

Weekly Economic Update

More words than figures

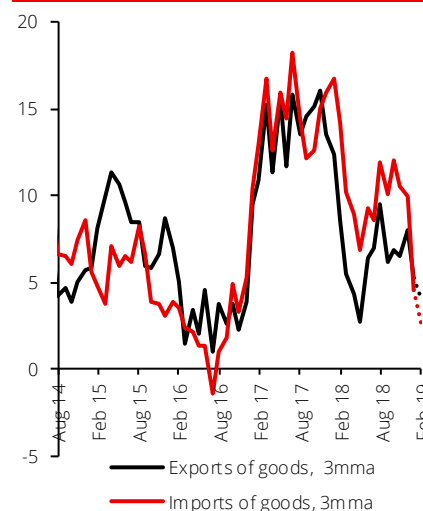
What's hot next week

- The coming week will be full of speeches by central bankers, representatives of government and various other policymakers and representatives of supranational organisations. The **Spring Summit of IMF and World Bank** will provide opportunity for them to discuss global outlook. In our view the recent downward revisions of world growth forecasts and key central banks turning more dovish/delaying their policy normalisation agenda, suggest that the event will be dominated by fears of a deeper global slowdown – and this might affect the market mood. On Tuesday, IMF will release World Economic Outlook update with refreshed growth forecasts. The most market-relevant speeches and seminars will start on Wednesday evening and continue until Friday. At the same time there will be a summit of IIF (Institute of International Finance). The ECB meeting is also in the calendar for the week – with possibly more details on TLTRO III and more information on the unwelcome effects of prolonged period of low rates Mario Draghi mentioned recently triggering a strengthening of bonds. Fed releases minutes which the markets will browse for traces of the possibility of rate cuts (after the dot plot showed FOMC members resigning from two rate hikes planned for this year).
- In the coming week, it will be hard to miss the **Brexit** issue. On Wednesday the extraordinary EU summit will be held and this is the deadline for PM May to have the Brexit deal approved by the UK parliament. If not, hard Brexit could occur on Friday, unless the EU countries agree for a long extension which is quite likely.
- In Poland, we will only see February balance of payments with expected low exports and imports pace of growth. Among the global data, euro zone industrial output (weak PMIs do not bode well), German exports and US inflation should be watched the most.

Market implications

- We believe that core market bonds as well as domestic bonds will positively react to German export data, which will be released at the beginning of the week. Wednesday's ECB press conference should put even more downside pressure on the yields. We think that at the ECB conference we will get to know details of TLTRO III program and we will hear rather pessimistic comments about the euro zone economic outlook. We expect Fed minutes (due also on Wednesday) to follow in a similar vein. As a consequence, we anticipate a partial recovery of last week losses of domestic bonds.
- We anticipate further appreciation of the zloty against the euro. The zloty will be supported by the likely dovish ECB press conference tone. In our opinion investors might price in a larger delay in policy normalisation after the ECB press conference. The tone of conference together with the recent relatively high economic forecasts for Polish economy published by WB and S&P should support a further decline of EURPLN.

Foreign trade turnover, % y/y



Source: NBP, Santander

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Last week in economy

Rating agencies have started assessing the Polish fiscal package and so far the opinions have been positive, i.e. rating-neutral with no breach of the EU's 3% of GDP threshold for the GG deficit expected. Moreover, we saw stronger-than-expected PMI and CPI readings and a confirmation of the MPC's dovish stance. We published an extended issue of our [MACROscope](#) report.

Fitch Ratings upheld Poland's "A-" rating with stable outlook, pointing once again to its strong economic fundamentals with low GDP per capita and high external debt. In its assessment of the PiS fiscal package, the agency has revised its fiscal deficit projections from 2.0% to 2.2% of GDP in 2019 and from 2.2% to 2.8% of GDP in 2020. Fitch expects the government "to comply with its own expenditure and European Commission convergence rules". The agency repeated that a rating downgrade could be considered in case of a weaker commitment to adhering to the 3% of GDP EU deficit ceiling or a failure to stabilise the debt/GDP ratio in the medium term, among others, but has not suggested that Poland is at risk of negative rating action due to the prepared fiscal stimulus.

S&P Global Ratings analyst covering Poland, Frank Gill, expressed a view that the announced fiscal package will not push general government deficit above 3% of GDP in 2020. In his opinion, Poland has a wide scope for fiscal stimulus and the financing side should be easy given the depth of the Polish capital markets. The S&P analyst stressed that the package is pro-cyclical in nature and is not an optimal policy move. Full report on Poland may be released on 12 April, with Moody's report following on 19 April.

World Bank has not changed its GDP forecasts for Poland (4%, 3.6% and 3.3% for 2019-2021) despite the fiscal package, but pushed up the deficit path to 1.4% this year and 1.6% in 2020. The institution commented that additional social spending will later be hard to curb, decreasing the ability to respond to challenges flexibly (like the risk of a deeper global slowdown).

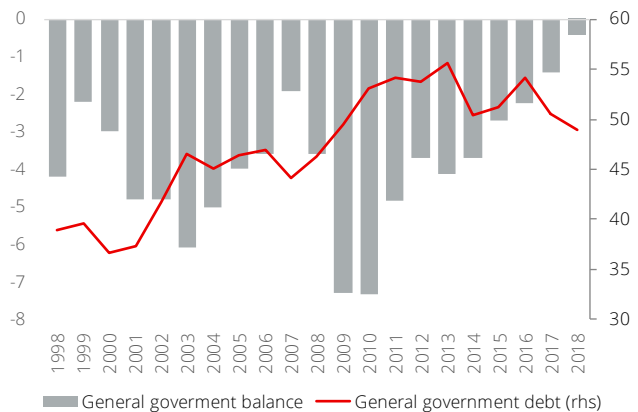
In 2018, **public finance deficit** reached 0.4% of GDP, the lowest since comparable data are available (1997) and debt was 48.9% of GDP, down from 50.6%. In our view there is risk the deficit will rise to 3% in 2020, but debt/GDP ratio should be flat or decreasing.

Polish **manufacturing PMI rebounded significantly in March**, from 47.6 pts to 48.7 pts, the highest level since November. New orders gauge improved, but remained below the neutral level on very poor external demand. Employment index dropped to the lowest level in six years. Current output index rose somewhat and future activity expectations were the most positive in six months.

Flash reading showed inflation rising from 1.2% y/y to 1.7% in March, more than expected (1.6%). A rise in food prices was unusually strong as for this month. We estimate that core inflation rose from 1% y/y to 1.3%, the highest reading since October 2013. We expect it to rise to 1.7% y/y by mid-year and to c2.5% in December. Headline CPI could go up to 2-2.5% by the end of 2019.

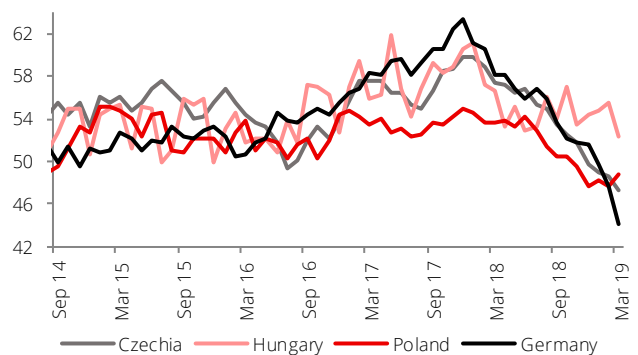
The MPC kept interest rates unchanged (main policy rate at 1.50%), as expected. The communique was brief and its tone remained dovish – the Council expects the economy to slow down gradually and inflation to remain moderate and "near the target" in the medium term. NBP President Adam Glapiński repeated his view that the new fiscal stimulus will have no influence on interest rate policy, as in his opinion it will increase economic growth slightly and will have a negligible impact on inflation, while being "completely safe" and generating absolutely no risks but only positive effects. Kamil Zubelewicz noted that several Council members were concerned that the fiscal impulse could push inflation higher, but not above the 2.5% target. Overall, the MPC's rhetoric remains dovish and even though some concerns about the fiscal easing have begun to emerge, it is far too early to change the monetary policy bias. We still believe there will be no rate changes in 2019.

General government balance and debt, % GDP



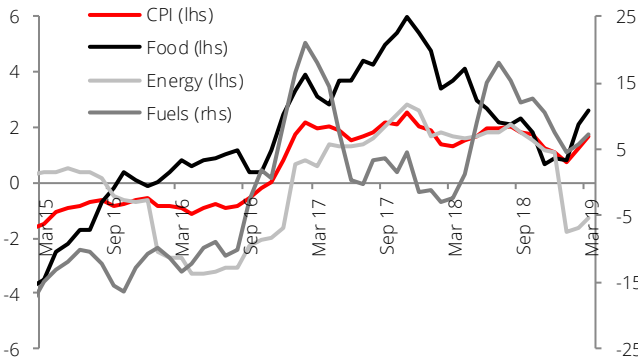
Source: Finance Ministry, GUS, Santander

Manufacturing PMIs



Source: Markit, Santander

Inflation components, % y/y



Source: GUS, Santander

FX and FI market

Last week on the market

FX EURPLN was decreasing in the first part of the week, driven by the strengthening euro, owing to unexpectedly good euro zone PMI-services data. In the second part of the week, EURPLN stabilized after the weaker-than-expected German industrial orders reading. As a result, over the week EURPLN slid to 4.29 from 4.3070.

FI Over the last week, prices of bonds on the core and domestic markets were falling. The sell-off on the bonds market was driven by Donald Trump's positive comments about progress in the US-Sino trade negotiations, positive surprise by the euro zone and China PMI-services data, and Germany's industrial production data.

The increases in yields continued despite the unexpected weakness in German order books and mixed US data. As a consequence, the yields of 5Y bonds climbed by 5bp, while 10Y by 10bp. The IRS curve was shifted up much more (by 10bp and 15bp, respectively) leading to narrower ASW spreads.

Key events On Monday, German export data will be released, which in our opinion will show a decline in the activity. On Wednesday, the ECB conference is scheduled, where we expect dovish rhetoric to be maintained.

Over the week, the governors of the WB and IMF will hold a meeting, where we expect them to talk about the risks to global growth.

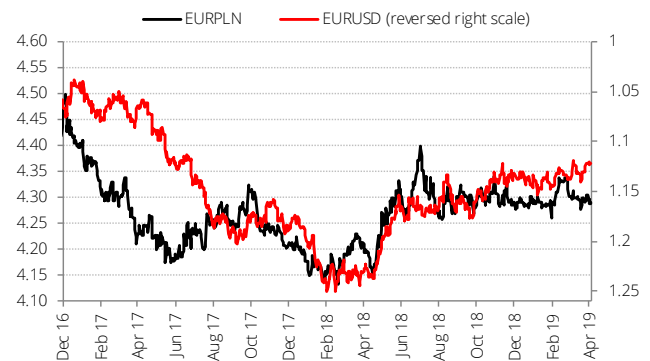
Domestic current account data are unlikely to attract investors' attention.

Market implications

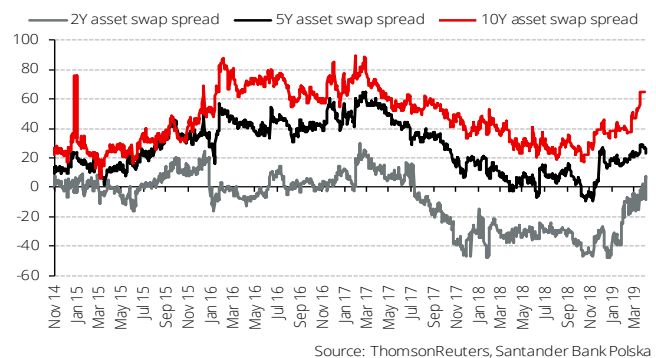
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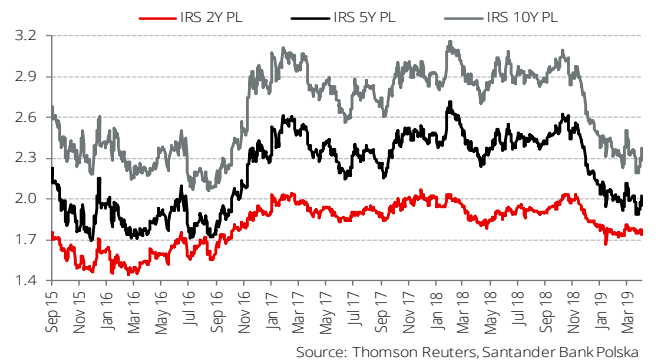
EURPLN and USDPLN



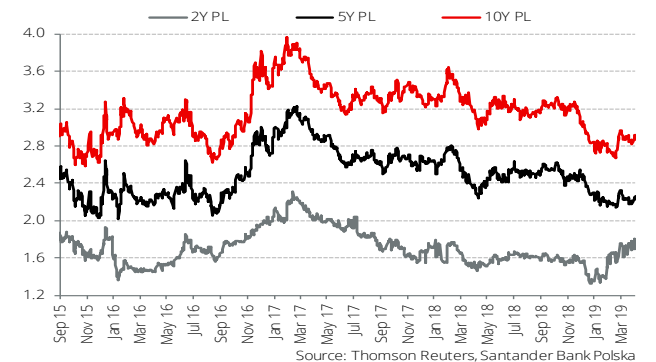
Polish bonds asset swap spread in bp



PLN IRS (%)



Yields of Polish bonds (%)



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE
				MARKET	SANTANDER	
MONDAY (8 April)						
08:00	DE	Exports SA	Feb	% m/m	-0.05	0.1
09:00	CZ	Industrial Production	Feb	% y/y	1.5	-1.1
16:00	US	Durable Goods Orders	Feb	% m/m	-1.8	-1.6
16:00	US	Factory Orders	Feb	% m/m	-0.5	0.1
TUESDAY (9 April)						
09:00	HU	CPI	Mar	% y/y	0.0	3.1
WEDNESDAY (10 April)						
09:00	CZ	CPI	Mar	% y/y	2.9	2.7
13:45	EZ	ECB Main Refinancing Rate	Apr/19	%	0.0	0.0
14:30	US	CPI	Mar	% m/m	0.3	0.2
20:00	US	FOMC Meeting Minutes	Mar/19		-	0.0
THURSDAY (11 April)						
08:00	DE	HICP	Mar	% m/m	0.5	0.5
14:30	US	Initial Jobless Claims	Apr/19	k	215.0	202.0
FRIDAY (12 April)						
11:00	EZ	Industrial Production SA	Feb	% m/m	-0.5	1.4
14:00	PL	Current Account Balance	Feb	€mn	-256	-598
14:00	PL	Trade Balance	Feb	€mn	-176	279
14:00	PL	Exports	Feb	€mn	18068	17368
14:00	PL	Imports	Feb	€mn	18248	17874
16:00	US	Michigan index	Apr	pts	98.0	98.4

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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