

30 November 2018

Weekly Economic Update

CPI falls before the MPC meeting

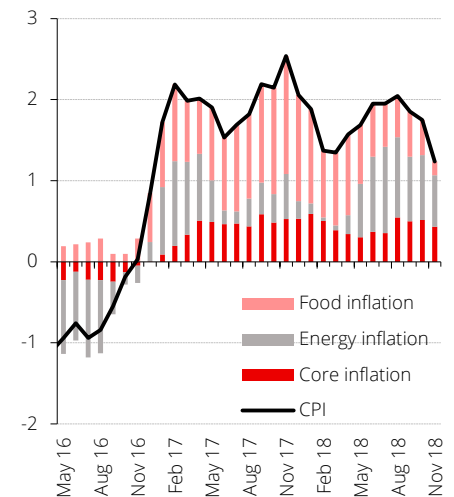
What's hot next week

- At the upcoming MPC post-meeting press conference, the NBP governor will likely be asked about the rate hike motion from November, but we do not expect any clear information from him apart from repeated declaration that rates will remain flat through 2019. On 20 December, we will get to know how many members dared to go against the rock solid majority built around Adam Glapiński. Still, supporters of loose monetary policy who would want the MPC to stay idle at least until the end of 2019 outnumber these central bankers, who are frustrated with no response to uncomfortably high projected CPI path. The CPI decline from 1.8% y/y to mere 1.2% in November with a likely drop in core inflation seems a sufficient counterweight to claims that the hawkish camp is becoming stronger as it managed to vote a motion in November.
- The weekend G20 talks might set the tone next week. A 'seize-fire' in the US-Sino trade wars would be a major positive signal for risky assets and FX. Jerome Powell's testimony in the US Congress comes one week too late to have an impact on the market, as his new milder approach has already been priced in. OPEC+ meeting on Thursday might offer some support for oil prices, which trended down for the whole November, but given that November flash inflation releases were lower than expected, this may fall short of triggering a sell-off on bond markets. The markets may also be interested in the German CDU's chair elections to replace Angela Merkel on Friday. A partial US government shutdown may occur on the same day if there is no compromise between the president and Democrats on the spending bill. When it comes to economic releases, we will learn PMIs, data from German industry and US non-farm payrolls.

Market implications

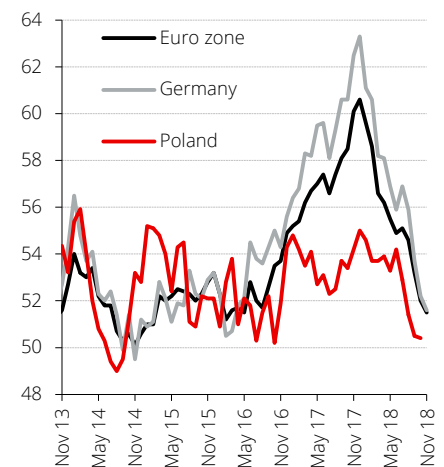
This week, we are expecting profit-taking on the bond market after the last week's rally. This development should be supported by a rebound in PMI for Polish manufacturing. However, upward move of yields will not be significant, in our view, due to incoming weaker data from the USA. Such a data pattern should be supportive for higher EURUSD and lower EURPLN. The MCP conference is unlikely to affect the markets markedly. Trump-Xi Jinping meeting is a risk factor. If Sino-US tension declines, then the zloty may appreciate and bonds may weaken.

CPI y/y growth structure, in pp



Source: GUS, NBP, Santander Bank Polska

Manufacturing PMIs



Source: Bloomberg, IHS Markit, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website www: skarb.santander.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski, CFA +48 22 534 18 84

What's hot next week

We are expecting a rise of Polish manufacturing PMI to 51.1 points. GUS business sentiment indicators showed a broad improvement in this period, while the flash PMIs for Germany and the euro zone kept declining. What is more, the highlights from the previous PMI report: poor new orders and employment indices for manufacturing were not confirmed by hard data.

We expect the MPC meeting to be less exciting than the previous one (new NBP forecasts and a motion for a rate hike). Recent data (low inflation in November and lower consumption growth in 3Q18) support dovish arguments and calls for stable rates.

Last week in economy

Flash CPI inflation in November was at 1.2% y/y versus 1.8% y/y in October, surprising to the downside again, but this time quite markedly (Bloomberg consensus 1.6% y/y, our call 1.5% y/y). The surprise is mostly to blame on food prices, but core inflation also fell, to 0.7% y/y from 0.9%, reaching the lowest level since July.

3Q18 GDP rose by 5.1% y/y and by 1.7% q/q sa, and confirmed the flash reading released in the mid of month. Quarterly GDP readings for the last two years were slightly revised up. The 3Q GDP details confirmed that the 5.1% growth was achieved thanks to a major acceleration in investment and positive contribution of inventories. Private consumption surprised negatively by decelerating to 4.5% y/y, the lowest growth rate since 1Q17. Net exports contributed -0.9 pp to GDP growth in 3Q18 - more negatively than we had expected. In the upcoming quarters, we are expecting some slowdown in economic activity.

Labour force survey data for 3Q showed the unemployment rate rose from record low 3.6% to 3.8% after nine consecutive quarters of decline (non-seasonally-adjusted). The participation rate rose to 56.8% (up 0.3pp q/q and 0.1pp y/y) and the number of inactive workers decreased by 0.8% y/y as sound economic performance is pulling people back to the labour market.

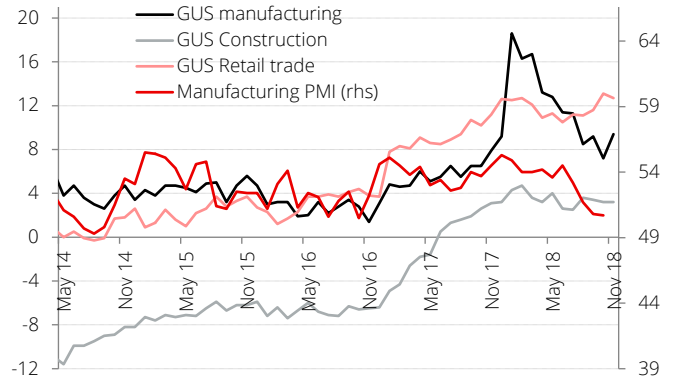
After October, the central budget surplus amounted to PLN6.5bn. October was yet another month when revenues were above the plan and expenses lower than assumed. Especially, in October 2018 debt servicing costs amounted to a mere PLN1.6bn versus PLN6.6bn in October 2017. It seems that the Ministry frontloaded its debt servicing costs to July (PLN11.7bn in July 2018 versus PLN6.9bn in July 2017).

Stats office monthly Statistical Bulletin showed that the October rebound of corporate wages was caused by bonus payments in mining and the number of working days effect. Ex-mining, corporate wages growth was 7.1% y/y, in line with this year's average (versus headline at 7.6% y/y).

Quote of the week

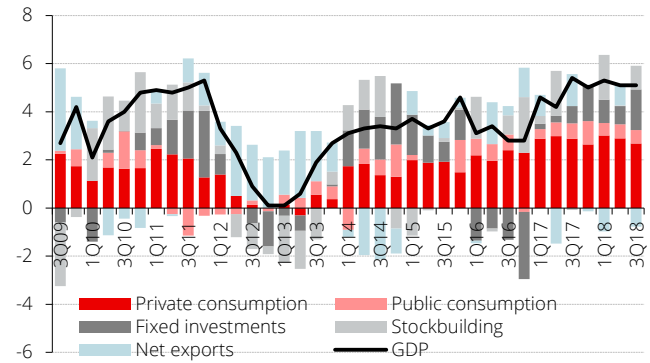
Kamil Zubelewicz confirmed his hawkish attitude by stating that the NBP would be late with delivering a hike and that the NBP official target should be at least 0.5 percentage points lower. In our view, he is one (out of probably two) of the central bankers who backed the rate hike motion at the November meeting. Detailed results of the vote will be published shortly before Christmas. Meanwhile, Eryk Łon feels very comfortable with the information incoming from other economies. This means that his assessment of the economy improved – until recently he wanted to support the economy with rate cuts.

Business sentiment indicators



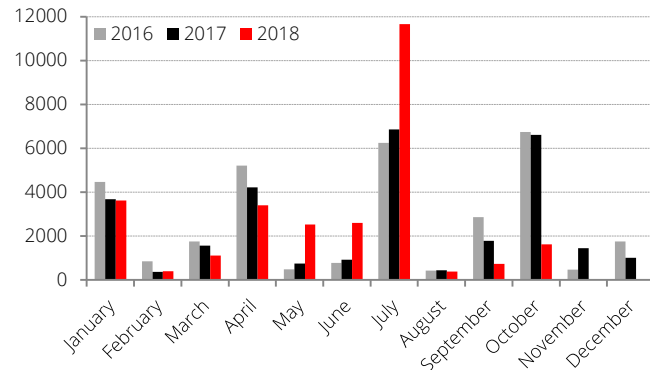
Source: GUS, Santander Bank Polska

GDP and its y/y growth structure



Source: GUS, Santander Bank Polska

Central budget's debt servicing costs, PLNmn



Source: Finance Ministry, Santander Bank Polska

Kamil Zubelewicz, MPC member, Bloomberg, 27 November

CPI is likely to exceed 3% y/y if there are no positive supply shocks. I agree with NBP analysts that inflation will run above the inflation target, so any decision to raise rates will be too late. Only lack of trust in NBP official forecasts can justify keeping rates unchanged. The "Monetary Policy Guidelines 2019" assume a too high inflation target, so I did not support them. In my view, the target should be at least 0.5pp lower.

Eryk Łon, MPC member, Bloomberg, 27 November

I stick to my view that rates should remain unchanged at 1.50% until end of the current MPC term. Maybe it would be possible to keep them flat even longer. Information from abroad is really calming for me.

FX and FI market

Last week on the market

FX After the sell-off seen at the end of the previous week, the zloty gained in the next days. Polish currency was supported by weaker US macro data, the decline of tensions after negative reaction to the seizure of three Ukrainian vessels by Russian naval forces. Furthermore, PLN was supported by the (read as dovish) Fed chairman speech. The domestic inflation and GDP data affected the zloty only marginally. As a result, EURPLN slid to 4.2890 from 4.2990. EURUSD moves translated into an increase of USDPLN to 3.8130 from 3.79 at the beginning of the week, and then into a decrease to 3.7750.

FI After the previous week sell-off, domestic yields and IRS rates were decreasing, similar to the core bond markets. The first significant yields moves were registered after the Fed chairman, Jerome Powell's speech, who described US interest rates as "just below" neutral level. The second wave was triggered by Polish flash CPI release (the reading was unexpectedly low). As a consequence, over the week the domestic yield curve shifted down by 5-11bp and IRS curve by 7-14bp (stronger on the long ends of the curves). Positive background for this move was created by information about budget surplus for January-October (+PLN6.5bn) and the decision of Ministry of Finance to swap November's regular auction to switch auction (bonds worth nearly PLN7bn were sold).

Key events

This week the investors will be focused on Trump-Xi Jinping trade negotiations (scheduled for this weekend on the G-20 summit). Later this week we will see Eurozone and Poland PMI readings. We believe that Eurozone data will confirm the drop of PMI showed in the flash reading. Polish PMI is likely to show moderate rebound. Market players will be focused also on the US non-farm payrolls data – we expect weaker figures.

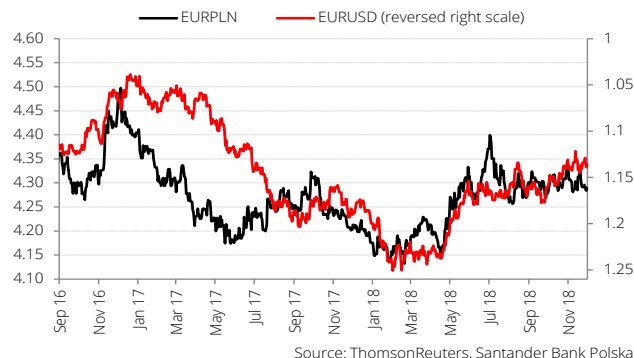
MPC press conference (the rhetoric is likely to be sustained) will likely to be ignored by the investors.

Market implications

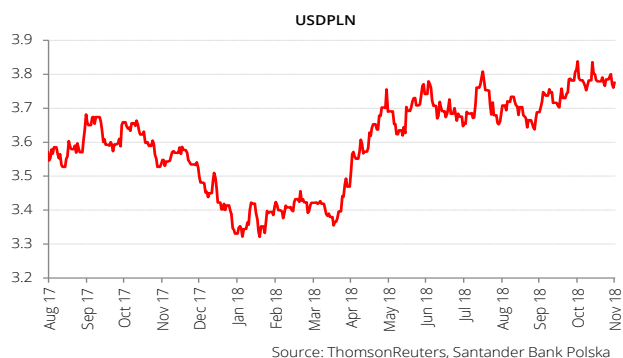
FX We expect EURPLN could try to break the support level at 4.26. This should be supported by the recent Fed's chairman, Jerome Powell's comments that triggered a EURUSD rise. The zloty should be also supported by the US labour data, where we expect the nonfarm payrolls to disappoint. Polish data should be neutral for the domestic currency. The risk factor to our scenario (PLN strengthening) is the outcome of the Trump-Xi Jinping meeting at the G20 summit yet this weekend.

On Monday we expect some sell-off, after the last week rally. The yields increases may be marginal and may be fuelled by the November's PMI data (we expect a rebound to 51.1 from 50.4) and expected by us profit taking on the core markets. Later in the week, we anticipate the yields to go down again awaiting the weak US labour market data and further discounting of poor data from Europe, released at the beginning of the week. At the end of the week, the 10Y yield should be at 3.08%, 5Y at 2.50% and 2Y at 1.53%.

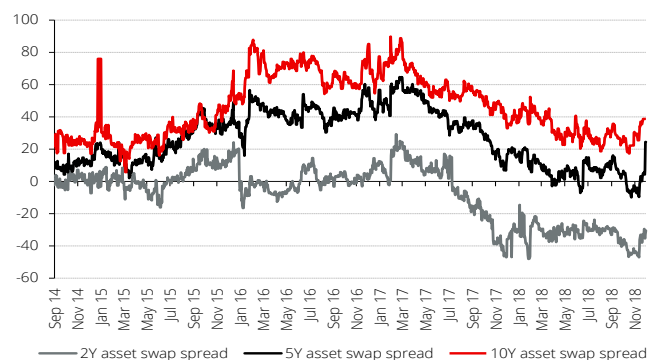
EURPLN and EURUSD



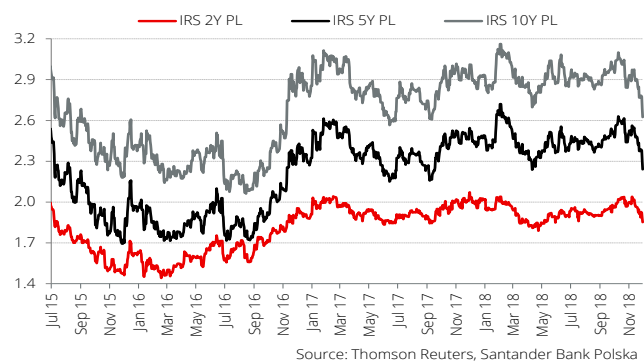
USDPLN



Asset swap spreads



IRS



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (3 December)						
09:00	PL	Poland Manufacturing PMI	Nov	pts	50.3	50.4
09:55	DE	Germany Manufacturing PMI	Nov	pts	51.6	51.6
10:00	EZ	Eurozone Manufacturing PMI	Nov	pts	0.0	51.5
16:00	US	ISM manufacturing	Nov	pts	58.0	57.7
TUESDAY (4 December)						
No important events						
WEDNESDAY (5 December)						
	PL	MPC decision		%	1.50	1.50
02:45	CN	Caixin China PMI Services	Nov	pts	50.9	50.8
09:00	HU	GDP	3Q	% y/y	4.8	4.8
09:55	DE	Markit Germany Services PMI	Nov	pts	53.5	53.3
10:00	EZ	Eurozone Services PMI	Nov	pts	0.0	53.1
11:00	EZ	Retail Sales	Oct	% m/m	0.0	0.0
14:15	US	ADP report	Nov	k	200	227
16:00	US	ISM services	Nov	pts	59.5	60.3
THURSDAY (6 December)						
08:00	DE	Factory Orders	Oct	% m/m	-0.6	0.3
09:00	HU	Industrial Production SA	Oct	% y/y	0.0	2.2
14:30	US	Initial Jobless Claims	week	k	220	224
16:00	US	Durable Goods Orders	Oct	% m/m	-	-4.4
16:00	US	Factory Orders	Oct	% m/m	-2.0	0.7
FRIDAY (7 December)						
08:00	DE	Industrial Production SA	Oct	% m/m	0.0	0.2
09:00	CZ	Industrial Production	Oct	% y/y	0.0	-0.9
11:00	EZ	GDP SA	3Q	% y/y	0.0	1.7
14:30	US	Change in Nonfarm Payrolls	Nov	k	205	250
14:30	US	Unemployment Rate	Nov	%	3.7	3.7
16:00	US	Michigan index	Dec	pts	97.0	97.5

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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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.