

23 July 2019

Eyeopener

What deceleration in construction?

Calm start of the week
Weaker sentiments in Polish business
Zloty and EURUSD stable
Yields down in Poland and abroad
Today construction output and unemployment rate in Poland, decision of Hungarian central bank and US data

At the beginning of the new week, the market sentiment was pretty good but the volatility was limited as investors are waiting for the Thursday's ECB decision. Also, the lack of important data releases was working in favour of a calm session. In the US, Republicans and Democrats agreed to suspend the borrowing limit. However, the risk of the government shutdown on October 1 has not disappeared completely – the spending bills need to be voted as well.

GUS business climate indicators in July continued to decline. The fall comparing to June occurred in all sectors. The synthetic index is descending from the all-time highs to the long-term average and is already the lowest in 2.5 years. Economic outlook concerns are reflected in further general expectations index decline, which for the first time in two years sits below current situation index – the lowest in six years. That supports our forecasts that the average output growth in 2Q19 will be notably lower than 5.5% y/y recorded in 1Q.

In June Poland **M3 money supply** growth decelerated to 9.3% y/y from 9.9% y/y in May which was mainly owing to slower growth of deposits of nonmonetary financial institutions. The other components also recorded slowdown: household deposits to 11% from 11.7%, corporate deposits to 6.7% from 7.5%. Current deposits accelerated to 14.4% from 14.1% and term deposits slowed to 0.9% from 3.2%. Pace of loans growth advanced to 6.8% from 6.4% after including the FX effect. Loans to households grew 6.3% vs 6.2% in May and to companies by 4.6% vs 4.4% month earlier.

Today at 10.00CET the Statistical Office will publish **data on the construction output**. We assume that it significantly slowed in June – just as industry and retail sales did. Our forecast stays at minimum (0% y/y) market's expectations. **The registered unemployment rate** is likely to hit 5.3%, in line with data released by the Labour Ministry.

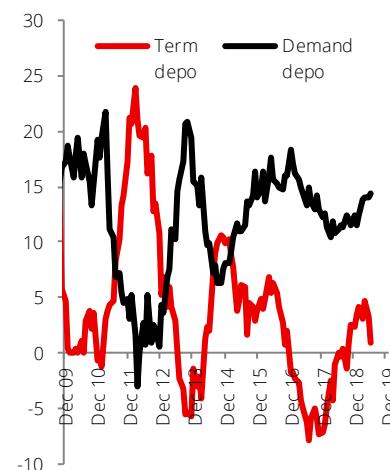
EURUSD fluctuated on Monday slightly above 1.12. The exchange rate was stable due to lack of key data publications and ahead of the ECB Thursday decisions. Today we will get to see US real estate data release, but we do not think that investors will react strongly.

EURPLN fell shortly after opening to 4.245 from 4.254, but during the day it rebounded to around 4.25. USDPLN was not far from 3.79. We think that today's zloty fluctuations will remain limited ahead of the Wednesday euro zone data (initial PMI) and Thursday ECB decision. Slight weakening is possible as an answer to the Hungarian National Bank session result (more details below).

When it comes to other CEE currencies, quotations remained stable. Today we will see the MNB decision on interest rates. In the last few months, the central bank tone was mitigated, which influenced negatively the forint. In our opinion today's session result might be rather dovish which could weaken the forint and the zloty.

On the domestic interest rate market yields and IRS fell below Friday's closing amid strengthening on the core markets and despite weakening on the euro zone peripheries. Apparently, the market is strongly pricing that the outcome of the Thursday's ECB meeting will be very dovish. In our view, investors' expectations could be exaggerated somewhat and so yields might rise after Draghi press conference.

Poland deposit growth, %y/y



Source: NBP, Santander

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FX market

Today's opening

EURPLN	4.2498	CZKPLN	0.1664
USDPLN	3.7992	HUFPLN*	1.3063
EURUSD	1.1186	RUBPLN	0.0601
CHFPLN	3.8583	NOKPLN	0.4395
GBPPLN	4.7321	DKKPLN	0.5692
USDCNY	6.8827	SEKPLN	0.4025

*for 100HUF

Last session in the FX market 22/07/2019

	min	max	open	close	fixing
EURPLN	4.245	4.254	4.251	4.248	4.248
USDPLN	3.783	3.794	3.792	3.786	3.7869
EURUSD	1.121	1.123	1.122	1.122	-

Interest rate market 22/07/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.52	-1	21 mar 19	OK0521	1.633
PS0424 (5L)	1.81	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.14	-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	1.71	0	2.04	0	-0.42	0
2L	1.73	0	1.83	-1	-0.45	0
3L	1.73	0	1.77	-1	-0.42	0
4L	1.76	0	1.76	-2	-0.37	0
5L	1.80	-1	1.78	-2	-0.31	-1
8L	1.94	0	1.89	-2	-0.06	-1
10L	2.00	-2	1.97	-2	0.10	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.64	4
T/N	1.64	4
SW	1.60	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	1.70	0
9x12	1.68	0
3x9	1.78	0
6x12	1.78	0

Measures of fiscal risk

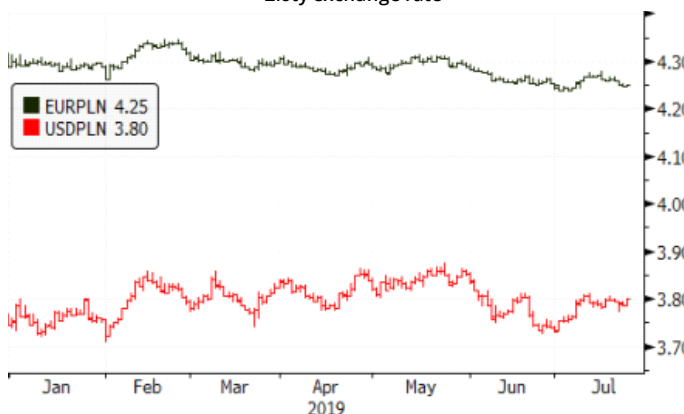
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.48	-3
France	22	1	0.26	0
Hungary			2.61	1
Spain	39	0	0.73	0
Italy	163	-1	1.98	-2
Portugal	40	-1	0.80	-1
Ireland	29	0	0.47	0
Germany	12	0	-	-

* 10Y treasury bonds over 10Y Bunds

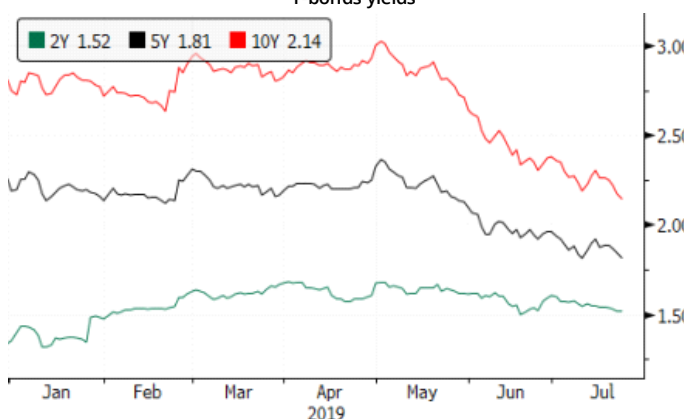
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



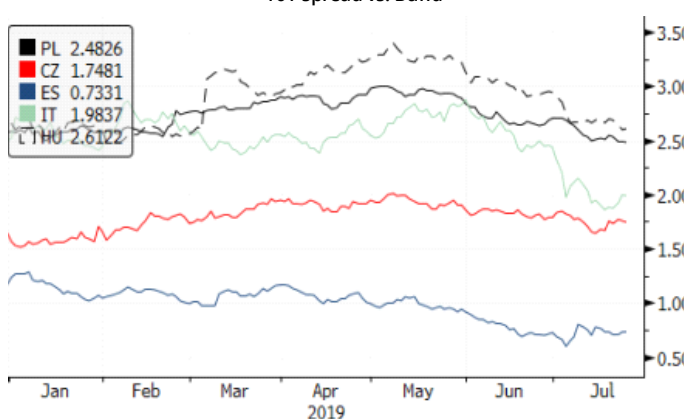
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (19 July)								
10:00	PL	Retail Sales Real	Jun	% y/y	3.8	3.6	3.7	5.6
16:00	US	Michigan index	Jul	pts	98.7	-	98.4	98.2
MONDAY (22 July)								
14:00	PL	Money Supply M3	Jun	% y/y	10.2	10.3	9.3	9.9
TUESDAY (23 July)								
10:00	PL	Construction Output	Jun	% y/y	3.5	0.0		9.6
10:00	PL	Unemployment Rate	Jun	%	5.3	5.3		5.4
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
16:00	US	Existing Home Sales	Jun	% m/m	-0.2	-		2.5
WEDNESDAY (24 July)								
09:30	DE	Flash Germany Manufacturing PMI	Jul	pts	45.2	-		45.0
09:30	DE	Flash Markit Germany Services PMI	Jul	pts	55.3	-		55.8
10:00	EZ	Flash Eurozone Manufacturing PMI	Jul	pts	47.8	-		47.6
10:00	EZ	Flash Eurozone Services PMI	Jul	pts	53.5	-		53.6
16:00	US	New Home Sales	Jun	% m/m	5.27	-		-7.8
THURSDAY (25 July)								
10:00	DE	IFO Business Climate	Jul	pts	97.2	-		97.4
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Durable Goods Orders	Jun	% m/m	0.8	-		-1.3
14:30	US	Initial Jobless Claims	week	k	215	-		216
FRIDAY (26 July)								
11:00	PL	Bond auction						
14:30	US	GDP Annualized	2Q	% Q/Q	1.8	-		3.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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