

13 December 2019

Weekly Economic Update

The market says "I buy"

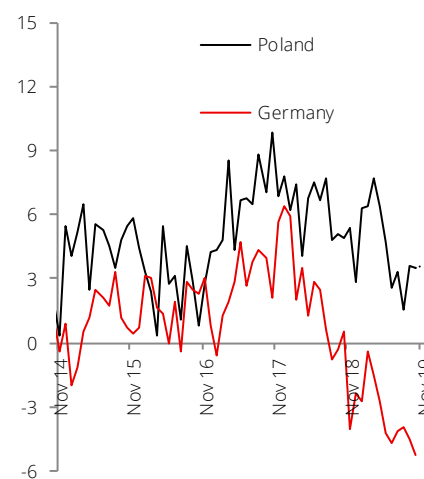
What's hot next week

- We finally have somewhat more clarity on at least one of the major issues that trouble financial markets and businesses this year - the strong majority obtained by Boris Johnson's Conservative Party in the British parliamentary elections gives hope that there will no more delays in Brexit, and the end of January will be the true final date. There may be Brexit-related votes already this week. The pound has not been this strong vs the euro since July 2016 (the month after the Brexit referendum).
- As for the other major global issue - the US-China trade negotiations - after a week of contradictory news we finally got information on 'Phase One' agreement on Friday evening (unconfirmed formally at the time of writing), just before the date of potential introduction of new tariffs by both countries (this Sunday). This should help the markets start next week in a positive mood, but there is still risk that weekend remarks by officials derail this optimism (after all the deal is just a stage in negotiations).
- The first real data from euro zone industry since business climate indicators started to improve have failed short of expectations, with y/y decline of output getting even bigger in October. The exception were German exports, with the second solid m/m rise in a row. In the coming week we will check (with the help of flash PMIs and Ifo) if euro zone companies keep reducing their pessimism in December.
- Christine Lagarde debuted as the president of ECB and informed she sees stabilisation of economic slowdown and a slight pick-up in inflation plus somewhat lower risk coming from global trade. Fed/ECB. The take from the Fed meeting was that according to the dot chart only four FOMC members would support hiking rates next year. This week Czech and Hungarian central banks decide on rates.
- There will be a great number of local releases coming this week. The many negative data surprises last month resulted in market consensus forming at quite low levels this time. Our call for 1.6% y/y industrial output growth and -2.4% construction output growth are above the market median. Judging by preliminary data from GUS, there is a chance that foreign trade data from the balance of payments also show more improvement than the market is prepared for. However, in general the data will in our view confirm the continuation of economic slowdown in Poland.

Market implications

- If next week market trades in positive mood, we expect EURPLN to break 4.27 and head towards 4.25 – the important support level.
- Next week, despite plenty of Polish macroeconomic data we think betting on the Polish yield curve should be mainly a function of the core yields which we expect to increase further on the positive news from the US-China trade talks.

Industrial output, SA, %/y



Source: Bloomberg, Santander

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Last week in economy

The week was just a prelude to the big set of monthly releases planned for next week. We only got November CPI details confirming strong contribution from food and services. Preliminary GUS data on October foreign trade were also out, giving some hope that exports to Germany soon returns to positive growth. In 3Q, labour demand showed further gradual decline.

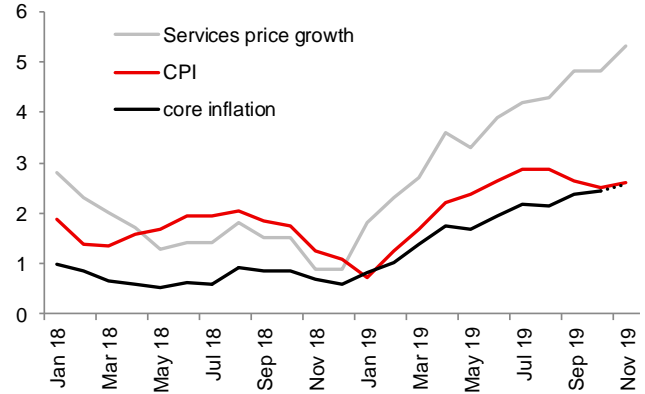
November CPI inflation was confirmed at 2.6% from the flash reading, up from 2.5% in October. The annual indicator rose mostly due to low base effect in communications (growth rate climbed to 3.7% y/y from 1.0% y/y yet price level did not change) and rising prices in recreation, e.g. in books (2.2% m/m) and trips abroad (2.0% m/m). GUS revised fuel price inflation up slightly. As for the food category a further rise of meat prices inflation was recorded (from 8% y/y to 9.2%) and was seen in all types of meat, not only pork, as well as meat products (9.5% y/y). Fruit price growth rose from 12.5% to 15% y/y, while vegetables stayed at c16% y/y. We are estimating core inflation excluding food and energy prices at 2.5-2.6% versus 2.4% in October. Services grew by 5.3% y/y (the fastest since comparable data are available i.e. 2 years), while goods prices stabilised at 1.7% y/y. Growth of heating prices was rising gently this year and is now at 2.4% y/y, which is the highest reading since 2014, but there is anecdotal evidence of much greater hikes at the start of 2020. We expect inflation to climb further in the months to come and it is likely to touch 4% y/y in January, provided that the government does not freeze energy prices again. Then CPI would fall towards the inflation target (2.5% y/y) at the year-end.

Sejm, the lower chamber of the Parliament, processed in one day a government motion to subsidise the National Health Fund with PLN2bn and a Police Support Fund with PLN1bn still this year, due to strong budget performance. We see this as a shift of expenditures from 2020 to 2019, to raise the probability of delivering a balanced central budget next year.

GUS data on **foreign trade** for the January-October period showed a 5.3% rise y/y for exports and 3.0% rise for imports. The previous reading, covering January-September had 5.0% y/y for exports and 2.7% for imports. The year-to-date growth rates improved vs the previous reading in the case of exports to Germany, UK, France and Russia among others, while deceleration was seen in exports to the US and Italy. The rebound in exports to core European countries is crucial to prevent further gradual descent of Poland's total export growth. The October output data from euro zone and Germany have not confirmed the recent rebound of optimism in business surveys, on the other hand German exports surprised positively. We believe that economic recovery is coming in Europe next year and will help lift Polish exports growth.

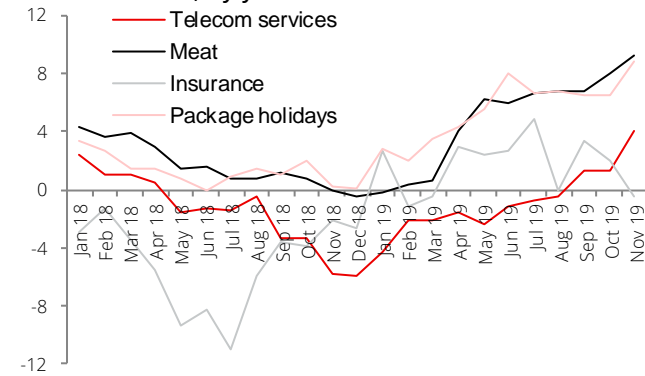
In 3Q19 **labour demand** seemed to ease a bit more, like in the previous quarters of the year. There were 151k newly created jobs vs 167k in 3Q18. Out of these new vacancies 118k were filled, which is 10% less than a year ago. Enterprises also reported liquidation of 82k jobs, up from 80.6k in 3Q18.

CPI inflation and selected components, %/y



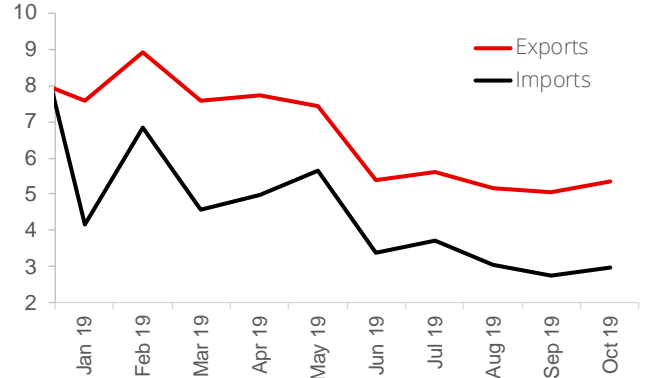
Source: GUS, NBP, Santander

Selected CPI items, %/y



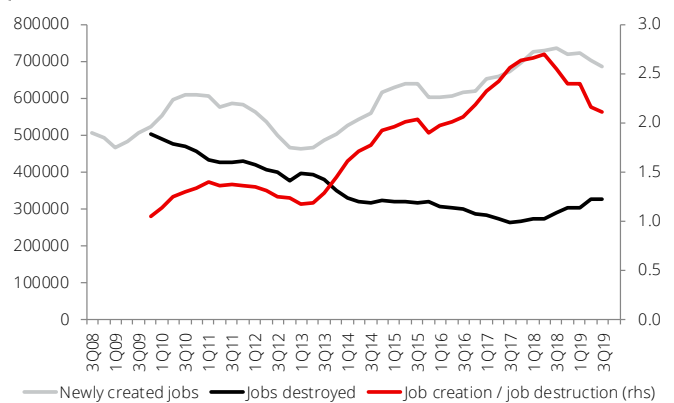
Source: GUS, Santander

Poland, international trade of goods in €, year-to-date, %/y



Source: GUS, Santander

Job creation and destruction, in quarter (k), 4Q mov.sum



Source: GUS, Santander

FX and FI market

Last week on the market

FX Last week was a pretty busy one in terms of potential market moving events: both Fed and ECB met, have not changed neither rates nor the pace of asset purchases, then updated their economic forecasts (in 2020 GDP and inflation are expected to be 2.0% and 1.9% in the US and 1.1% and 1.4% in the Eurozone), there was an election in the UK won by Conservatives which the market liked and the pound strengthened, and signs of a possible deal between the US and China before the 15 December tariffs deadline showed up. The dollar index lost c1.0% over the week, EURUSD rose 1.1% to 1.118, while GBPUSD increased c2.0% to 1.3385 post elections.

The zloty, as opposed to other EM currencies have not strengthened (EURPLN unchanged at 4.274) over week which might be a sign of more cautious approach of investors given slowing growth and still not resolved FX mortgages issues. Only EURCZK has not moved either. Other regional currencies rallied in tandem with the global mood: EURHUF lower by 0.7% to 328.8, while USDRUB down as much as 2.0% (roughly half of it coming from dollar index and half from RUB basket movements).

FI Polish 10Y IRS and bond yields have increased over the past week by 4bp to 1.75% and by 2bp to 2.03%, respectively. Core yields increased roughly by the same amount – Bunds by 3bp to -0.25% while 10Y UST by 4bp to 1.88% which means that the most important spreads (PL 10Y asset swap and 10Y PL-DE bond spread) remained almost unchanged at 28bp and 228bp. In Poland there was another switch auction at which the Ministry of Finance sold bonds for PLN2.2bn. The Ministry said that 2020 gross borrowing needs are now covered in 35%. The 21x24 FRA contract moved from 1.44% to 1.53% a rise by 9bp but still pricing in almost one full 25bp cut.

Key events

Investors will start the coming week already knowing the outcome of the US-China trade talks. On the data front, first December PMIs are published on Monday (for Eurozone and Germany) and Eurozone HICP on Wednesday. In the US we will know industrial production (Tuesday), home sales (Thursday), and GDP (Friday). Also a lot of data coming out in Poland: core inflation, current account, exports and imports (Monday), wages and employment data (Wednesday), industrial production and PPI (Thursday) as well as retail sales and budget deficit (Friday).

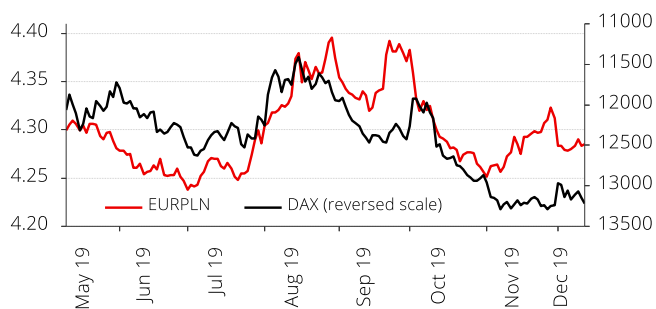
Market implications

Once the Brexit-related uncertainty is out of way for now the risk mood next week is likely to be dependent on the outcome of the trade talks (it seems on Friday evening that an agreement has been reached). We, as most of the market, expected the positive outcome and the positive mood on the markets to prevail lifting stock indices further and strengthening EM currencies.

FX The zloty still trades within a horizontal range it has been within since mid-2018. If next week market trades in positive mood, we expect EURPLN to break 4.27 and head towards 4.25 – the important support level. Only in a very unlikely case of the break-up of further US-China talks would the zloty weaken, in our view. It is, however, worth mentioning, than on a relative value basis (e.g. within the CEE3 region) the zloty has been trading weak lately, hence one should take into consideration idiosyncratic risks as well (FX mortgages).

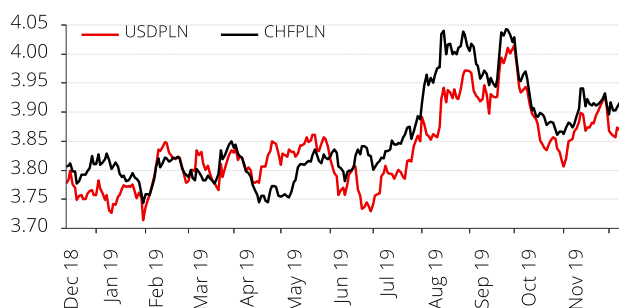
FI Polish yields keep tracking core yields closely, again. Next week, despite plenty of Polish macroeconomic data (which should come a bit weaker in general because of working day effect, but regarding which we are slightly more bullish than the market) we think betting on the Polish yield curve should be mainly a function of the core yields which we expect to increase further as the positive news from the US-China trade talks arrive and market digests the news at its own pace.

EURPLN and German DAX index



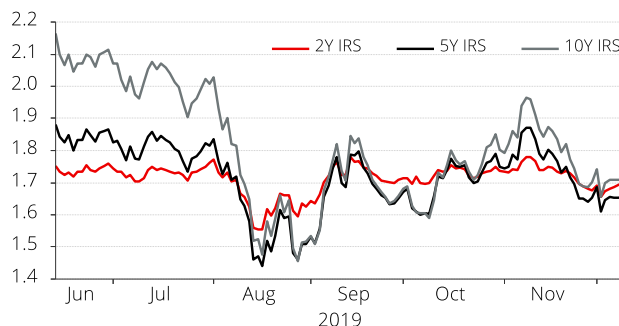
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and CHFPLN



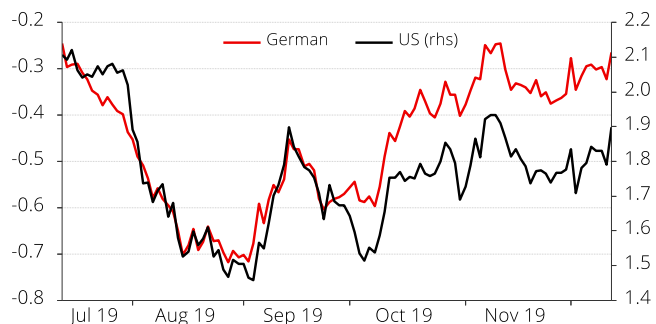
Source: Refinitiv Datastream, Santander Bank Polska

PLN IRS



Source: Refinitiv Datastream, Santander Bank Polska

10Y Bund and UST yields



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST
					MARKET	SANTANDER	VALUE
MONDAY (16 December)							
09:30	DE	Flash Germany Manufacturing PMI	Dec	pts	44.7	-	44.1
09:30	DE	Flash Markit Germany Services PMI	Dec	pts	52.0	-	51.7
10:00	EZ	Flash Eurozone Manufacturing PMI	Dec	pts	47.2	-	46.9
10:00	EZ	Flash Eurozone Services PMI	Dec	pts	52.0	-	51.9
14:00	PL	CPI Core	Nov	% y/y	2.5	2.6	2.4
14:00	PL	Current Account Balance	Oct	€mn	358	702	171
14:00	PL	Trade Balance	Oct	€mn	556	585	468
14:00	PL	Exports	Oct	€mn	22 000	21 755	19 279
14:00	PL	Imports	Oct	€mn	21 648	21 170	18 811
TUESDAY (17 December)							
14:00	HU	Central Bank Rate Decision		%	0.9	-	0.9
14:30	US	Housing Starts	Nov	% m/m	1.9	-	3.8
15:15	US	Industrial Production	Nov	% m/m	0.8	-	-0.8
WEDNESDAY (18 December)							
10:00	DE	IFO Business Climate	Dec	pts	95.4	-	95.0
10:00	PL	Employment in corporate sector	Nov	% y/y	2.5	2.4	2.5
10:00	PL	Average Gross Wages	Nov	% y/y	6.2	5.8	5.9
11:00	EZ	HICP	Nov	% y/y	1.0	-	1.0
13:00	CZ	Central Bank Rate Decision		%	2.0	-	2.0
THURSDAY (19 December)							
10:00	PL	Sold Industrial Output	Nov	% y/y	0.6	1.6	3.5
10:00	PL	PPI	Nov	% y/y	0.15	0.4	-0.1
14:30	US	Initial Jobless Claims	week	k	214	-	252
14:30	US	Index Philly Fed	Dec	pts	9.0	-	10.4
16:00	US	Existing Home Sales	Nov	% m/m	-0.16	-	1.87
FRIDAY (20 December)							
10:00	PL	Retail Sales Real	Nov	% y/y	3.9	4.3	4.6
14:30	US	GDP Annualized	3Q	% Q/Q	2.1	-	2.1
16:00	US	Michigan index	Dec	pts	99.2	-	99.2
16:00	US	Personal Spending	Nov	% m/m	0.4	-	0.3
16:00	US	Personal Income	Nov	% m/m	0.3	-	0.0
16:00	US	PCE Deflator SA	Nov	% m/m	0.2	-	0.2

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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