

23 August 2019

Eyeopener

Powell's speech in focus

Euro zone data surprised to the upside
MPC voted on a rate hike in July
Zloty weaker after European data, EURUSD more volatile
Domestic debt still under pressure
Today Fed chairman speaks in Jackson Hole

On Thursday, trading was mostly affected by morning data from Europe and the wording of the Wednesday minutes from the last FOMC meeting. Flash August manufacturing PMI for Germany and the euro zone proved better than expected and posted some increase, undermining the zloty, the forint and temporarily also the Czech koruna. CEE bond yields also went up. According to the market assessment, the Thursday data could mean lower chances for a marked monetary policy easing in the euro zone in September and were in line with the mood after not-so-dovish FOMC minutes. Additionally, two Fed members (George and Harker) suggested that the FOMC should be cautious about further cuts, while FOMC's Kaplan saw benefits from keeping rates unchanged, yet the Committee should be open to possibility of further rate cuts. Meanwhile, ECB minutes showed rising worries about economic growth and a belief that the central bank should rather use all its toolbox at once (rate cut, asset purchases, forward guidance, deposit rate tiering) than apply different tools gradually one by one. The British pound gained visibly after Angela Merkel and Emmanuel Macron said changes in the Brexit Deal are possible prior to 30 October, the current Brexit date.

MPC minutes from the July meeting revealed that the Council voted whether to hike rates by 25bps. The motion was supported by two members: E. Gatnar and K. Zubelewicz. In our view, as the CPI inflation is likely to climb further, hikes may gather more support, and we would suspect Ł. Hardt, J. Osiatyński and possibly J. Kropiwnicki to support such motions. Still, this will not be enough votes to actually change rates, especially as doves led by NBP Governor A. Głapiński will have some valid arguments against hikes: monetary easing in other economies, especially the euro zone and the USA as well as decelerating economic growth in Poland. We cannot rule out that the Governor will actually try to show some dovish rhetoric in order to counter the impression stemming from the hike vote.

MPC's member, Łukasz Hardt said, that uncertainty in global economy requires adaptive monetary policy – focus should be on current data rather than on forecasts and one should be cautious not to be too declarative when it comes to future rates. In our opinion, his stance will be becoming even tougher as the CPI increases further.

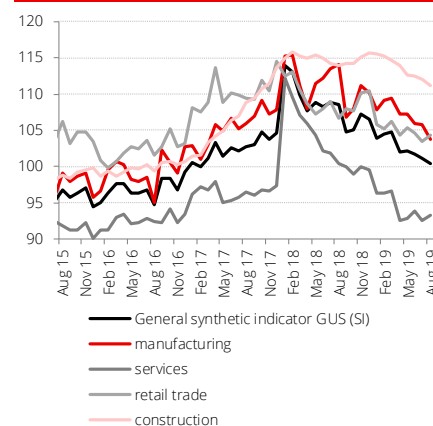
Some **Polish data** was released yesterday – June retail sale (in line with our forecast), August consumer and business sentiment indices (both slightly deteriorated) and financial results and companies investments data for 2Q. A detailed discussion of these readings can be found in the next page of this report. The general conclusion from yesterday's publications allows us to maintain the scenario of continuing slowdown of Polish GDP growth in the following quarters with private consumption as a mitigating factor. The conclusions from the analysis of company margins are in line with our assumption of further increase in inflation (also the core measure).

EURUSD was somewhat more volatile yesterday than in the previous days. The morning above-consensus flash PMIs boosted the euro and pushed the exchange rate up to 1.111. Later in the day, this move was not continued and it seems that the outlook of today's Powell speech (due to start at 16:00CET) determined that EURUSD ended the day near 1.108. We think the tone of the Powell speech will not be too much dovish and so the dollar could gain at the end of the week.

EURPLN gained temporarily to 4.375 from 4.35 and USDPLN to 3.95 from 3.92 thanks to better data from the Eurozone which investors read as lowering the likelihood of the monetary policy loosening on the ECB September meeting. As a result, Zloty gave back all the gains which it had made vs EUR on Tuesday and Wednesday. As for the remaining CEE currencies, HUF was significantly weaker than on the opening while RUB and CZK. Today the key event for the regional currencies will be Fed's Powell speech at the Jackson Hole economic symposium. We expect that Powell will not be as dovish as the market expects and the EURPLN will probably close the week on a weaker note.

On the **domestic interest rate market**, IRS and bond yields continued to rise, this time by 3-8bp, mostly on the belly and long end of the curves. Polish debt was pressured by the decent European data and was underperforming its core peers. Today the market attention would focus on the Fed governor speech and in our view, there will be not much reason for the bonds to recover after the recent sell-off.

Poland business sentiment indexes, pts



Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

DETAILED COMMENT TO THE YESTERDAY'S DATA:

Poland's retail sales accelerated to 5.7% y/y in July from 3.7% y/y in June, in line with our expectations. June was undermined by many one-offs and July showed a healthy rebound, especially in sales of durable goods (11.4% y/y versus 6.8% y/y in June). Sales were a bit weaker than Jan-May average (6.2% y/y) but in our view this was mainly due to shifts in clothing sales: high temperatures in June encouraged consumers to buy their summer outfits earlier, so clothing sales rose by 1.3% y/y in July versus 12.9% y/y in June (this year's high) and this has slightly undermined the July's headline. All of the remaining categories (but fuels) rebounded vs June with the sales of household appliances growing 15.9% y/y vs 8.9% in the previous month. In our view, consumer demand stays strong and will be a major contributor to the GDP growth in 2H19.

In August, **main consumer confidence measures** declined somewhat, but are still historically high. The largest drop was seen in expectations about future financial situation of households, which could come from a slight rise of unemployment worries and possibly from rising inflation (GUS does not show inflation expectations in this publication). At the same time the index of attitude towards major purchases has set a new record. Taking into account that household budgets are going to be supported in the coming months by the fiscal stimulus (lower PIT, additional child benefits), the consumer sentiment measure supports our forecasts of a rise of private consumption growth in 2H19.

Business sentiment indicators for August declined in industry and construction, while retail trade and services sectors were slightly more optimistic than previously. Overall business sentiment index is now the weakest since Feb'17, with current assessment components dropping much more than prognostic components. Apart from this, the industry's gauge of expected production remained the lowest in seven years and expected sales index in the retail trade sector was the weakest in more than 2.5 years. This data fit into our scenario of a further GDP deceleration and together with the July industrial output suggest that the resilience to German economic slowdown could be fading.

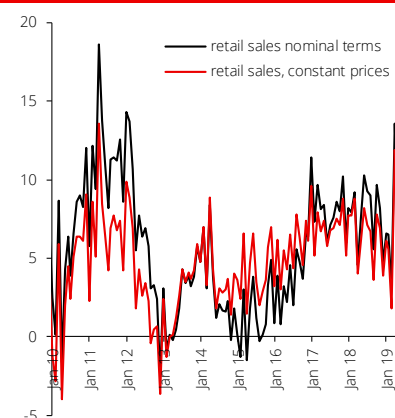
In 2Q19, **financial results of companies** employing 50+ persons showed a revenue growth of 6.7% y/y vs 7.5% in 1Q, while costs continued to grow above 7% y/y. It was the first time in three quarters that revenues growth outpaced cost growth.

The 4Q-average profit margin rebounded from 4.4% to 4.5% which is the first rise in 1.5 years. In 2Q19 alone, the profit margin was 0.2pp higher y/y, compared to -0.5pp in 1Q19 and -1.7pp in 4Q18. We continue to highlight that the margin squeeze from previous periods has created high upside potential for CPI. The current first signs of margin recovery is mostly seen in services sectors, and services prices inflation is now the backbone of CPI acceleration (apart from high food prices contribution). The manufacturing sector has not shown margin recovery yet.

The data also show labour costs in large companies grew 9.2% y/y in 2Q vs 8.0% in 1Q, energy costs kept growing at c12% y/y while insurance cost growth surged to 16.2% y/y. On the other hand, material costs were up just 4.1% y/y which is the weakest rise since 4Q16. Our take is that the labour market situation and the regulatory changes causing a rise of energy prices for businesses will maintain the upside pressure on CPI inflation.

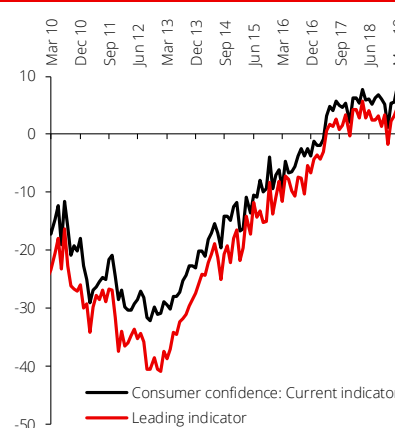
Investments in companies employing 50+ people rose by 17.0% y/y in 2Q19, showing a slight deceleration versus 1Q19 (21.7% y/y), but confirming that the private sector remained the main driver of investment outlays in 2Q19 (our forecast of total investment sits at 9.0% y/y). While outlays on buildings and machinery slowed down a bit, investment in means of transport accelerated to 36.4% y/y from 27.6% y/y. Investment in manufacturing decelerated to 12.7% y/y from 17.9% y/y in 1Q19 (in current prices), while outlays in construction shrank by as much as 20.3% y/y as compared to a rise by 10.6% in 1Q19 (in current prices). We are expecting a further deceleration of outlays in the quarters to come, yet the private sector is likely to retain its position of main driver of total investment growth.

Poland retail sales, % y/y



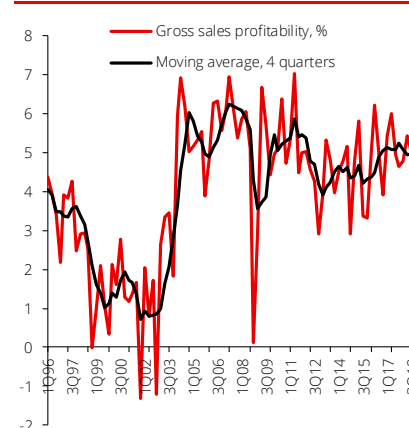
Source: GUS, Santander

Poland consumer sentiment, pts



Source: GUS, Santander

Poland corporate margins



Source: GUS, Santander

FX market

Today's opening

EURPLN	4.3585	CZKPLN	0.1691
USDPLN	3.9369	HUFPLN*	1.3282
EURUSD	1.1071	RUBPLN	0.0600
CHFPLN	3.9956	NOKPLN	0.4385
GBPPLN	4.8047	DKKPLN	0.5846
USDCNY	7.0848	SEKPLN	0.4065

*for 100HUF

Last session in the FX market 22/08/2019

	min	max	open	close	fixing
EURPLN	4.347	4.379	4.348	4.359	4.366
USDPLN	3.916	3.950	3.916	3.934	3.9337
EURUSD	1.106	1.111	1.110	1.108	-

Interest rate market 22/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.52	4	21 mar 19	OK0521	1.633
PS1024 (5L)	1.76	4	21 mar 19	PS0424	2.209
DS1029 (10L)	2.03	8	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	1.70	3	1.83	4	-0.47	2
2L	1.67	4	1.60	5	-0.50	2
3L	1.62	5	1.50	4	-0.50	3
4L	1.60	6	1.46	4	-0.49	3
5L	1.60	6	1.44	4	-0.45	3
8L	1.63	7	1.48	5	-0.31	4
10L	1.66	8	1.53	5	-0.20	5

WIBOR rates

Term	%	Change (bps)
O/N	1.59	0
T/N	1.60	1
SW	1.59	0
2W	1.60	0
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.81	0
1Y	1.85	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.70	2
6x9	1.68	4
9x12	1.63	6
3x9	1.77	2
6x12	1.73	5

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.66 7
France	22 0	0.29 1
Hungary		2.54 1
Spain	43 -1	0.79 0
Italy	189 -6	1.95 0
Portugal	45 -1	0.81 0
Ireland	34 -1	0.62 1
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

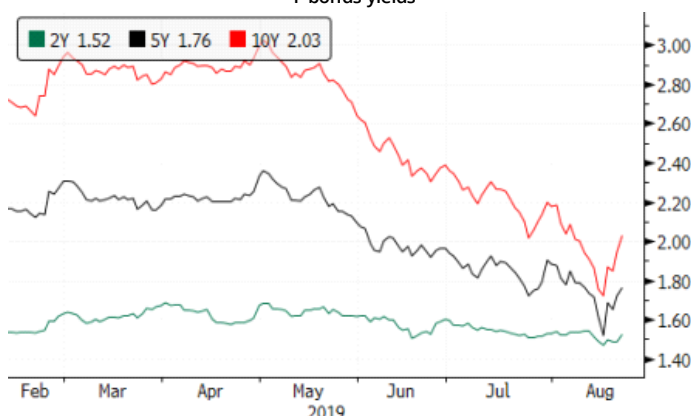
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

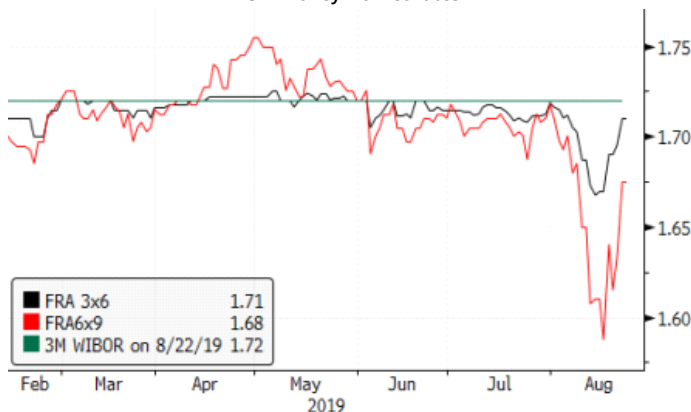
Zloty exchange rate



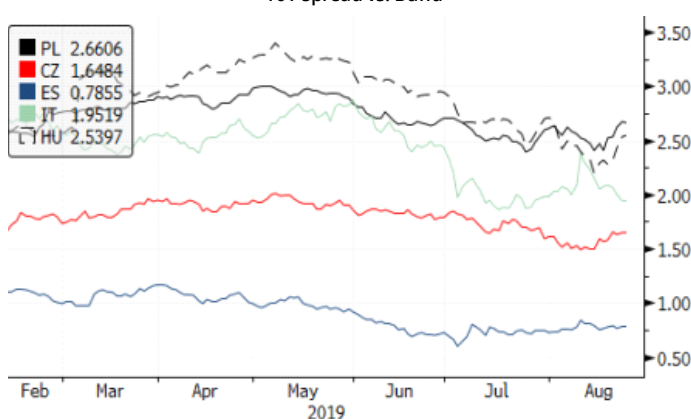
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME		COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (16 August)								
14:00	PL	CPI Core	% y/y	2.1	2,1	2,2	1.9	
14:30	US	Housing Starts	% m/m	0.2	-	-4.0	-1.8	
16:00	US	Michigan index	pts	97.0	-	92,1	98.4	
MONDAY (19 August)								
11:00	EZ	HICP	Jul % y/y	1.1	-	1.0	1.3	
TUESDAY (20 August)								
10:00	PL	Employment in corporate sector	Jul % y/y	2.7	2.7	2.7	2.8	
10:00	PL	Average Gross Wages	Jul % y/y	7.1	7.2	7.4	5.3	
WEDNESDAY (21 August)								
10:00	PL	Sold Industrial Output	Jul % y/y	6.5	8.0	5.8	-2.7	
10:00	PL	Construction Output	Jul % y/y	5.3	5.3	6.6	-0.7	
10:00	PL	PPI	Jul % y/y	0.5	0.4	0.6	0.5	
16:00	US	Existing Home Sales	Jul % m/m	2.5	-	2.5	-1.3	
20:00	US	FOMC Meeting Minutes						
THURSDAY (22 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug pts	43.0	-	43.6	43.2	
09:30	DE	Flash Markit Germany Services PMI	Aug pts	54.0	-	54.4	54.5	
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug pts	46.2	-	47.0	46.5	
10:00	EZ	Flash Eurozone Services PMI	Aug pts	53.0	-	53.4	53.2	
10:00	PL	Retail Sales Real	Jul % y/y	5.9	5.6	5.7	3.7	
14:00	PL	MPC minutes						
14:30	US	Initial Jobless Claims	week k	216	-	209	221	
FRIDAY (23 August)								
14:00	PL	Money Supply M3	Jul % y/y	9.5	9.9	-	9.3	
16:00	US	New Home Sales	Jul % m/m	-0.2	-	-	7.0	

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.