

21 February 2020

Eyeopener

Polish industrial output above expectations

Less optimism before the data from Europe
Zloty weakens, EURUSD still close to 1.08
Polish bonds gain but less than Bund
Today retail sales in Poland and preliminary PMIs abroad

On Thursday the stock indices went down a bit, positively affecting the bond market. The new better-than-expected US data (Philly Fed index) failed to support the dollar, which gave away some of its recent gains. The weakening of the greenback did not underpin the EM currencies, with only the Ukrainian hryvna appreciating somewhat.

Yesterday **NBP published minutes** from the February MPC meeting and the results of the January MPC voting. In January the motion to cut rates by 25bp was still supported only by Eryk Łon. The motion was repeated in February. The other January motion, to hike rates by 15bp, gained support of three members (Zubelewicz, Hardt, Gatnar), which is in line with how we perceive the balance of power within the Council and shows that the current strong rise of CPI has not triggered anyone else to support monetary tightening. The motion was not repeated in February, but it might show up again in March – this is how we read the last interview with Gatnar. The February minutes, in the paragraph regarding the reasoning of the hawks mentions the potential persistence of factors that have pushed inflation higher and that discussion on a rate hike will depend on the message carried by the new projection. The document also included a remark that the majority expects a larger slowdown now than earlier assumed – which is a reason to wait the current rise of inflation out as it should be back to the target still within the current monetary policy time horizon. The majority still considers the high inflation to come from supply and regulatory factors. Inflation expectations are seen by the majority as not problematic – their behaviour is seen as only adaptive and enterprises are expected to rise prices in a limited way due to the slowdown. We think that interest rates will not be changed this year and next.

Industrial output increased by 1.1% y/y in January versus 3.8% y/y in December, somewhat stronger than we expected (-0.1% y/y). The seasonally adjusted data showed an acceleration to 3.5% y/y from 2.1% y/y. Exporting sectors were doing quite well. Still, the data are signalling further economic slowdown in 1Q20, in our view. PPI growth declined from 1% y/y to 0.8%. Read more in [our Economic Comment](#).

EURUSD set in the first part of the session a new this year's minimum of 1.077, but the next hours corrected the morning dollar strengthening. Despite much better than expected US data, the exchange rate fluctuated slightly above 1.08 at the end of the Polish session. Today the preliminary February PMI for industry and euro zone services will be released. As in the case of Ifo, the consensus assumes only a slight decrease comparing to January levels, so in that case there is also a risk of a negative surprise. If that happened, EURUSD could test 1.08 again.

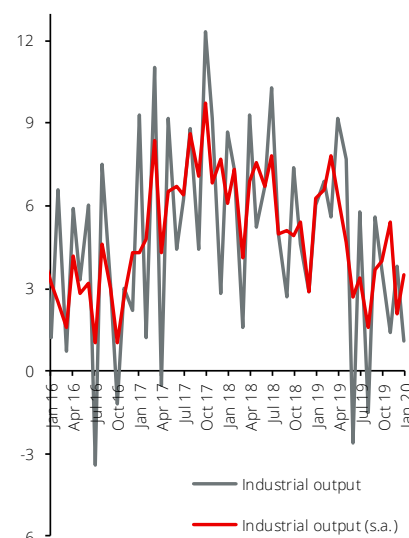
EURPLN resumed the upside move and set the session peak at 4.285. USDPLN broke 3.97 but at the end of the day was back to 3.96. EURPLN is gradually nearing 4.30, the upper end of the range set at the beginning of the month. Shall today's European data disappoint, the exchange rate could climb further towards this level.

The **other CEE currencies** were under pressure as well. EURHUF and EURCZK climbed by c0.40% to slightly above 338 and above 25.02, respectively. USDRUB rose 0.6% to 64.0 despite further rise of the oil price.

On the **domestic interest rate market**, IRS and bond yields went even lower, following the strengthening Bunds and Treasuries. This time, the Polish debt gained less than the bonds on the core markets and the euro zone periphery. At the switch auction, the Ministry of Finance sold bonds worth PLN4.1bn and informed that this year's borrowing needs are already covered in 73%.

Today at 10:00CET GUS will release data on January retail sales and construction output. Our forecast of real retail sales growth is slightly above market expectations, while in case of construction output it is slightly lower. Both prints should be below the December readings.

Industrial output, % y/y



Source: GUS, Santander

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FX market

Today's opening

EURPLN	4.2788	CZKPLN	0.1708
USDPLN	3.9640	HUFPLN*	1.2652
EURUSD	1.0794	RUBPLN	0.0618
CHFPLN	4.0322	NOKPLN	0.4246
GBPPLN	5.1102	DKKPLN	0.5730
USDCNY	7.0341	SEKPLN	0.4037

*for 100HUF

Last session in the FX market 20/02/2020

	min	max	open	close	fixing
EURPLN	4.267	4.285	4.270	4.282	4.2789
USDPLN	3.946	3.972	3.957	3.967	3.9621
EURUSD	1.078	1.082	1.079	1.079	-

Interest rate market 20/02/2020

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
PS0422 (2L)	1.55	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.76	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	2.11	-2	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	1.72	0	1.55	-3	-0.38	0
2L	1.80	1	1.41	-4	-0.38	0
3L	1.79	0	1.36	-4	-0.37	0
4L	1.79	-1	1.35	-4	-0.34	0
5L	1.81	0	1.35	-4	-0.32	-1
8L	1.86	-1	1.41	-5	-0.20	-2
10L	1.88	-1	1.46	-5	-0.10	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.49	-1
T/N	1.53	2
SW	1.54	0
2W	1.58	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	1.71	0
6x9	1.70	1
9x12	1.71	1
3x9	1.79	0
6x12	1.79	0

Measures of fiscal risk

Measures of risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.56	-1
France	15	1	0.23	0
Hungary			2.79	4
Spain	34	-1	0.67	0
Italy	98	1	1.36	1
Portugal	30	1	0.68	0
Ireland	19	1	0.28	-2
Germany	8	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



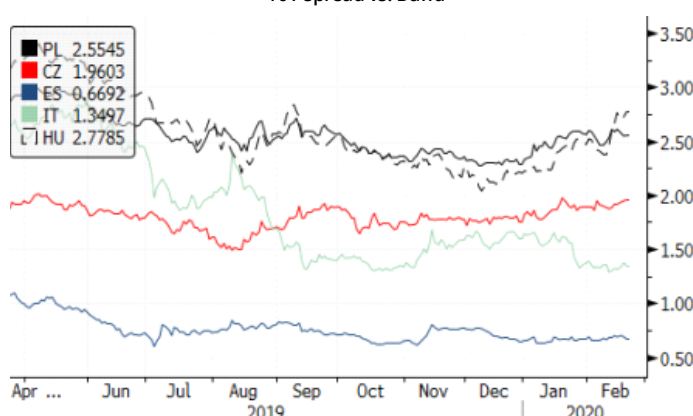
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (14 February)								
08:00	DE	GDP WDA	4Q	% y/y	0.3	-	0.4	0.5
09:00	CZ	GDP SA	4Q	% y/y	2.0	-	1.7	2.5
09:00	CZ	CPI	Jan	% y/y	3.15	-	3.6	3.2
09:00	HU	GDP	4Q	% y/y	4.3	-	4.5	5.0
10:00	PL	CPI	Jan	% y/y	4.15	4.1	4.4	3.4
10:00	PL	Flash GDP	4Q	% y/y	3.0	3.1	3.1	3.9
11:00	EZ	GDP SA	4Q	% y/y	1.0	-	0.9	1.0
14:30	US	Retail Sales Advance	Jan	% m/m	0.3	-	0.3	0.2
15:15	US	Industrial Production	Jan	% m/m	-0.2	-	-0.3	-0.4
16:00	US	Michigan index	Feb	pts	99.45	-	100.9	99.8
MONDAY (17 February)								
No important data releases								
TUESDAY (18 February)								
11:00	DE	ZEW Survey Current Situation	Feb	pts	-10.0	-	-15.7	-9.5
WEDNESDAY (19 February)								
10:00	PL	Employment in corporate sector	Jan	% y/y	2.2	1.6	1.1	2.6
10:00	PL	Average Gross Wages	Jan	% y/y	7.0	6.1	7.1	6.2
14:30	US	Housing Starts	Jan	% m/m	-11.7	-	-3.6	17.7
20:00	US	FOMC Meeting Minutes						
THURSDAY (20 February)								
10:00	PL	Sold Industrial Output	Jan	% y/y	-0.4	-0.1	1.1	3.8
10:00	PL	PPI	Jan	% y/y	1.0	0.5	0.8	1.0
14:30	US	Initial Jobless Claims	week	k	210	-	210	206
14:30	US	Index Philly Fed	Feb	pts	11.0	-	36.7	17.0
FRIDAY (21 February)								
09:30	DE	Germany Manufacturing PMI	Feb	pts	44.8	-		45.3
09:30	DE	Markit Germany Services PMI	Feb	pts	53.8	-		54.2
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	47.4	-		47.9
10:00	EZ	Eurozone Services PMI	Feb	pts	52.3	-		52.5
10:00	PL	Construction Output	Jan	% y/y	-3.6	-4.0		-3.3
10:00	PL	Retail Sales Real	Jan	% y/y	4.1	4.5		5.7
11:00	EZ	HICP	Jan	% y/y	1.4	-		1.4
16:00	US	Existing Home Sales	Jan	% m/m	-1.7	-		3.5

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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