

24 June 2019

Eyeopener

Solid rise of output

USA-Iran tension grew
Descent reading of Polish production for May
Domestic debt weakened in line with core market bonds
Low market activity on the zloty
Today Polish retail sales and construction output, German Ifo

On Friday debt markets were taking profits after a yields' slide in reaction to FOMC press conference. The dollar kept weakening and the zloty was hovering amid scant market activity. European PMIs surprised positively (although the details of the press releases do not give much hope for a serious rebound) and the corresponding US indicators disappointed. Domestic data, slightly better than expected, did not affect the market. S&P500 established a new record, being supported by FOMC members' comments (Kashkari said he wanted to cut rates by 50bp in June, Clarida suggested the need for monetary easing is strengthening). The factor that was limiting the optimism and fuelling prices of gold and crude oil was the sharp rhetoric of US administration against Iran and the threat of imposing the new economic sanctions today.

The **minutes of June MPC meeting** showed that there was no change of power in the Council. Some MPC members were concerned about a potential inflation rebound at the start of 2020 due to surge in energy prices. Some were also worried about the negative real reference rate (deflated by CPI). Nevertheless, majority of Council members still believed that the risk of persistent deviation of price growth from the target is limited and the rates' stabilisation is additionally justified by the uncertainty about global economic outlook.

Industrial output in May rose by 7.7% y/y vs. 7.5% market consensus and our 8.7% estimate. In seasonally-adjusted terms, growth of 5.1% y/y was recorded – the lowest this year. Manufacturing output grew by a still respectable 7.8% (above the 2018 average). We can still say that Polish industry is doing surprisingly well compared to the euro zone, e.g. export-oriented auto production saw the highest growth since November 2017, 12.6% y/y.

PPI prices rose 1.4% y/y in May, down from 2.6% - less than expected by the market (1.6%) and us (1.5%). The move was driven by lower mining prices (metals down 5.8% m/m, hard coal and lignite down 0.6% m/m). Food industry and oil refiners reported a rise of producer prices by 0.7% m/m. Still, manufacturing PPI dipped from 2.2% y/y to 1.1%, the lowest in more than a year, but a base effect was involved. While construction price growth eased in May from 3.8% y/y (the highest since mid-2008) to 3.7%, the rising costs may eventually weigh on building output, as there is anecdotal evidence of contractors leaving construction sites faced with negative margins.

GUS business sentiment data for June showed a further gradual deterioration across sectors. Only services improved somewhat but the sentiment there is still far below the long-term average and the other sectoral indices. In industry, the assessment of order books was the lowest since late 2017 and production expectations remained depressed – staying at the lowest level since late 2016 for the fourth month in a row. The forward-looking part of the survey is what is driving the general sentiment index lower.

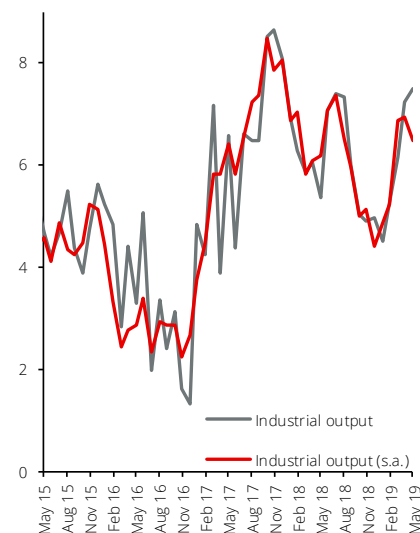
On Friday **EURUSD** rose from 1.1290 to 1.1320, fuelled by rising US equity markets, and today it is already near 1.1380. Slightly better than expected European PMIs released on Friday morning did not have an immediate impact on the exchange rate. Today we expect to see stabilisation of EURUSD amid awaiting for the further US actions against Iran and talks with China.

EURPLN rose on Friday from 4.2560 to 4.2630 and returned to the opening level, amid scant turnover. Today we expect EURPLN to decline, caused by higher EURUSD and possibly solid retail sales data.

On Friday the yields of the **Polish bonds** were shifted up across the curve by 2-3bp, following the core markets, amid low trading activity. Today the geopolitical tension may block any further rise of the yield curve.

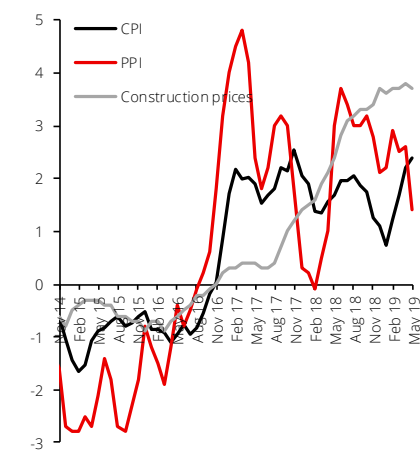
This week we will see Polish retail sales data (we expect strong release, but slightly below the consensus), money supply (we see some deceleration of y/y pace of growth), unemployment rate (seasonal decline) and June's flash CPI (it is likely to climb to 2.5% y/y). Tomorrow more speeches by US central bankers (Powell, Bullard, Williams). On Friday the G-20 summit will start, where the Trump-Xi meeting is expected.

Production, 3M mov. avg., % y/y



Source: GUS, Santander

Price measures in the economy, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2596	CZKPLN	0.1663
USDPLN	3.7657	HUFPLN*	1.3169
EURUSD	1.1312	RUBPLN	0.0597
CHFPLN	3.8321	NOKPLN	0.4400
GBPPLN	4.7837	DKKPLN	0.5706
USDCNY	6.8726	SEKPLN	0.4010

*for 100HUF

Last session in the FX market 20/06/2019

	min	max	open	close	fixing
EURPLN	4.252	4.270	4.268	4.254	4.2673
USDPLN	3.759	3.805	3.805	3.767	3.8104
EURUSD	1.121	1.132	1.122	1.129	-

Interest rate market 20/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.52	2	21 mar 19	OK0521	1.633
PS0424 (5L)	1.92	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.33	-3	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	1.72	0	1.96	-16	-0.36	-1
2L	1.74	0	1.73	-18	-0.37	0
3L	1.75	0	1.67	-18	-0.34	-1
4L	1.79	0	1.67	-17	-0.29	-1
5L	1.84	0	1.70	-15	-0.21	-1
8L	1.98	0	1.83	-13	0.03	-1
10L	2.08	1	1.92	-12	0.20	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.54	1
T/N	1.54	0
SW	1.56	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	1.71	0
6x9	1.71	0
9x12	1.69	0
3x9	1.78	0
6x12	1.77	0

Measures of fiscal risk

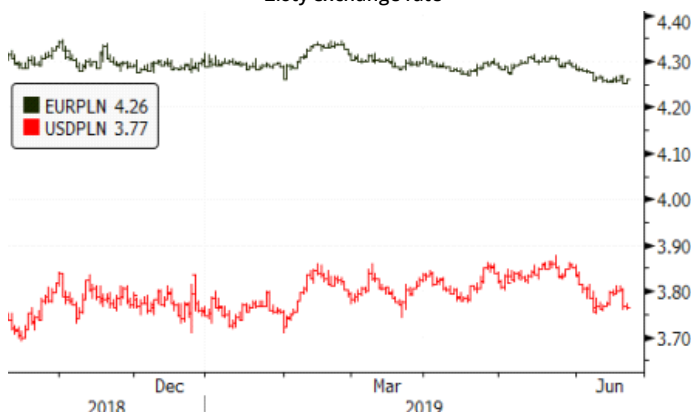
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.63 -5
France	27 -2	0.33 0
Hungary		2.90 0
Spain	40 -1	0.70 -1
Italy	195 -5	2.43 -4
Portugal	44 0	0.84 -1
Ireland	29 -1	0.53 -1
Germany	12 -1	- -

* 10Y treasury bonds over 10Y Bunds

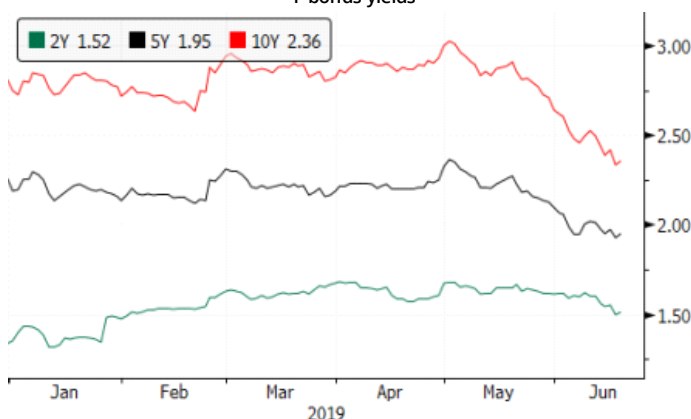
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

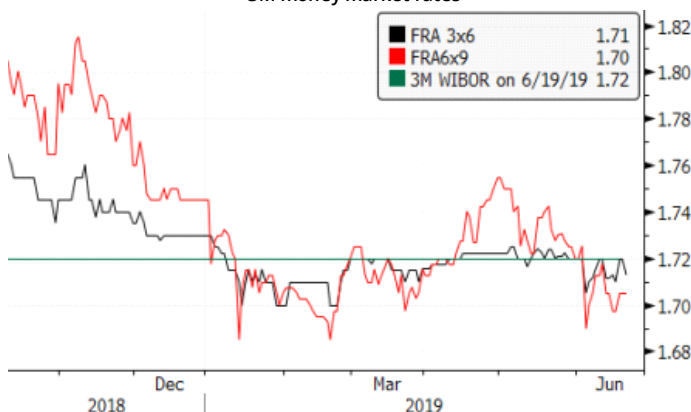
Zloty exchange rate



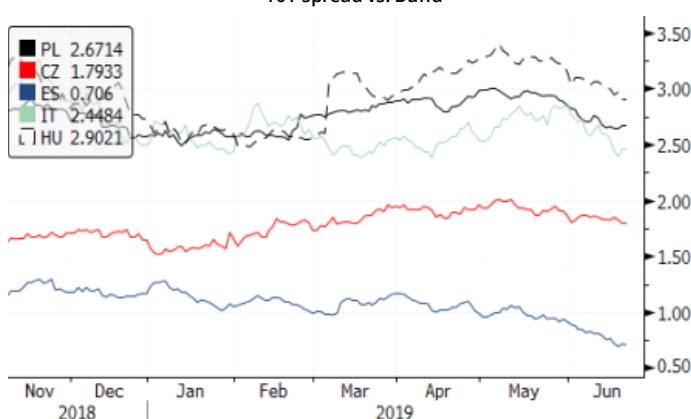
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
FRIDAY (14 June)								
10:00	PL	CPI	May	% y/y	2.3	2.3	2.4	2.3
14:30	US	Retail Sales Advance	May	% m/m	0.6	-	0.5	-0.3
15:15	US	Industrial Production	May	% m/m	0.2	-	0.4	-0.4
16:00	US	Michigan index	Jun	pts	98.0	-	97.9	100.0
MONDAY (17 June)								
14:00	PL	CPI Core	May	% y/y	1.7	1.7	1.7	1.7
TUESDAY (18 June)								
11:00	EZ	HICP	May	% y/y	1.2	-	1.2	1.2
11:00	DE	ZEW Survey Expectations	Jun	pts	-5.6	-	-21.1	-2.1
14:30	US	Housing Starts	May	% m/m	0.3	-	-0.9	6.8
WEDNESDAY (19 June)								
10:00	PL	Employment in corporate sector	May	% y/y	3.0	3.0	2.7	2.9
10:00	PL	Average Gross Wages	May	% y/y	7.2	7.0	7.7	7.1
20:00	US	FOMC decision		%	2.5	-	2.5	2.5
THURSDAY (20 June)								
14:30	US	Initial Jobless Claims	week	k	220	-	216	222
14:30	US	Index Philly Fed	Jun	pts	10.5	-	0.3	16.6
FRIDAY (21 June)								
09:30	DE	Flash Germany Manufacturing PMI	Jun	pts	44.6	-	45.4	44.3
09:30	DE	Flash Markit Germany Services PMI	Jun	pts	55.2	-	55.6	55.4
10:00	EZ	Flash Eurozone Manufacturing PMI	Jun	pts	48.0	-		47.7
10:00	EZ	Flash Eurozone Services PMI	Jun	pts	53.0	-		52.9
10:00	PL	Sold Industrial Output	May	% y/y	7.8	8.7		9.2
10:00	PL	PPI	May	% y/y	1.6	1.5		2.6
16:00	US	Existing Home Sales	May	% m/m	2.12	-		-0.38

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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