

19 July 2019

Eyeopener

Production clearly disappointed

Industrial output well below expectations in June
 Zloty stronger, dollar weaker after Fed Williams' comments
 Yields lower in Poland and abroad
 Today, retail sales in Poland, US Michigan index

Thursday session started rather calm, but soon after the opening the volatility on FX and bond markets increased. According to Bloomberg, ECB is analyzing the possibility of changing its inflation target (now "near but below 2%"), what was received by market as a sign of keeping interest rates at a low level for a longer time. That triggered quick (yet temporary) euro weakening vs dollar, and decline of euro zone yields. In the afternoon we saw better than expected Philly Fed index for July, which caused some profit taking in the bond market. After the session's close, NY Fed President John Williams suggested that the bank should act quickly if the economy needs support. This comment, together with some good US company's result improved equity market's sentiment and weakened dollar.

Industrial output contracted by 2.7% y/y in June, markedly below expectations (we: +0.2%, Bloomberg consensus: +2.0% y/y) and versus growth by 7.7% y/y in May. The June's result was undermined by the negative working-day effect (-2 days in annual terms) and it seems that this effect was more pronounced than the market expected, what was visible also in weak data on wages. Negative effect on output may have also been exerted by exceptionally high temperatures, which could have undermined efficiency in some companies. In our view the fact that a deceleration was broad-based across the sectors, both in export- and domestic-oriented branches suggest that the slump was not due to a sudden slowdown in foreign demand. Statistics covering orders in industry, also those coming from abroad, show no deceleration, or even some improvement, so we blame the weak results mostly on one-offs (working days, Corpus Christi, hot weather) and expect a rebound in the months to come. Still, the negative economic outlook in the euro zone is likely to finally translate into weaker momentum in Poland. Data support our expectations that GDP growth decelerated to 4.5% y/y in 2Q19.

Today at 10:00 am we will see June data on retail sales. We think that the pace of growth has declined comparing to May. After yesterday's data on industrial output, we see a downward risk for our sales forecast, because the impact of the number of working days might be bigger than we have assumed. Nonetheless, we are in the opinion that the perspectives for consumer demand for the next part of the year are rather positive, partly due to generous social transfers. That is also reflected in a good consumer confidence – in June indicators were at record levels, in July we saw only a small correction.

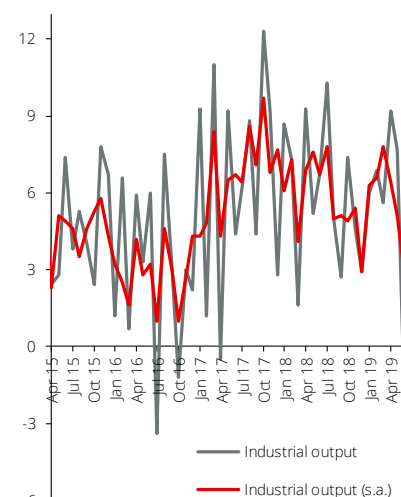
MPC member Kamil Zubelewicz said yesterday that if inflation in the next months will be growing as the July NBP projection assumes, motions to hike interest rates might appear. According to Zubelewicz, there are more and more MPC members who disapprove the price growth but in his opinion there is also a great possibility that NBP interest rates will stay stable until the end of this MPC term. That was the second hawkish MPC comment this week and we think that in the next few months we can see more of them. Still, in our opinion the chances for a change of interest rates are rather low.

EURUSD recorded a quick fall to almost 1.12 from 1.124 in reaction to media speculation of changing the ECB inflation target. Strong US data did not influence the rate, but Williams' comment made EURUSD to rebound to 1.128 in the evening. Today we think this upward move may be corrected due to higher geopolitical risk after US shot down Iranian drone.

EURPLN fell yesterday thanks to stronger market hopes for easier ECB monetary policy and thanks to comment of the Fed member that hit the dollar. As a result, the exchange rate touched c4.254. USDPLN was long stable around 3.795 and fell to 3.77 at night. Polish data did not influence the zloty. The **other CEE currencies** also gained after Williams comment and evening EURUSD rise. Today, however, the zloty and its peers could give up part of gains amid higher geopolitical risk and likely dollar strengthening.

On the **domestic interest rate market** yields declined thanks to Bund and euro zone peripheral bonds strengthening. The bond curve was today around 1-3 bp below the Wednesday's closing but IRS rates did not change noticeably. Today changes at the core markets will be crucial for the Polish debt. Domestic data on the retail sales should support low yields.

Industrial output, %y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2565	CZKPLN	0.1666
USDPLN	3.7806	HUFPLN*	1.3064
EURUSD	1.1259	RUBPLN	0.0602
CHFPLN	3.8413	NOKPLN	0.4422
GBPPLN	4.7326	DKKPLN	0.5701
USDCNY	6.8767	SEKPLN	0.4057

*for 100HUF

Last session in the FX market 18/07/2019

	min	max	open	close	fixing
EURPLN	4.256	4.268	4.261	4.259	4.2635
USDPLN	3.792	3.801	3.796	3.794	3.7933
EURUSD	1.121	1.124	1.123	1.122	-

Interest rate market 18/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.53	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.87	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.22	-3	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.04	-1	-0.41	0
2L	1.74	-1	1.85	-2	-0.43	-1
3L	1.74	-1	1.79	-2	-0.40	-1
4L	1.78	-1	1.79	-2	-0.35	-1
5L	1.83	-1	1.81	-1	-0.28	-1
8L	1.96	-1	1.92	-1	-0.04	-1
10L	2.04	-2	2.00	-1	0.13	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.60	-1
SW	1.59	-1
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	1.79	0
6x12	1.78	0

Measures of fiscal risk

Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.54	-3
France	23	-1	0.25	0
Hungary			2.69	0
Spain	39	0	0.71	0
Italy	156	-1	1.86	-1
Portugal	39	1	0.78	0
Ireland	28	1	0.44	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

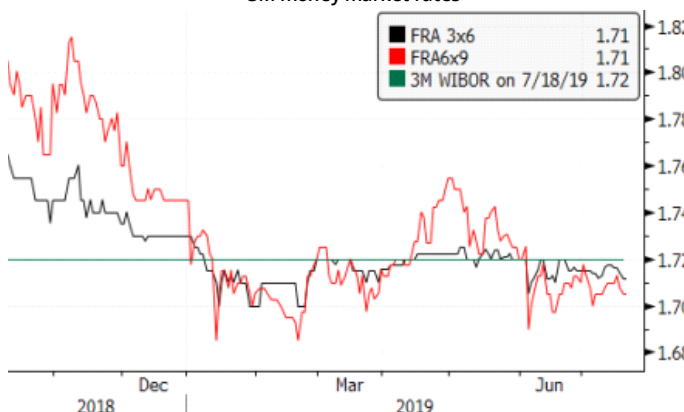
Zloty exchange rate



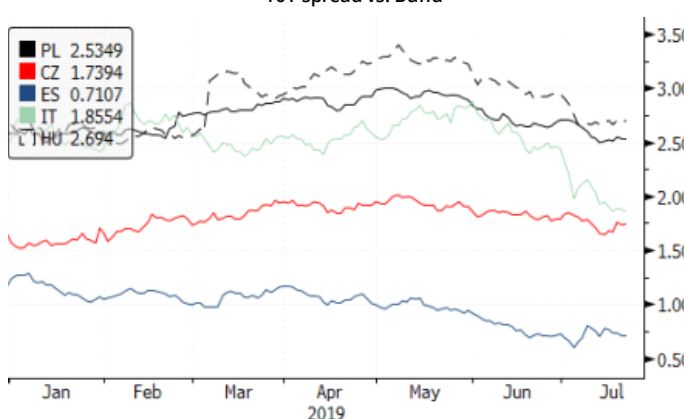
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET	MARKET				SANTANDER	VALUE	VALUE*	
FRIDAY (12 July)								
11:00	EZ	Industrial Production SA	May	% m/m	0.2	-	0.9	-0.4
MONDAY (15 July)								
10:00	PL	CPI	Jun	% y/y	2.6	2.6	2.6	2.6
14:00	PL	Current Account Balance	May	€mn	390	548	1 006	720
14:00	PL	Trade Balance	May	€mn	167	-238	96	279
14:00	PL	Exports	May	€mn	19 167	19 082	19 703	19 411
14:00	PL	Imports	May	€mn	19 300	19 320	19 607	19 132
TUESDAY (16 July)								
11:00	DE	ZEW Survey Current Situation	Jul	pts	5.0	-	-1.1	7.8
14:00	PL	CPI Core	Jun	% y/y	1.9	1.9**	1.9	1.7
14:30	US	Retail Sales Advance	Jun	% m/m	0.2	-	0.4	0.4
15:15	US	Industrial Production	Jun	% m/m	0.1	-	0.0	0.4
WEDNESDAY (17 July)								
10:00	PL	Employment in corporate sector	Jun	% y/y	2.6	2.6	2.8	2.7
10:00	PL	Average gross wages	Jun	% y/y	7.1	7.0	5.3	7.7
11:00	EZ	HICP	Jun	% y/y	1.2	-	1.3	1.2
14:30	US	Housing Starts	Jun	% m/m	-0.7	-	-0.9	-0.4
14:30	US	Building permits	Jun	% m/m	0.1	-	-6.1	0.7
20:00	US	Fed's Beige Book						
THURSDAY (18 July)								
10:00	PL	Sold Industrial Output	Jun	% y/y	2.0	0.2	-2.7	7.7
10:00	PL	PPI	Jun	% y/y	0.7	0.7	0.6	1.4
14:30	US	Initial Jobless Claims	week	k	216	-	216	208
14:30	US	Index Philly Fed	Jul	pts	5.0	-	21.8	0.3
FRIDAY (19 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	3.8	3.6		5.6
16:00	US	Flash Michigan index	Jul	pts	98.8	-		98.2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated **estimate after CPI data

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