25 November 2019

Eyeopener

Retail sales data today

Mixed data from Europe, weak from Poland
EURPLN stable, EURUSD down
Polish debt gained following strengthening abroad
Today Europe Polish retail sales data, German Ifo index

On Friday we saw important data from the Euro zone, which were mixed. Flash November PMIs for industry showed a relief for the second month in a row. After heavy decline throughout 2018 and slightly slower pace of declines in 2019, this could reduce worries about European economy's prospects. However, services PMIs came out worse than expected at the end of the week. We remind our readers that in 2018 and 2019 services indexes were long resilient vs the deterioration in industry, but recently have also started to fall. It could be the case that a rebound of sentiment in services appears after several months of rebound of industrial PMIs (if they continue to go up). On Friday evening US president Donald Trump said that a trade deal with China is close, which had a positive influence on the dollar and weakened US bonds somewhat.

Central budget deficit grew in October to PLN3.2bn from PLN1.8bn, less than we expected. In October alone, incomes were higher by 0.9% y/y, CIT incomes grew by over 20%, PIT incomes by 8,9% while excise duty revenues fell by 0.4% y/y. Our estimate of the VAT revenues points to growth of barely 1.3% y/y, after 11% in September, however this data series is pretty volatile. We expect budget deficit to grow to PLN10-15bn by the end of the year.

Industrial production rose 3.5% y/y in October, exceeding expectations, but staying below 1H19 average. **Construction output** was a major disappointment, falling 4% y/y. The data suggest a collapse in infrastructural investments. We see growing risk that the investment and GDP slowdown in the coming quarters may be more pronounced than earlier expected. If the collapse in construction turns out not to be a one-off event (which we are unable to assess at the moment) it might mean that the slowdown in investments and as a result the GDP growth slowdown will both be quicker than we expected so far. We wrote more on that in Economic Comment.

The hypothesis that investments collapsed, even already in 3Q19, was supported by **the data on local governments budgets'** performance. In 3Q, local governments' investments decreased by 8.9% y/y so our total investments forecasts of 6% y/y may need a downside correction. After the data it cannot be excluded that the preliminary GDP reading of 3.9% y/y will be revised down. Data on the breakdown of 3Q GDP will be out on 29 November.

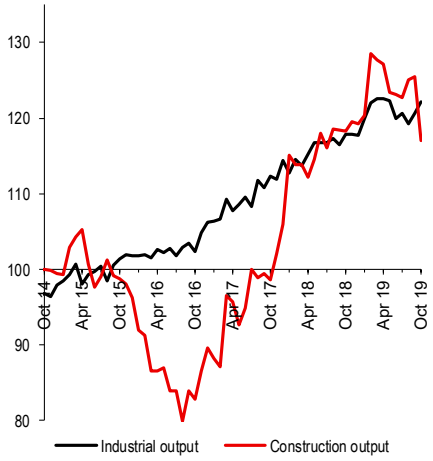
EURUSD was climbing after the European data only for a while. At the end of the day the remarks of the US president gave an impulse for a down move of this FX pair. In the past week the volatility of EURUSD was exceptionally small. In the coming days there will be many US data releases, but of second tier nature. The most awaited information will regard the developments in trade talks and in our view the market will be very sensitive now to this issue.

EURPLN was trading within the Thursday's range on Friday holding below 4.30. USDPLN rose to 3.90 amid stronger dollar vs the euro. In case of the other CEE currencies, the forint and the koruna gained mildly while the ruble was stable. Apparently, it seems that in November the market favours the currencies that underperformed in October. EURPLN is on the rise since the start of November after the October sharp drop and we do not expect the zloty to recover at least by the end of the month.

On the domestic interest rate market bond yields and IRS fell, the most on the long end of the curves. The strengthening impulse came from abroad where Bunds and Treasuries lost only temporarily after the European data and more than neutralised earlier losses. We do not expect any big changes to take place on the Polish fixed income market in the coming days. The jump of the Bund yield after the flash November PMIs was very short-lived and we think that yields may ease towards levels seen in late October (1.76% for 5Y, 2% for 10Y, in case of Polish debt).

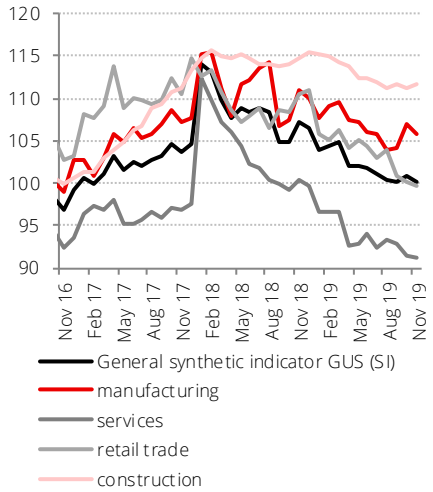
This week we will get to see new Polish data – October retail sales (today) and detailed GDP growth breakdown together with flash November CPI (Friday). Our inflation forecast is above the market consensus (2.7% vs 2.5%). In case of the GDP, we see a risk that the data will reveal sharp deterioration of investments growth which could spur worries about the economic activity in the coming quarters. From the global issues, the next information about the trade talks progress would be more important than the US data.

Production in industry and construction, 2015=100



Source: GUS, Santander

Business sentiment indicators



Source: GUS, Santander

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 Luziński +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

FX market

Today's opening

EURPLN	4.2959	CZKPLN	0.1686
USDPLN	3.8963	HUFPLN*	1.2852
EURUSD	1.1026	RUBPLN	0.0611
CHFPLN	3.9074	NOKPLN	0.4264
GBPPLN	5.0086	DKKPLN	0.5750
USDCNY	7.0363	SEKPLN	0.4056

*for 100HUF

Last session in the FX market 22/11/2019

	min	max	open	close	fixing
EURPLN	4.294	4.300	4.299	4.297	4.2975
USDPLN	3.877	3.902	3.886	3.898	3.8853
EURUSD	1.102	1.109	1.106	1.102	-

Interest rate market 22/11/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.38	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.78	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	2.04	-3	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.70	0	1.74	2	-0.34	0
2L	1.73	-1	1.61	3	-0.33	1
3L	1.71	-2	1.57	2	-0.31	-1
4L	1.71	-2	1.55	1	-0.26	2
5L	1.73	-2	1.56	1	-0.21	2
8L	1.76	-4	1.62	0	-0.03	2
10L	1.78	-4	1.67	0	0.09	2

WIBOR rates

Term	%	Change (bps)
O/N	1.57	2
T/N	1.58	1
SW	1.57	0
2W	1.60	0
1M	1.63	0
3M	1.71	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.71	0
3x6	1.70	1
6x9	1.69	0
9x12	1.65	0
3x9	1.79	0
6x12	1.76	-1

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.40	1
France	18	0	0.32	1
Hungary			2.22	-2
Spain	40	0	0.78	4
Italy	129	3	1.56	5
Portugal	38	0	0.76	1
Ireland	24	-1	0.43	1
Germany	9	0	-	-

* 10Y treasury bonds over 10Y Bunds

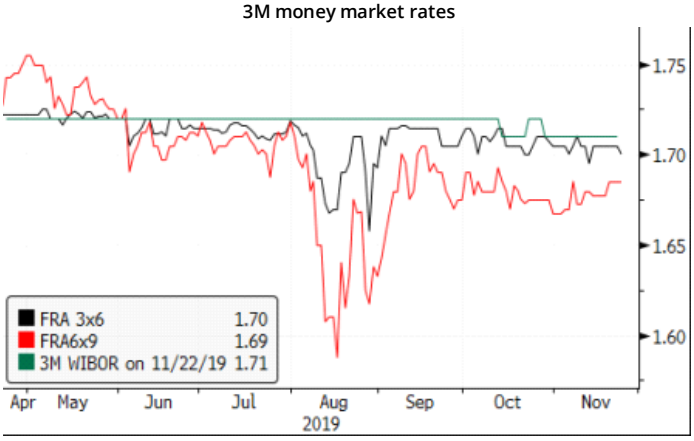
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

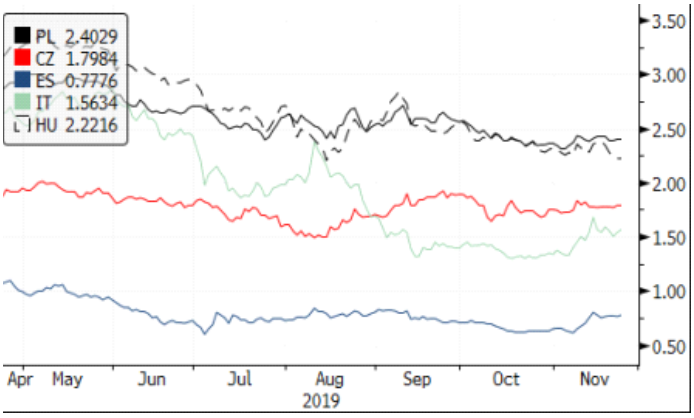
Zloty exchange rate

T-bonds yields

3M money market rates



10Y spread vs. Bund



Santander

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			FRIDAY (22 November)					
08:00	DE	GDP WDA	3Q	% y/y	0.5	-	0.5	0.5
09:30	DE	Germany Manufacturing PMI	Nov	pts	42.8	-	43.8	42.1
09:30	DE	Markit Germany Services PMI	Nov	pts	52.0	-	51.3	51.6
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	46.4	-	46.6	45.9
10:00	EZ	Eurozone Services PMI	Nov	pts	52.4	-	51.5	52.2
10:00	**PL**	**Sold Industrial Output**	**Oct**	**% y/y**	**2.5**	**2.0**	**3.5**	**5.6**
10:00	**PL**	**Construction Output**	**Oct**	**% y/y**	**6.2**	**8.8**	**-4.0**	**7.6**
10:00	**PL**	**PPI**	**Oct**	**% y/y**	**0.2**	**0.1**	**-0.1**	**0.9**
16:00	US	Michigan index	Nov	pts	95.7		96.8	95.7
			MONDAY (25 November)					
10:00	DE	IFO Business Climate	Nov	pts	95.0	-		94.6
10:00	**PL**	**Retail Sales Real**	**Oct**	**% y/y**	**4.3**	**4.8**		**4.3**
			TUESDAY (26 November)					
14:00	**PL**	**Money Supply M3**	**Oct**	**% y/y**	**8.95**	**9.0**		**9.4**
16:00	US	Consumer Conference Board	Nov	pts	126.8	-		125.9
16:00	US	New Home Sales	Oct	% m/m	0.8	-		-0.7
			WEDNESDAY (27 November)					
10:00	**PL**	**Unemployment Rate**	**Oct**	**%**	**5.1**	**5.0**		**5.1**
14:30	US	Durable Goods Orders	Oct	% m/m	-0.5	-		-1.2
14:30	US	GDP Annualized	3Q	% q/q	1.9	-		1.9
14:30	US	Initial Jobless Claims	week	k	218	-		227
16:00	US	Personal Spending	Oct	% m/m	0.3	-		0.2
16:00	US	Personal Income	Oct	% m/m	0.3	-		0.3
16:00	US	Pending Home Sales	Oct	% m/m	0.2	-		1.5
16:00	US	PCE Deflator SA	Oct	% m/m	0.3	-		0.0
20:00	US	Fed Beige Book						
			THURSDAY (28 November)					
11:00	EZ	ESI	Nov	pct.	101.0	-		100.8
14:00	DE	HICP	Nov	% m/m	-0.6	-		0.1
			FRIDAY (29 November)					
08:00	DE	Retail Sales	Oct	% m/m	-0.1	-		0.0
09:00	CZ	GDP SA	3Q	% y/y	2.5	-		2.5
09:00	HU	GDP	3Q	% y/y	5.0	-		5.0
10:00	**PL**	**CPI**	**Nov**	**% y/y**	**2.5**	**2.7**		**2.5**
10:00	**PL**	**GDP**	**3Q**	**% y/y**	**-**	**3.9**		**3.9**
11:00	EZ	Flash HICP	Nov	% y/y	0.8	-		0.7
11:00	EZ	Unemployment Rate	Oct	%	7.5	-		7.5

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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions. securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.
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.