

24 July 2019

# Eyeopener

## Did the euro zone recovery start?

Construction output contracted in June  
IMF cuts global growth forecasts  
Stronger dollar weighed on CEE currencies, yields down ahead of the ECB  
Today flash July PMI

On Tuesday stock indices rose significantly and the dollar strengthened to the main currencies under the influence of the bipartisan agreement reached in the US regarding the state budget. The euro was under pressure in anticipation of the Thursday ECB decision. Meanwhile, Boris Johnson was elected the new chairman of the Conservative Party and will probably be the new Prime Minister of Great Britain. That nomination neither came as a surprise nor pressed the pound, which is close to the weakest euro levels from the beginning of the year and to the dollar from 1H17. As regards core markets, Treasuries lost, Bunds remained stable and the euro zone peripheries fluctuations were ambiguous. Today in the morning key European data will be published – initial estimations of July PMI. German services indices and the euro zone look good, but the industrial ones are way too close their long-term minimum. Market awaits a slight PMI industry rebound and today's data release may influence European economic outlook in the nearest future. Weak readings may strengthen market's hopes on ECB meeting result but if the data will come out better than forecasts, then expectations may be cooled down.

IMF released a new edition of **World Economic Outlook**. The institution assessed that the economic growth remains subdued, and the risk is mainly to the downside and results from global technological and trade tensions. World trade and economic growth forecast were corrected slightly down, and those reductions generally involved emerging markets, while the expectations for developed countries subtly rose.

**Polish construction output** decelerated to -0.7% y/y in June from 9.6% y/y in May, in line with our expectations (0.0% y/y). The construction data fits well into disappointing series of June readings, as many statistics were negatively affected by low numbers of working day, Corpus Christi holiday and high temperatures. All the construction subsectors were equally hit by these one-offs, with construction of building down by 1.8% y/y, civil engineering stagnating at 0.0% y/y and specialised works shrinking by 0.6% y/y. The data support our forecast of GDP growth decelerating to 4.5% y/y in 2Q19. In June, the construction of residential buildings resisted the slowdown. Last month, 15.4k new flats was build vs 12.3k last year. The 12-month sum amounted to 197k flats, the biggest amount since the comparable data is available. The number of building permits and starts have started to fall suggesting that housing supply could be lower in the quarters to come.

Detailed **data about wages** revealed that the significant slowdown to 5.3% y/y in June was partly due to the lower reading in mining. Wages growth excluding mining reached 6.3% y/y (vs 7.7% y/y in May) and in services 6.6% y/y (vs 7.5% y/y in May).

**EURUSD** fell yesterday for the third session in a row and reached its fresh July low at c 1.115. The dollar was supported by the information about the budget agreement in the US while the euro was under pressure ahead of the tomorrow's ECB decision. Today until 10:00CET we will see flash July PMIs for Germany and the whole euro zone. Shall they disappoint, the euro could lose more; in case of a positive surprise, EURUSD could stabilise.

**EURPLN** rebounded yesterday after the three consecutive sessions of a decline and ended the day at c4.253. USDPLN broke 3.81 amid the dollar appreciation vs the euro. The rhetoric of the Hungarian central bank has not been softened further and it seems that it was the dollar appreciation that weighed on the zloty and its CEE peers yesterday. Today, EURUSD response to the euro zone data could be key for EURPLN and USDPLN.

On the **domestic interest rate market** IRS and bond yields plummeted, similar changes were recorded elsewhere in our region (for the 10Y debt: Hungary -4bp, Czech Republic -7bp, Russia -1bp, Romania -3 pb). Polish 5Y and 10Y bond yields are now at their lowest levels since February 2015 and the asset swap spreads for these tenors at their lowest since 4Q18. Today, the European data could have a noticeable impact on Polish bonds.

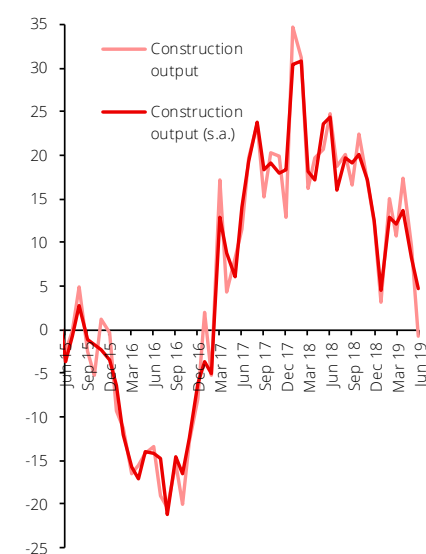
### IMF World Economic Outlook projections

	2019	2020
<b>World Output</b>	<b>3.2(-0.1)</b>	<b>3.5(-0.1)</b>
<b>Advanced Economies</b>	<b>1.9(+0.1)</b>	<b>1.7(0.0)</b>
USA	2.6(0.3)	1.9(0.0)
Euro Area	1.3(0.0)	1.6(0.1)
Germany	0.7(-0.1)	1.7(0.3)
France	1.3(0.0)	1.4(0.0)
Italy	0.1(0.0)	0.8(-0.1)
Spain	2.3(0.2)	1.9(0.0)
Japan	0.9(-0.1)	0.4(-0.1)
United Kingdom	1.3(0.1)	1.4(0.0)
<b>Developing Economies</b>	<b>4.5(-0.3)</b>	<b>4.7(-0.1)</b>
Developing Europe	1.0(0.2)	2.3(-0.5)
<b>World Trade Volume</b>	<b>2.5(-0.9)</b>	<b>3.7(-0.2)</b>

Note: in parentheses are differences versus April 2019  
WEO projections

Source: IMF, Santander

### Construction output, % y/y



Source: GUS, Santander

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## FX market

### Today's opening

EURPLN	4.2565	CZKPLN	0.1666
USDPLN	3.8173	HUFPLN*	1.3064
EURUSD	1.1150	RUBPLN	0.0604
CHFPLN	3.8693	NOKPLN	0.4399
GBPPLN	4.7510	DKKPLN	0.5701
USDCNY	6.8811	SEKPLN	0.4032

\*for 100HUF

### Last session in the FX market 23/07/2019

	min	max	open	close	fixing
EURPLN	4.246	4.259	4.248	4.256	4.2492
USDPLN	3.785	3.818	3.786	3.817	3.7997
EURUSD	1.115	1.122	1.122	1.115	-

## Interest rate market 23/07/2019

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.52	0	21 mar 19	OK0521	1.633
PS0424 (5L)	1.77	-4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.10	-5	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	1.71	0	2.05	1	-0.42	0
2L	1.73	-1	1.85	2	-0.45	0
3L	1.73	-1	1.79	2	-0.43	0
4L	1.74	-2	1.78	2	-0.38	0
5L	1.77	-3	1.80	2	-0.31	-1
8L	1.88	-6	1.91	2	-0.07	-1
10L	1.95	-4	1.99	3	0.09	0

### WIBOR rates

Term	%	Change (bps)
O/N	1.66	2
T/N	1.65	1
SW	1.60	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	1.70	0
9x12	1.68	0
3x9	1.78	0
6x12	1.78	0

### Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.44	-6
France	22	2	0.27	0
Hungary			2.56	1
Spain	39	-1	0.74	-1
Italy	161	-2	1.95	-1
Portugal	40	0	0.81	0
Ireland	28	1	0.48	0
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



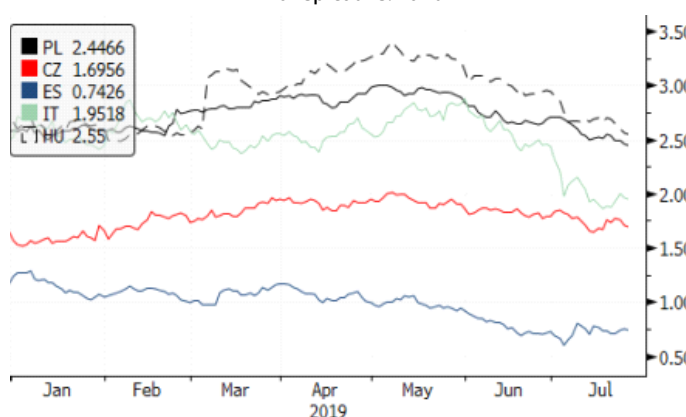
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

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	-0,7	9.6
10:00	PL	Unemployment Rate	Jun	%	5.3	5.3	5,3	5.4
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9	0.9
16:00	US	Existing Home Sales	Jun	% m/m	-0.2	-	-1.7	2.9
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	47.7	-		47.6
10:00	EZ	Flash Eurozone Services PMI	Jul	pts	53.3	-		53.6
16:00	US	New Home Sales	Jun	% m/m	5.3	-		-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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