

20 September 2019

Eyeopener

Unexpected fall of output

Unsettlingly poor industrial output for August
 OECD downgraded its global growth forecast
 EURUSD and CEE fx still little changed
 Today Polish retail sales

On Thursday the trading on global markets was calm – stock markets were going up, bond yields declined slightly, the dollar weakened, while oil and gold prices remained stable.

In **August Polish industrial output** declined by 1.3% y/y, while the consensus was +1.3% y/y and our forecast was +0.9%. Manufacturing output also declined 1.3% y/y. Correcting for seasonal and working day effects, output rose 1.7% y/y, the weakest growth in three years. Half of industries recorded a drop of output in August. Investment goods recorded the largest decline, -4.5% y/y, while consumer goods production rose marginally. In terms of the level of production (seasonally and working days adjusted), the August figure is the lowest this year. With Europe slowing down it was hard to expect the Polish industry to remain resilient forever. And indeed, the August data from the manufacturing sector confirm, in our view, that the economic stagnation in the euro zone is finally taking its toll on Polish producers. The government's initiatives aimed at boosting cash transfers to households sector should be mitigating the pace of economic slowdown, in our view, via stimulating private consumption. However, we think it will be not enough to offset the weakening of external demand and likely investment slowdown. Thus, we expect GDP growth in 2H19 to continue slowing gently, towards 4.0% y/y in 4Q19 and 4.3% average in 2019.

The **OECD** updated its growth forecasts. World's GDP expectations for 2019 were lowered to 2.9% from 3.2% shown in May and for 2020 to 3.0% from 3.4%. The organisation is no longer expecting the euro zone growth to rebound in 2020 (current forecast: 1.1% in 2019 and 1.0% in 2020, as compared to 1.2% and 1.4% previously). Expectations for the US also went down to 2.4%/2.0% from 2.8%/2.3%. The comment underlines the risk of the United Kingdom slipping into recession due to no-deal Brexit, and worries about long-term impact of trade wars as well as the fact that the hits suffered by industries in many countries could extend into employment, incomes and spending of households.

ECB representatives spoke on Thursday. Benoît Coeure warned that a too long QE would loosen the discipline on the markets, but so far he did not see such a phenomenon. Sabine Lautenschläger noted that the European demand remains robust, Spanish and Dutch economies are doing well, while Germany is being undermined by trade wars. She added that central bankers should not take all the responsibility for the economy and other institutions should join in.

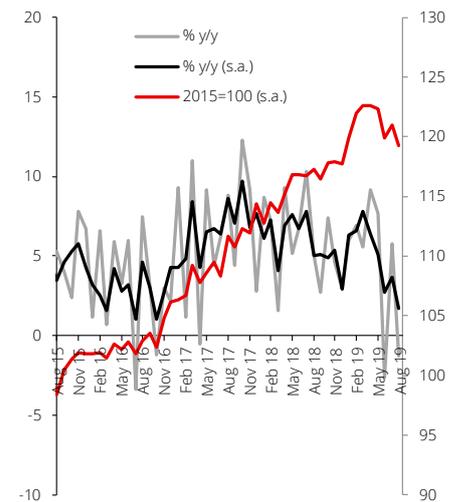
As a result of weaker dollar in general, the **EURUSD** climbed on Thursday by 0.3% and reached 1.1075 before closing at 1.105. **EURPLN** remained stable above 4.34, briefly reaching 4.35 but closing at 4.345. **USDPLN** fell by 1 figure to 3.93, while **CHFPLN** rose by 1 figure to 3.955. Other CEE currencies gained, for example forint vs euro fell to 332.6 from 333.0 while ruble vs dollar fell to 63.88 from 64.2 partially as a result of oil which briefly rose intraday. **EURCZK** rose only slightly towards 25.89 however we think it is likely to trade above 26.0 level within days.

Thursday was a quiet day on Polish **fixed income market**. 5Y and 10Y bond yields fell by 2bp while 5Y and 10Y IRS rates fell by 3-5bp. As a result the asset swap widened. Core markets were relatively stable as well – German yield curve moved higher in parallel by 1bp (10Y Bund closed at -50bp) while the Poland-Germany 10Y spread narrowed to 255bp, by 3bp. The US curve remained stable in the long-end and the belly, however it rose at the front-end: 2Y bond yields rose to 1.74% from 1.68%.

At the yesterday's **switch auction** the Ministry of Finance sold bonds for PLN4.79bn, PLN1bn less than at the previous auction. This might suggest that the market participants remain cautious in the middle of the election campaign as more promises – resulting in higher debt supply in future – might emerge. The Ministry sold the 5Y bond PS1024 with fixed coupon 1.832% (for PLN0.9bn) and the 5Y floater WZ0525 (for PLN1.97bn). The Ministry repurchased PLN4.66bn of bonds maturing in October 2020, including DS1020 for PLN1.761bn. After the auction, the Ministry announced that 22% of the next year's gross borrowing needs are already covered.

Today at 10:00CET we will get to see Poland's retail sales in August and first September data on business sentiment – GUS synthetic indicators.

Polish industrial production



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.3407	CZKPLN	0.1677
USDPLN	3.9297	HUFPLN*	1.3043
EURUSD	1.1046	RUBPLN	0.0611
CHFPLN	3.9449	NOKPLN	0.4391
GBPPLN	4.9005	DKKPLN	0.5812
USDCNY	7.1022	SEKPLN	0.4043

*for 100HUF

Last session in the FX market 19/09/2019

	min	max	open	close	fixing
EURPLN	4.337	4.350	4.339	4.343	4.3419
USDPLN	3.919	3.942	3.922	3.932	3.9322
EURUSD	1.101	1.107	1.106	1.105	-

Interest rate market 19/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.47	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.79	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.06	-1	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	1.91	3	-0.40	1
2L	1.74	0	1.71	3	-0.43	1
3L	1.73	-1	1.62	3	-0.42	1
4L	1.73	-1	1.59	3	-0.42	-1
5L	1.73	-2	1.58	3	-0.38	-2
8L	1.74	-2	1.61	3	-0.23	-3
10L	1.76	-3	1.65	2	-0.10	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
T/N	1.63	0
SW	1.60	0
2W	1.60	0
1M	1.63	-1
3M	1.72	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.71	0
6x9	1.70	0
9x12	1.67	0
3x9	1.78	0
6x12	1.77	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.56	-1
France	21	-1	0.29	1
Hungary			2.49	-2
Spain	39	0	0.75	2
Italy	124	0	1.39	1
Portugal	40	-1	0.77	2
Ireland	33	-1	0.55	2
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

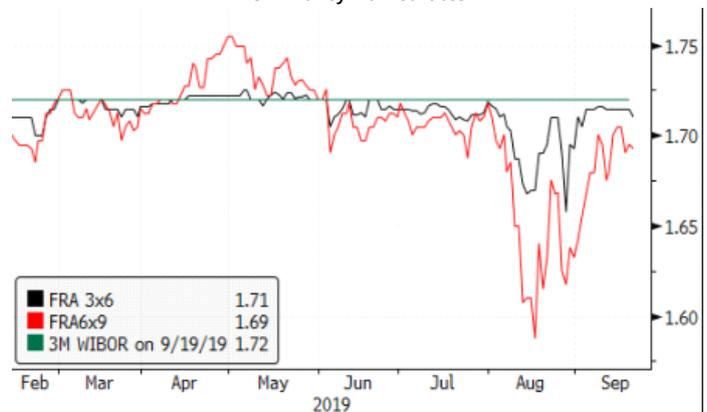
Zloty exchange rate



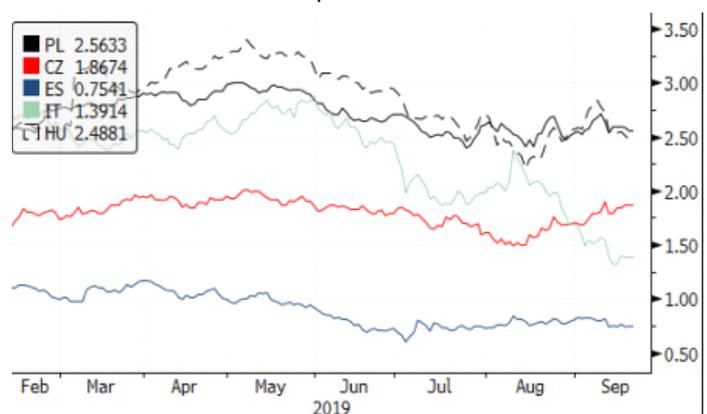
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (13 September)								
10:00	PL	CPI	Aug	% y/y	2.8	2.8	2.9	2.8
14:00	PL	Current Account Balance	Jul	€mn	-295	-401	-814	21
14:00	PL	Trade Balance	Jul	€mn	-111	-14	-376	-77
14:00	PL	Exports	Jul	€mn	19077	18845	19239	18068
14:00	PL	Imports	Jul	€mn	18966	18859	19615	18145
14:30	US	Retail Sales Advance	Aug	% m/m	0.2		0.4	0.7
16:00	US	Michigan index	Sep	pts	90.8		92.0	89.8
MONDAY (16 September)								
14:00	PL	CPI Core	Aug	% y/y	2.1	2.1	2,2	2.2
TUESDAY (17 September)								
11:00	DE	ZEW Survey Current Situation	Sep	pts	-15.0		-19.9	-13.5
15:15	US	Industrial Production	Aug	% m/m	0.2		0.6	-0.1
WEDNESDAY (18 September)								
10:00	PL	Employment in corporate sector	Aug	% y/y	2.7	2.72	2.6	2.7
10:00	PL	Average Gross Wages	Aug	% y/y	6.75	6.73	6.8	7.4
11:00	EZ	HICP	Aug	% y/y	1.0		1.0	1.0
14:30	US	Housing Starts	Aug	% m/m	4.95		12.3	-4.0
20:00	US	FOMC decision	Sep.19		2.00		2.00	2.25
THURSDAY (19 September)								
10:00	PL	Sold Industrial Output	Aug	% y/y	1.25	0.9	-1.3	5.8
10:00	PL	PPI	Aug	% y/y	0.8	0.95	0.7	0.6
14:30	US	Initial Jobless Claims	Sep.19	k	215.0		204	204.0
14:30	US	Index Philly Fed	Sep		10.75		12,0	16.8
16:00	US	Existing Home Sales	Aug	% m/m	-0.56		1,3	2.46
FRIDAY (20 September)								
10:00	PL	Retail Sales Real	Aug	% y/y	5.2	4.36	-	5.7

Source: Santander Bank Polska. Bloomberg, Parkiet
* in the case of a revision the data is updated

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