

2 September 2019

Eyeopener

Calm end of summer holidays

Polish GDP growth slowed to 4.5% y/y in Q2, a bit above flash estimate

Inflation decelerated in August to 2.8%

FX and FI markets stable at the very end of August

Today manufacturing PMIs in Europe, market holiday in US

Friday was heavy in data releases in Poland and abroad. In USA the July PCE deflator was at 1.4% y/y and core PCE at 1.6% y/y, in line with expectations. The Michigan consumer sentiment index fell in August to 89.8 from 92.1. July retail sales in Germany fell more than expected (2.2% m/m), but this was mainly due to a rebound after June – month of summer sell-offs. In August the euro zone inflation hit 1.1% y/y (unchanged versus the previous month) and was by 0.1pp higher than expected. In Italy, words of one of the Democratic Party leaders suggesting that new government talks failed made 10Y Italian bond yields return above 1.0%. The ECB board member Sabine Lautenschläger said in an interview with Reuters it was too early to use more than one monetary policy instruments to stimulate the economy. The Chinese PMI, released today reached the highest level in 5 months.

Polish manufacturing PMI rose in August to 48.8, its highest since May, exceeding our forecast and market consensus by c.1pp. The index remains below the neutral level 50, which means that economic activity is still contracting, albeit at slower pace. This refers to new orders and output – they were falling at the slowest pace since May, according to the survey. Firms also reported slight cuts in employment, rising spare capacity and weak cost pressures. Please recall that PMI has not been a good predictor of trends in Polish manufacturing over the past 2-3 years. Nevertheless, it is good to note that in August other business climate surveys also pointed to some rebound, which suggests that Polish industry is still coping relatively well with global economic slowdown. Still, the headline production figures for August are going to be quite weak again, in our view, due to negative calendar effects.

Poland's GDP growth reached 4.5% y/y in 2Q19, a bit above flash estimate 4.4%. The growth breakdown showed that private consumption remained the main growth driver and this is unlikely to change, given weaker economic climate abroad. We are expecting a further mild deceleration of economic growth as slowing investment and weaker net exports will be partially offset by fiscal stimulus for the private consumption.

August CPI went down to 2.8% y/y due to statistical base effects, but it seems that the upward trend of prices is still strong. We are expecting both CPI and core inflation to jump markedly at the turn of 2019 and 2020. In January 2020 CPI is likely to exceed 4% and core inflation will be close to 3%.

We wrote more on Friday data in [Economic Comment](#). In general they do not change the monetary policy outlook – NBP rates will remain stable at least until end of 2020. At the same time, we think that market expectations of rate cuts are not justified given elevated inflation and economic growth rate, which is decelerating but still decent.

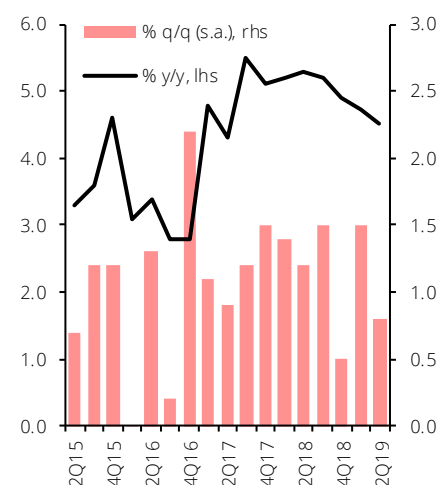
According to Polish Ministry of Finance in July the foreign investors sold the nominal value of PLN6bn of Polish PLN-denominated marketable bonds. Polish bonds were being bought mainly by Polish mutual funds (+PLN5bn) and commercial banks (+PLN2bn). Private individuals increased their holdings by around PLN1 bn. Ministry of Finance also confirmed that as of end of August 85% of financing needs for the year have been financed.

EURUSD was stable throughout most of the day and this despite the US macroeconomic data releases – daily range of about 0.3 cents. Only at the end of the day the dollar strengthened, breached the technically important 1.1020 level and traded as low as in 1.096. On Monday EURUSD opens at 1.099.

On Monday **the Polish zloty** also hasn't been too volatile, initially strengthened (EURPLN daily low of 4.377) but then traded on the weaker side (closing near 4.385). **Other CEE currencies** unchanged: EURHUF near historical high at 331.2 whereas EURCZK slightly up to 25.9 and USDRUB at 66.75. Throughout the whole August the CEE currencies depreciated vs euro only a bit: PLN by 1.7%, HUF by 1.3% and CZK by 0.7%.

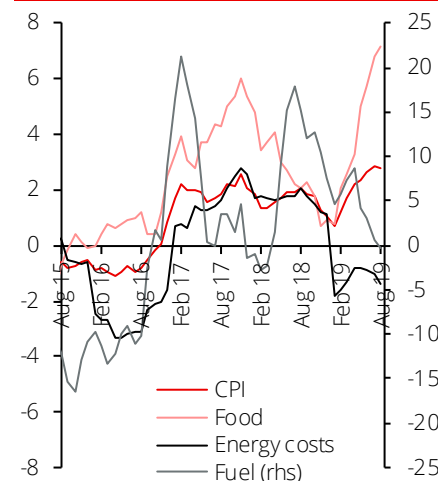
On the Polish fixed income market the volatility was similarly low – both government bonds and swaps remained literally unchanged. In the core markets UST curve also did not move much while Bund curve traded lower by 2bp (10Y down to -0.71%). In general, August was a month of significantly stronger fixed income: the yield of the 10Y bond traded by 34bp lower versus end of July, whereas 10Y IRS as much as 50bp.

Polish GDP growth



Source: GUS, Santander

Selected inflation components, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.3685	CZKPLN	0.1685
USDPLN	3.9772	HUFPLN*	1.3200
EURUSD	1.0984	RUBPLN	0.0595
CHFPLN	4.0160	NOKPLN	0.4361
GBPPLN	4.8389	DKKPLN	0.5859
USDCNY	7.1628	SEKPLN	0.4048

*for 100HUF

Last session in the FX market 30/08/2019

	min	max	open	close	fixing
EURPLN	4.372	4.391	4.390	4.379	4.3844
USDPLN	3.964	3.998	3.972	3.985	3.9717
EURUSD	1.096	1.106	1.105	1.098	-

Interest rate market 30/08/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0721 (2L)	1.54	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.67	2	21 mar 19	PS0424	2.209
DS1029 (10L)	1.83	1	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	1.68	0	1.80	2	-0.50	0
2L	1.63	-1	1.51	-1	-0.55	-1
3L	1.57	-1	1.39	-2	-0.57	-1
4L	1.54	-1	1.34	-2	-0.55	-1
5L	1.51	-1	1.32	-3	-0.53	-1
8L	1.50	-1	1.34	-3	-0.39	1
10L	1.52	-1	1.38	-3	-0.28	2

WIBOR rates

Term	%	Change (bps)
O/N	1.55	22
T/N	1.57	2
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	1.69	0
6x9	1.63	-1
9x12	1.58	0
3x9	1.76	-1
6x12	1.69	0

Measures of fiscal risk

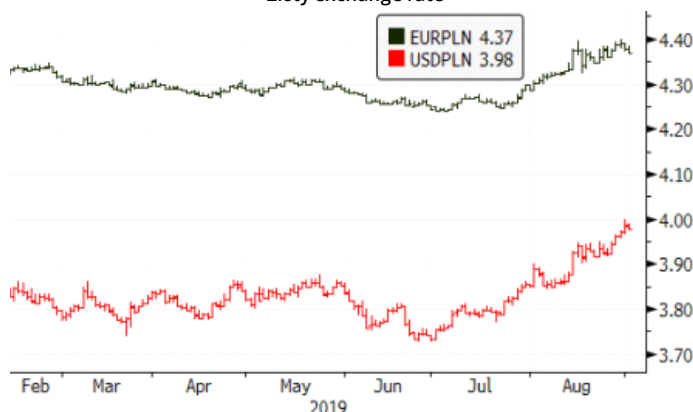
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.53	1
France	21	0	0.29	0
Hungary			2.57	0
Spain	41	0	0.80	0
Italy	161	5	1.70	0
Portugal	42	1	0.82	0
Ireland	33	-1	0.62	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

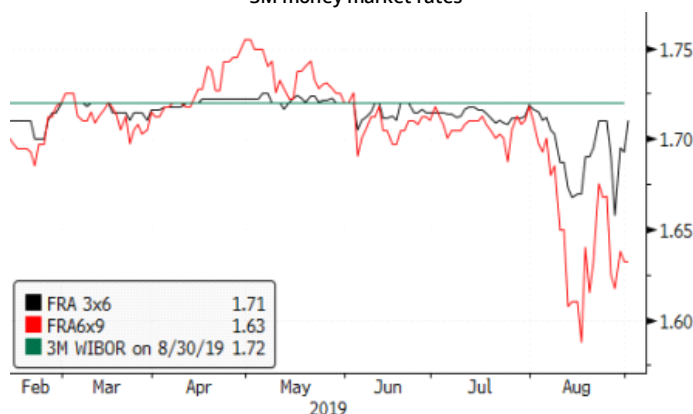
Zloty exchange rate



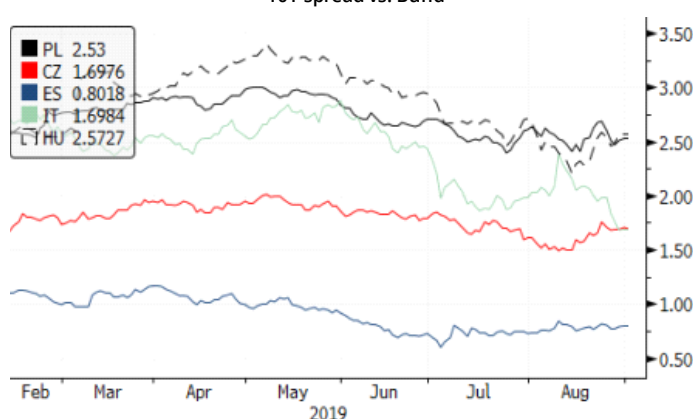
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (30 August)								
06:50	PL	Central Budget Cumul.	Jul	mn PLN	-	-	-4 783	- 5041
08:00	DE	Retail Sales	Jul	% m/m	-1.25	-	-2.2	3.5
09:00	CZ	GDP SA	2Q	% y/y	2.7	-	2.7	2.7
09:00	HU	GDP	2Q	% y/y	4.9	-	4.9	4.9
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.8	2.9
10:00	PL	GDP	2Q	% y/y	-	4.4	4.5	4.4
11:00	EZ	Flash HICP	Aug	% y/y	1.0	-	1.0	1.1
11:00	EZ	Unemployment Rate	Jul	%	7.5	-	7.5	7.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.6	0.3
14:30	US	Personal Income	Jul	% m/m	0.3	-	0.1	0.4
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	0.2	0.1
16:00	US	Michigan index	Aug	pts	92.3	-	89.8	92.1
MONDAY (2 September)								
09:00	PL	Poland Manufacturing PMI	Aug	pts	47.7	47.6	48.8	47.4
09:55	DE	Germany Manufacturing PMI	Aug	pts	43.6	-		43.6
10:00	EZ	Eurozone Manufacturing PMI	Aug	pts	47.0	-		47.0
TUESDAY (3 September)								
16:00	US	ISM manufacturing	Aug	pts	51.45	-		51.2
WEDNESDAY (4 September)								
03:45	CN	Caixin China PMI Services	Aug	pts	51.7	-		51.6
09:55	DE	Markit Germany Services PMI	Aug	pts	54.4	-		54.4
10:00	EZ	Eurozone Services PMI	Aug	pts	53.4	-		53.4
11:00	EZ	Retail Sales	Jul	% m/m	-0.45	-		1.1
THURSDAY (5 September)								
08:00	DE	Factory Orders	Jul	% m/m	-1.4	-		2.5
14:15	US	ADP report	Aug	k	143.0	-		155.6
14:30	US	Initial Jobless Claims	Aug.19	k	214.0	-		215.0
16:00	US	Durable Goods Orders	Jul	% m/m	0.0	-		2.1
16:00	US	ISM services	Aug	pts	53.6	-		53.7
16:00	US	Factory Orders	Jul	% m/m	0.8	-		0.6
FRIDAY (6 September)								
08:00	DE	Industrial Production SA	Jul	% m/m	0.4	-		-1.5
09:00	CZ	Industrial Production	Jul	% y/y	2.9	-		-3.8
09:00	HU	Industrial Production SA	Jul	% y/y	6.85	-		4.12
11:00	EZ	GDP SA	2Q	% y/y	1.1	-		1.1
14:30	US	Change in Nonfarm Payrolls	Aug	k	165.0	-		164.0
14:30	US	Unemployment Rate	Aug	%	3.7	-		3.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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