

16 August 2019

Eyeopener

GDP slowing slightly, CPI accelerating

Weaker data from China and Germany, slightly better from USA
 Polish GDP growth slightly below forecast, inflation accelerating
 Zloty and forint weaker, dollar stronger
 Yield curves reversing
 Today, core inflation data in Poland

On Wednesday, a streak of weaker macro data: July output in China (only 4.8% y/y vs 6.0% expected) and German 2Q GDP (-0.1% q/q) caused an inversion of yield curves in the USA, the UK and Poland (10y bonds or swaps had lower yields than 2y ones), which historically is a typical harbinger of a recession (with around 8-quarter lead). On Thursday some signals came that could have potentially eased the recession fears in the USA – better-than-expected retail sales and an upgrade of financial forecasts for the remaining part of the year by Walmart – but they failed to affect investors' sentiment and to curb demand for safe assets.

GDP growth in 2Q19 slowed to 4.4% y/y, slightly below expectations, while **CPI inflation in July** rose to 2.9% y/y, in line with the flash estimate. Both trends are likely to be maintained in the coming quarters – economic growth will probably continue slowing gently, while inflation will keep climbing, with a risk of exceeding 4% in January 2020. The data are unlikely to change Polish central bank's mindset, as inflation spike, even if stronger than assumed in the NBP projection, will be perceived as temporary in the context of deteriorating growth outlook in Europe and globally. As a result, most of the MPC members will in our view continue to support stabilisation of interest rates. More on the Polish data in the Wednesday Economic Comment.

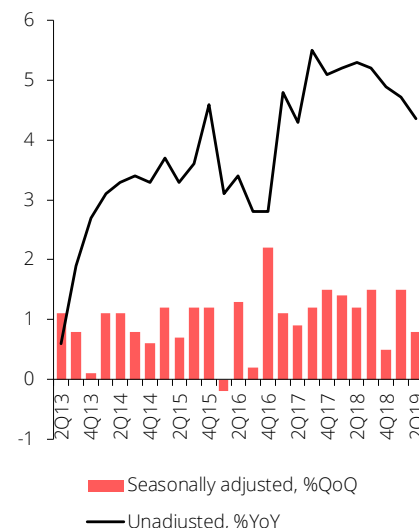
The zloty weakened for another day. **EURPLN** crossed on Wednesday an important technical level of 4.3450 and on Thursday, on an illiquid market due to public holiday in Poland, it rose temporarily to almost 4.3980 – foreign investors often take advantage of such moments of poor liquidity for aggressive fx speculation. On Friday morning, EURPLN is traded at 4.3730, CHFPLN at 4.03 and USDPLN at almost 3.94.

EURUSD oscillated around 1.1190 through most of Wednesday on low volatility and at the end of the day the dollar strengthened and the session closed at 1.1150. On Thursday the dollar continued to appreciate with EURUSD closing at 1.11. Other CEE currencies were mostly stable (EURCZK 25.86, EURRON 4.7230) while HUF lost c0.5% vs the euro to 325.15.

On Wednesday the **Polish fixed income market** saw continuation of bonds and swaps yields decline. Polish 10-year bonds closed at 1.75% and 10-year swaps at 1.52%. Spread between Polish 10-year bonds and German Bunds narrowed to 241 bp. Polish swaps curve remains inverted in the 2x5 segment (1.55% 2-years vs 1.47% 5-years) and the market still discounts one full 25bp rate cut in the 12 months horizon. As for the **core markets** – the US yield curve moved lower and flattened both on Wednesday and Thursday. 10-year bond yields opens on Friday morning at 1.55% and is just 3 bp above the 2-year bond yield (1.515%). Both on Wednesday and Thursday the spread was temporarily slightly inverted during the day (-1bp). On Thursday the US 30-year bond yields fell below 2.0% level for the first time in history.

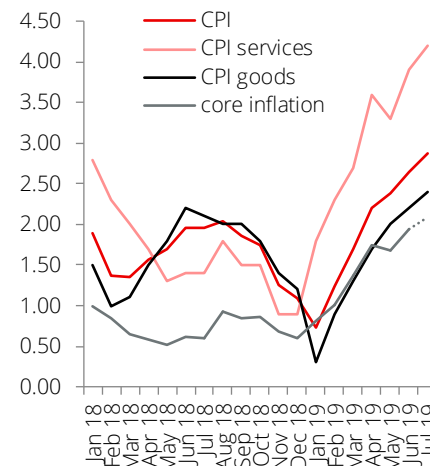
Today at 10:00 CET the NBP will release core inflation data for July. After the full CPI data we keep our estimate of CPI ex food and energy at 2.1% y/y, its highest level since 2012. We expect to see a further rise of core inflation in the coming months, above 2.5% at the end of this year.

GDP growth in Poland



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4.3713	CZKPLN	0.1693
USDPLN	3.9368	HUFPLN*	1.3435
EURUSD	1.1104	RUBPLN	0.0596
CHFPLN	4.0230	NOKPLN	0.4365
GBPPLN	4.7722	DKKPLN	0.5860
USDCNY	7.0430	SEKPLN	0.4079

*for 100HUF

Last session in the FX market 15/08/2019

	min	max	open	close	fixing
EURPLN	4.361	4.398	4.376	4.375	4.3463
USDPLN	3.914	3.948	3.926	3.941	3.889
EURUSD	1.109	1.116	1.114	1.110	-

Interest rate market 15/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.49	-3	21 mar 19	OK0521	1.633
PS1024 (5L)	1.62	-9	21 mar 19	PS0424	2.209
DS1029 (10L)	1.75	-11	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.65	1	1.75	-6	-0.51	-3
2L	1.56	0	1.50	-7	-0.57	-5
3L	1.51	0	1.41	-6	-0.58	-6
4L	1.48	0	1.37	-6	-0.57	-6
5L	1.47	-1	1.36	-6	-0.55	-8
8L	1.50	0	1.37	-6	-0.43	-9
10L	1.52	0	1.41	-6	-0.33	-10

WIBOR rates

Term	%	Change (bps)
O/N	1.68	-5
T/N	1.68	-5
SW	1.61	-3
2W	1.60	-1
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.85	-1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	1
3x6	1.67	0
6x9	1.61	0
9x12	1.53	0
3x9	1.73	0
6x12	1.65	0

Measures of fiscal risk

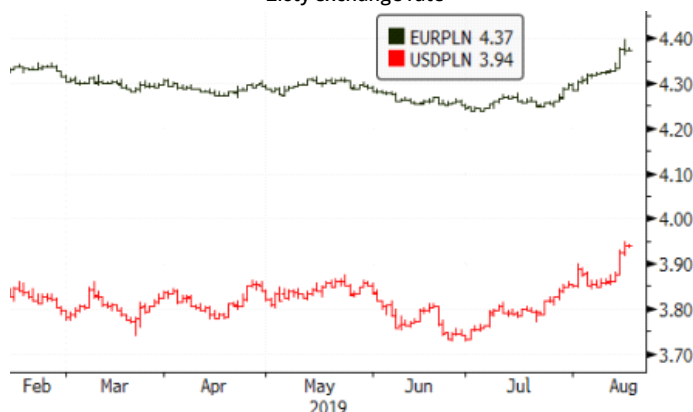
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.47 -11
France	24 -1	0.28 0
Hungary		2.29 0
Spain	44 1	0.75 0
Italy	221 -4	2.05 0
Portugal	46 1	0.78 0
Ireland	33 1	0.56 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

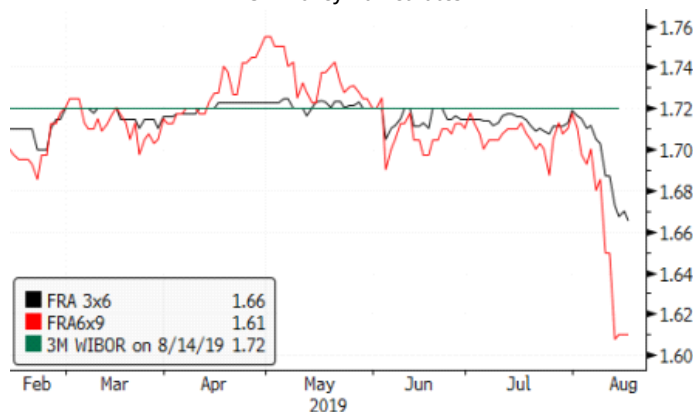
Zloty exchange rate



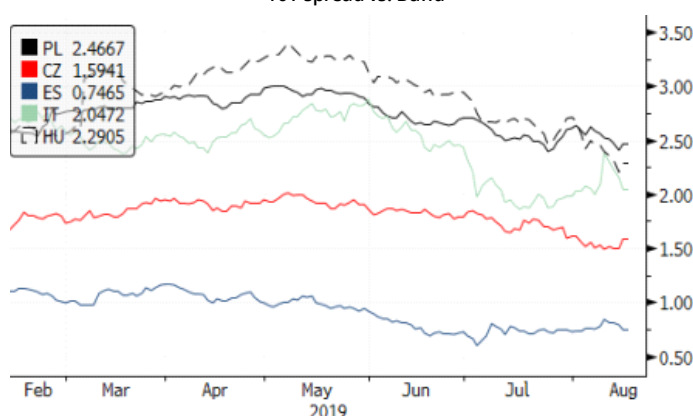
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar				FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD				
CET				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (9 August)							
08:00	DE	Exports SA	Jun % m/m	0.0	-	-0.1	1.1
MONDAY (12 August)							
09:00	CZ	CPI	Jul % y/y	2.7	-	2.9	2.7
TUESDAY (13 August)							
08:00	DE	HICP	Jul % m/m	0.4	-	0.4	0.4
11:00	DE	ZEW Survey Current Situation	Aug pts	-3.7	-	-13.5	-1.1
14:00	PL	Current Account Balance	Jun €mn	-75	-62	21	1 006
14:00	PL	Trade Balance	Jun €mn	-225	-214	-77	96
14:00	PL	Exports	Jun €mn	18 470	18 050	18068	19 703
14:00	PL	Imports	Jun €mn	18 620	18 264	18145	19 607
14:30	US	CPI	Jul % m/m	0.3	-	0.3	0.1
WEDNESDAY (14 August)							
08:00	DE	GDP WDA	2Q % q/q	-0.1	-	-0.1	0.4
09:00	CZ	GDP SA	2Q % y/y	2.6	-	2.7	2.8
09:00	HU	GDP	2Q % y/y	4.5	-	4.9	5.3
10:00	PL	CPI	Jul % y/y	2.9	2.9	2.9	2.6
10:00	PL	GDP	2Q % y/y	4.5	4.5	4.4	4.7
11:00	EZ	GDP SA	2Q % q/q	0.2	-	0.2	0.2
11:00	EZ	Industrial Production SA	Jun % m/m	-1.5	-	-1.6	0.8
THURSDAY (15 August)							
14:30	US	Initial Jobless Claims	week k	212	-	220	211
14:30	US	Retail Sales Advance	Jul % m/m	0.3	-	0.7	0.3
14:30	US	Index Philly Fed	Aug pts	9.5	-	16.8	21.8
15:15	US	Industrial Production	Jul % m/m	0.1	-	-0.2	0.2
FRIDAY (16 August)							
14:00	PL	CPI Core	Jul % y/y	2.1	2.1		1.9
14:30	US	Housing Starts	Jul % m/m	0.56	-		-0.9
16:00	US	Flash Michigan index	Aug pts	97.1	-		98.4

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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