit higher than expected. The Finance Ministry announced for the second month in a row it will not increase the debt supply. In Germany we got to see weaker than expected data on retail sales. US Michigan index was lower than expected, while consumer spending and incomes surprised to the upside. Still, the market was excited about Donald Trump's idea to impose tariffs on Mexican products. This brought yields down, with German 10Y sliding to -0.21%, new all-time high, EURPLN fell and EURUSD climbed. On Saturday, higher US tariffs on Chinese products and Chinese retaliatory measures became effective. Growing worries about the global growth dragged the oil price to the lowest level since the first half of February and made the US money market price-in two full rate cuts this year. Stock market mood remained poor despite upside surprise of China PMI for May.

**GDP growth reached 4.7% y/y in 1Q19**, and 1.5% q/q SA, slightly higher than suggested by the flash data. The growth structure also looks positive: a surge in fixed investment of 12.6% y/y (where private sector investments likely played an important part) and a positive net exports contribution (+0.7pp). Private consumption growth (3.9% y/y) disappointed somewhat, but will be boosted in the coming months by higher social transfers, so we would not be concerned. The data show that, so far, the Polish economy has been very resilient to the global economic slowdown, suggesting that the wave of upward revisions to GDP growth forecasts is likely to continue. But at the same time it is hard to ignore the possibility that a further escalation of global trade wars could eventually have a negative impact on Polish export performance. Our GDP growth forecast for 2019 currently stands at 4.3% (recently revised up from 4.1%). The GDP data seem to be neutral from the central bank's point of view – growth is stronger than expected but the breakdown is less inflationary (slower consumption and higher investment implying higher productivity growth in future).

In May, **PMI for Polish manufacturing** declined to 48.8 pts from 49.0, due to shorter delivery times and lower inventories. The three remaining components of the index: new orders, production and employment improved vs the previous month, although were still signalling decreasing economic activity. Still, we are not much concerned about Polish industry outlook, and believe that output growth in May remained close to 9% y/y.

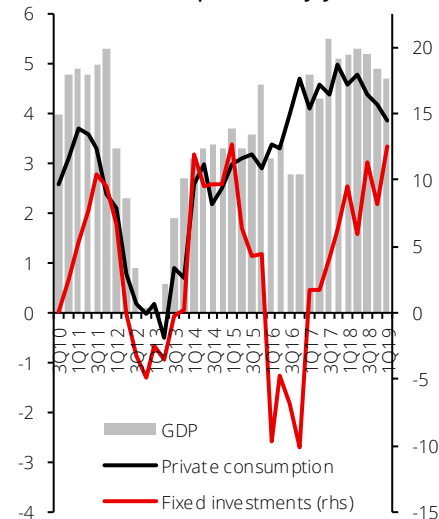
**EURUSD** was rising for most of the day, despite falling equity markets, in reaction to US President's threat of imposing tariffs on Mexico. The rate ended the day near 1.1150 vs. 1.1130 in the morning, temporarily exceeding 1.1180 during the day. Today we will see PMI releases in Europe, which may remind about the economy's poor condition.

**EURPLN** fell for the third session in a row amid strengthening euro and despite falling stock indexes. The Poland 4Q GDP release – slightly above consensus – also created a positive environment for PLN appreciation. As a result, EURPLN fell to 4.282 from 4.293 with the other CEE currencies following suit. Today we expect continuation of a gradual zloty strengthening.

**On the domestic interest rate market** IRS and bond yields continued the free-fall amid strengthening core markets. Polish 5Y and 10Y yields fell 3-5bp while the respective IRS rates by 5-7bp. The better-than-expected Poland 1Q GDP data did not stop the move. Polish debt gained at a similar scale to Treasuries and Bunds (where yields for the 10Y bond reached 2.13% and -0.21%, respectively). Today we expect Polish yields to rise slightly awaiting the Polish CPI data.

**This week** we will see Polish May flash CPI (our call is 2.4% y/y vs. 2.2% in March). Press conference of the MPC is due Wednesday, unlikely to present a changed rhetoric. Moreover a government reshuffle is likely tomorrow. The outcome of the ECB meeting (with new projections) should be crucial for the market in the coming week. Given the escalating trade wars since the last meeting, the dovish rhetoric should not surprise. We will see a number of US data – manufacturing ISM and monthly nonfarm payrolls. The ISM index is now the lowest since late 2016, having been resilient for the better part of 2018 to the plummeting PMIs in Europe. Employment in the nonfarm sector recorded a healthy growth in the last two months. We think the outcome of the ECB meeting and still shaky global market mood imply that EURUSD could move down. As a result, stronger dollar, might be negative for the zloty. We think Polish IRS and bond yields could stay low in the coming days and any rise in response to the further rise of inflation should be only short-lived.

GDP and main components, %y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2827	CZKPLN	0.1656
USDPLN	3.8347	HUFPLN*	1.3178
EURUSD	1.1168	RUBPLN	0.0585
CHFPLN	3.8400	NOKPLN	0.4381
GBPPLN	4.8438	DKKPLN	0.5736
USDCNY	6.9055	SEKPLN	0.4040

\*for 100HUF

### Last session in the FX market 31/05/2019

	min	max	open	close	fixing
EURPLN	4.280	4.294	4.289	4.282	4.2916
USDPLN	3.830	3.856	3.852	3.834	3.8498
EURUSD	1.113	1.118	1.114	1.117	-

## Interest rate market 31/05/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.61	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	2.09	-4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.64	-7	21 mar 19	DS1029	2.877

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

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	-1	2.24	-13	-0.28	-1
2L	1.78	-2	1.98	-16	-0.28	-1
3L	1.82	-3	1.90	-16	-0.23	-1
4L	1.87	-5	1.90	-15	-0.17	-1
5L	1.92	-6	1.92	-14	-0.08	0
8L	2.11	-6	2.01	-13	0.18	0
10L	2.23	-7	2.08	-12	0.36	0

### WIBOR rates

Term	%	Change (bps)
O/N	1.55	1
T/N	1.57	1
SW	1.57	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.86	0

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

Term	%	Change (bps)
1x4	1.72	0
3x6	1.72	0
6x9	1.72	-1
9x12	1.72	-2
3x9	1.79	0
6x12	1.79	0

### Measures of fiscal risk

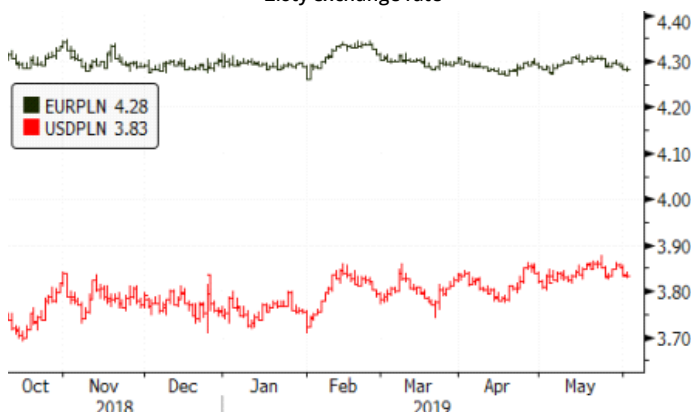
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.84 -7
France	31 0	0.41 0
Hungary		3.14 -12
Spain	55 0	0.92 1
Italy	238 2	2.90 3
Portugal	59 2	1.02 1
Ireland	32 -1	0.63 -3
Germany	13 -1	- -

\* 10Y treasury bonds over 10Y Bunds

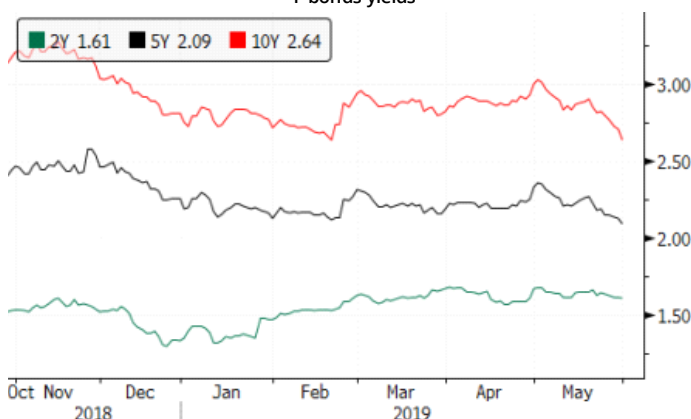
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

## Zloty exchange rate



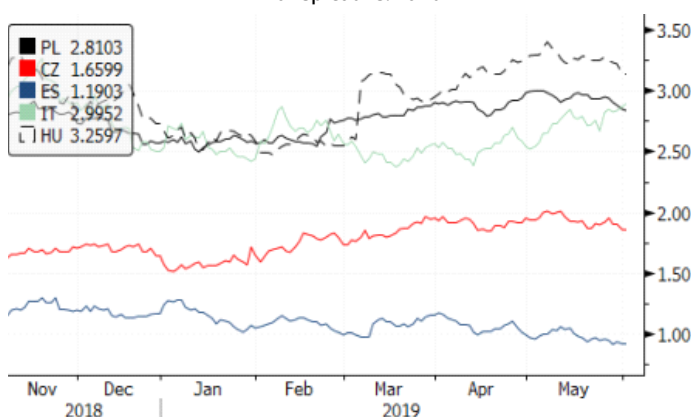
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic calendar:

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (31 May)							
08:00	DE	Retail Sales	Apr	% m/m	0.1	-2.0	-0.2
09:00	CZ	GDP SA	1Q	% y/y	2.5	2.6	2.5
09:00	HU	GDP	1Q	% y/y	5.3	5.3	5.3
10:00	PL	GDP	1Q	% y/y	-	4.6	4.7
14:00	DE	HICP	May	% m/m	0.3	0.3	1.0
14:30	US	Personal Spending	Apr	% m/m	0.2	0.3	0.9
14:30	US	Personal Income	Apr	% m/m	0.3	0.5	0.1
14:30	US	PCE Deflator SA	Apr	% m/m	0.3	0.3	0.2
16:00	US	Michigan index	May	pts	101.5	100.0	102.4
MONDAY (3 June)							
09:00	PL	Poland Manufacturing PMI	May	pts	49.0	49.4	48.8
09:55	DE	Germany Manufacturing PMI	May	pts	44.3	-	44.3
10:00	EZ	Eurozone Manufacturing PMI	May	pts	47.7	-	47.7
16:00	US	ISM manufacturing	May	pts	53.0	-	52.8
TUESDAY (4 June)							
10:00	PL	CPI	May	% y/y	2.4	2.44	-
11:00	EZ	Flash HICP	May	% y/y	1.3	-	1.7
11:00	EZ	Unemployment Rate	Apr	%	7.7	-	7.7
16:00	US	Durable Goods Orders	Apr	% m/m	0.0	-	-2.1
16:00	US	Factory Orders	Apr	% m/m	-1.0	-	1.9
WEDNESDAY (5 June)							
	PL	MPC decision		%	1.5	1.5	-
03:45	CN	Caixin China PMI Services	May	pts	54.2	-	54.5
09:55	DE	Markit Germany Services PMI	May	pts	55.0	-	55.0
10:00	EZ	Eurozone Services PMI	May	pts	52.5	-	52.5
11:00	EZ	Retail Sales	Apr	% m/m	-0.45	-	0.0
14:15	US	ADP report	May	k	180.0	-	275.0
16:00	US	ISM services	May	pts	55.7	-	55.5
THURSDAY (6 June)							
08:00	DE	Factory Orders	Apr	% m/m	0.0	-	0.6
09:00	CZ	Industrial Production	Apr	% y/y	2.7	-	0.1
09:00	HU	Industrial Production SA	Apr	% y/y	6.75	-	8.0
11:00	EZ	GDP SA	1Q	% y/y	1.2	-	1.2
13:45	EZ	ECB Main Refinancing Rate	Jun.19	%	0.0	-	0.0
14:30	US	Initial Jobless Claims	Jun.19	k	215.0	-	215.0
FRIDAY (7 June)							
08:00	DE	Exports SA	Apr	% m/m	-0.9	-	1.6
08:00	DE	Industrial Production SA	Apr	% m/m	-0.5	-	0.5
09:00	HU	CPI	May	% y/y	3.8	-	3.9
14:30	US	Change in Nonfarm Payrolls	May	k	185.0	-	263.0
14:30	US	Unemployment Rate	May	%	3.6	-	3.6

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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