

25 June 2019

Eyeopener

Retail sales and construction below expectations

Sales and construction output disappointed somewhat
Domestic and core market debt yields down
Zloty and euro strengthened
Today Polish money supply, US consumer sentiment

On Monday markets returned to stronger pricing-in of US interest rate cuts, which was triggered by Donald Trump's comment that the Fed "doesn't know what it is doing" in the context of keeping interest rates too high. It has caused dollar weakening against the euro and temporary rise of EURPLN. Yields of Polish bonds decreased, following core markets. Neither decrease of German Ifo index nor worse-than-expected Polish retail sales and construction output data affected markets too much. Iran informed that after the US imposed the new sanctions, the road towards diplomatic resolution of the conflict has been closed. At the same time, the US administration was cooling down expectations about the possible trade agreement with China at the nearing G20 meeting. As a result, today in the morning the market sentiment is negative again, with prices of gold and Japanese yen going up.

Retail sales grew 5.6% y/y in real terms in May vs. 6.9% market consensus and our 6.5% forecast. Once again, durable goods categories had a very strong performance – the weighted average of cars, white household appliances and furniture sales was 16.6% y/y – the highest since April 2016. What surprised us negatively were the non-durable goods categories, which usually respond to holiday effects, suggesting that more consumers chose to travel abroad during Poland's long weekend in early May. The retail sales deflator rose from 1.5% y/y to 1.6%. Despite slightly disappointing data for May, we see no reason to worry about the outlook for private consumption, as we expect a boost in the coming months from rising disposable income (new social transfers in addition to already rapidly rising labour income).

Construction output rose 9.6% y/y in May, well below market consensus (14% y/y) and our forecast (16.6% y/y). The slowdown comes after a series of very strong data (average growth for February-April was 14.4% y/y), and despite the fact that calendar effects were rather supportive (one additional working day vs. 2018). We expect construction output growth to decelerate further in the coming months and quarters as a result of having passed the peak of EU funds absorption as well as the capacity limits of the sector. Together with below-expectations readings for industrial production and retail sales, today's data suggest that despite a strong performance in April, the pace of GDP growth in 2Q19 will be slightly lower than the first quarter, likely around 4.5%.

MPC's Grażyna Ancyparowicz said that she will not support a rate hike in 2019 and possibly even 2020, even if the inflation accelerates. According to Ancyparowicz, it is unlikely that inflation will go above 3.5% as the government will do all it can to stop the upward trend in food and energy prices.

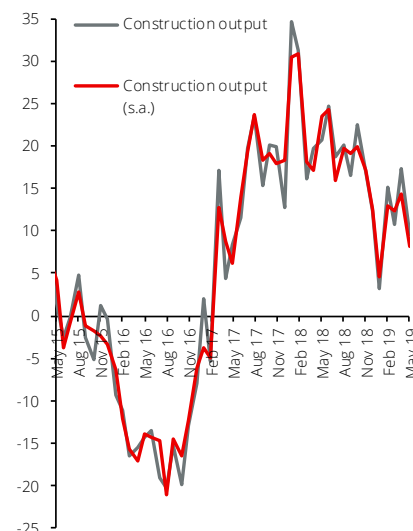
At the start of the week **EURUSD** continued to rise to 1.1400 from 1.1370 in response to further comments by Donald Trump about the inadequacy of the Fed policy and further declines of USD yields and rates. The slightly better-than-expected Ifo data did not affect the fx pair. Today we are expecting a continuation of euro strengthening against the dollar given expectations for further comments from the Fed at a New York conference (including Jerome Powell), who are likely to point out risk factors for the US economy.

On Monday **EURPLN** fell to 4.2510 from 4.2550, supported by the weakening dollar. The weaker data on retail sales and construction output did not affect the zloty. Today we are expecting EURPLN to fall following EURUSD, even though the negative stock market moods can undermine this development.

CEE currencies gained at the start of the week, supported by expectations for US rate cuts. EURHUF fell from 324.2 to 323.8, which was uninterrupted by the release of worse business sentiment indicators for June. EURCZK fell from 25.6 to 25.56, also ignoring worse business climate survey. USDRUB dropped from 63.2 to 62.7 amid more expensive crude oil and improved general sentiment towards EM currencies.

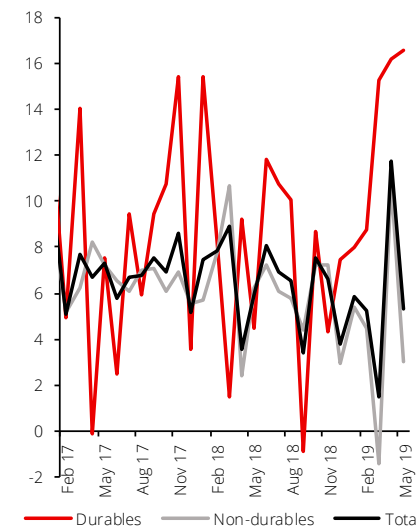
At the start of the week the **Polish bond yields** fell again. Following the core markets, the Polish yield curve shifted down by 2-3bps in 5-10Y segment and remained stable in 2Y segment. Today we are expecting further limited declines of yields.

Construction production, % y/y



Source: GUS, Santander

Retail sales, constant prices, %/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2520	CZKPLN	0.1662
USDPLN	3.7299	HUFPLN*	1.3133
EURUSD	1.1400	RUBPLN	0.0596
CHFPLN	3.8378	NOKPLN	0.4388
GBPPLN	4.7598	DKKPLN	0.5695
USDCNY	6.8826	SEKPLN	0.4019

*for 100HUF

Last session in the FX market 24/06/2019

	min	max	open	close	fixing
EURPLN	4.251	4.261	4.251	4.253	4.2538
USDPLN	3.730	3.749	3.746	3.734	3.736
EURUSD	1.136	1.140	1.136	1.139	-

Interest rate market 24/06/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
OK0521 (2L)	1.54	0	21 mar 19	OK0521	1.633
PS0424 (5L)	1.94	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.35	-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	1.97	-3	-0.36	-1
2L	1.74	-1	1.75	-4	-0.37	-1
3L	1.76	-1	1.69	-4	-0.34	-1
4L	1.80	-2	1.70	-4	-0.28	-2
5L	1.85	-2	1.73	-4	-0.21	-2
8L	1.99	-2	1.86	-4	0.04	-2
10L	2.09	-2	1.95	-4	0.21	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.55	0
T/N	1.56	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	1.72	0
6x9	1.71	0
9x12	1.69	-1
3x9	1.79	0
6x12	1.77	0

Measures of fiscal risk

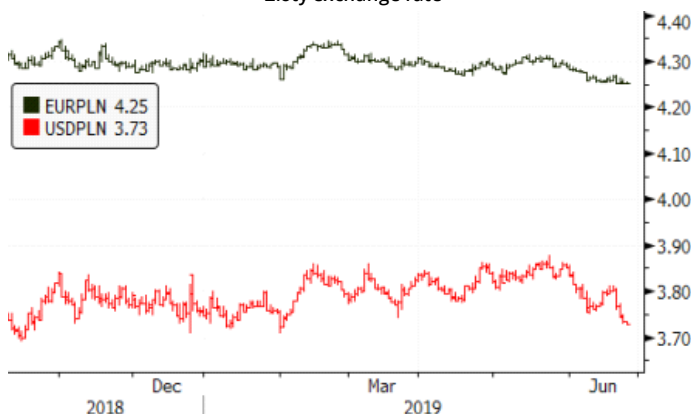
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.66 -3
France	25 1	0.33 0
Hungary		2.93 0
Spain	40 -2	0.72 0
Italy	198 2	2.47 1
Portugal	44 2	0.83 0
Ireland	28 1	0.50 1
Germany	11 1	- -

* 10Y treasury bonds over 10Y Bunds

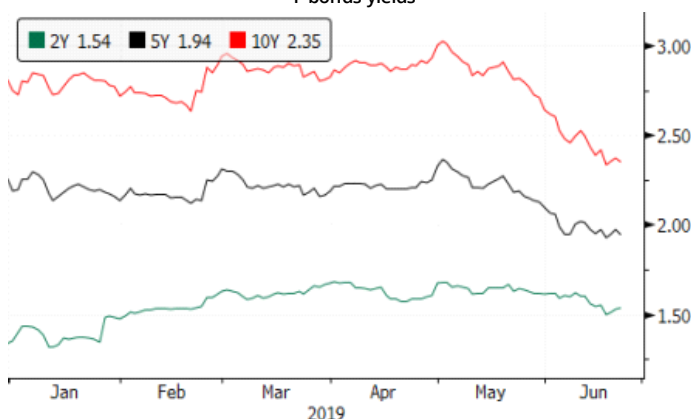
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

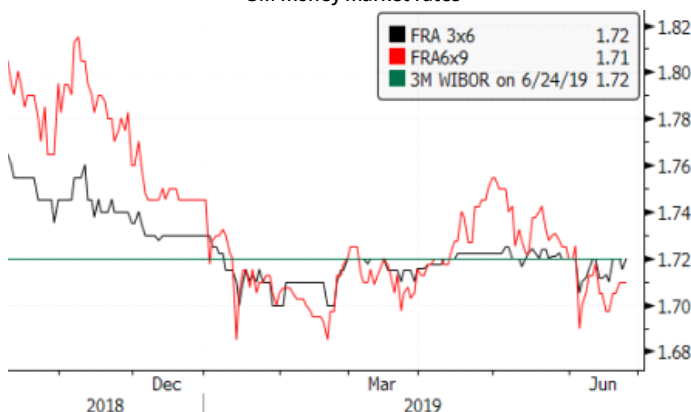
Zloty exchange rate



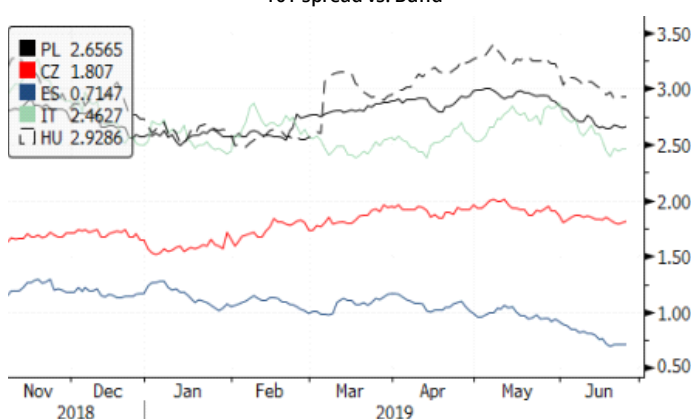
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (21 June)								
09:30	DE	Germany Manufacturing PMI	Jun	pts	44.6		45.4	44.3
09:30	DE	Markit Germany Services PMI	Jun	pts	55.2		55.6	55.4
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	48.0		47.8	47.7
10:00	EZ	Eurozone Services PMI	Jun	pts	52.95		53.4	52.9
10:00	PL	Sold Industrial Output	May	% y/y	7.5	8.7	7.7	9.2
10:00	PL	PPI	May	% y/y	1.6	1.5	1.4	2.6
16:00	US	Existing Home Sales	May	% m/m	2.12		2.5	-0.4
MONDAY (24 June)								
10:00	DE	IFO Business Climate	Jun	pts	97.45		97.4	97.9
10:00	PL	Construction Output	May	% y/y	14.0	16.6	9.6	17.4
10:00	PL	Retail Sales Real	May	% y/y	6.9	6.5	5.6	11.9
TUESDAY (25 June)								
14:00	HU	Central Bank Rate Decision	Jun.19	%	0.9		-	0.9
14:00	PL	Money Supply M3	May	% y/y	10.1	9.7	-	10.4
16:00	US	Consumer Conference Board	Jun	pts	131.0		-	134.1
16:00	US	New Home Sales	May	% m/m	1.78		-	-6.9
WEDNESDAY (26 June)								
10:00	PL	Unemployment Rate	May	%	5.4	5.4	-	5.6
13:00	CZ	Central Bank Rate Decision	Jun.19		2.0		-	2.0
14:30	US	Durable Goods Orders	May	% m/m	-0.1		-	-2.1
THURSDAY (27 June)								
11:00	EZ	ESI	Jun	pct.	104.7		-	105.1
11:30	PL	Bond Switch Auction			-			
14:00	DE	HICP	Jun	% m/m	0.1		-	0.3
14:30	US	GDP Annualized	1Q	% Q/Q	3.2		-	3.1
14:30	US	Initial Jobless Claims	Jun.19	k	219.0		-	216.0
16:00	US	Pending Home Sales	May	% m/m	1.0		-	-1.5
FRIDAY (28 June)								
09:00	CZ	GDP SA	1Q	% y/y	2.6		-	2.6
10:00	PL	CPI	Jun	% y/y	2.4	2.5	-	2.4
11:00	EZ	Flash HICP	Jun	% y/y	1.2		-	1.2
14:30	US	Personal Spending	May	% m/m	0.5		-	0.3
14:30	US	Personal Income	May	% m/m	0.3		-	0.5
14:30	US	PCE Deflator SA	May	% m/m	0.2		-	0.3
16:00	US	Michigan index	Jun	pts	97.9		-	97.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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