

30 May 2019

MACROscope Lite

Warm, but the sky is clouded

■ The Polish economy remained strong, even though despite economists, including us, were broadly expecting a slowdown. Flash GDP for 1Q19 showed a high 4.6% y/y, only slightly below 4.9% y/y posted in 4Q18. Seasonally-adjusted quarterly growth rate at 1.4% has been one of the best results since the start of the recovery. We will get to see the detailed breakdown on 31 May but the data we already have available suggest that the growth fundamentals will remain healthy, with no signs of overheating after a long growth streak, no negative blow to net exports stemming from the weaker condition in the euro zone and no signs of hesitant investment policy given worries about global economic growth in 2H19. Even though the economic cycle is quite mature, figures from companies employing 50 and more showed investment growth at 21.7% y/y – the highest since 2007. In our view, this may be partially labelled as a response to the labour market squeeze. The spread between Poland's and Germany's industrial output and export growth is still positive for our country. The balance of payments has even shown exports rising faster than imports – a phenomenon not recorded for some time already. And this happened despite strong domestic demand in Poland and weaker growth as well as falling leading indicators in the euro zone. What is more, the Polish economy showed a strong opening of 2Q with **industrial output and retail sales coming well above expectations**, triggering a wave of 2019 GDP forecast upgrades on the market. We agree that some upside adjustment is needed but, on the other hand, the external environment makes us stay cautious in terms of optimism. After all, along the strong Polish data came news about further escalation of US-China trade war and a risk of conflict between the USA and Iran. **As a result we now see 2019 GDP growth at 4.3%.**

■ As regards companies in 1Q19, we learned not only that they intensified their investment effort but also that they continued to see their margins falling. According to the government's agreement with the European Commission, from July on bigger companies will be buying energy at market prices, which will be another factor driving their costs up. Assumptions that companies will switch to a more aggressive pricing policy in order to improve their reduced profitability is one of the key arguments behind our expected CPI path. Our forecast assumes inflation reaching the 2.5% y/y target in May/June and ending the year near 3% y/y, with risk skewed upwards due to the unfreezing of energy prices and retailer tax to be introduced next year. Detailed data on CPI in April showed a major acceleration in service prices but this was partially due to a really strong hike in transport service prices. We cannot rule out that this was a one-off due to higher air transport prices before Easter and May holiday, which could be reversed later on. Still, **food and fuel prices went higher and higher pushing our CPI forecast for May to 2.4-2.5% y/y.**

■ The European elections showed a clear advantage of the governing party, PiS, over Koalicja Europejska (coalition of opposition parties). In our opinion it means that government will not be under pressure to escalate promises before the autumn elections. In a wider European perspective, the EP elections have brought a certain increase of power of liberal and green parties. It may make it more difficult to set up the new European Commission as well as to create a new common economic policy, especially regarding the tolerance with respect to the EU members' fiscal stimuli at the expense of wider deficits.

■ We have not observed any meaningful changes on the Polish FX market for a long time already and the situation has not changed recently. EURPLN is holding the "May pattern" we described last month and have moved somewhat higher as global growth concerns spurred the risk aversion and sent global equity indexes down. However, the zloty is performing quite well, possibly owing to the solid Polish macro data – it came the 7th among the EM fx vs USD in May with only the Thai baht in green. Strong data from Poland are likely to make **zloty outperform other CEE currencies**. Still, we do not expect the Polish currency to gain until the global market mood improves for longer and we see convincing data that the euro zone economy has reached the bottom of the slowdown.

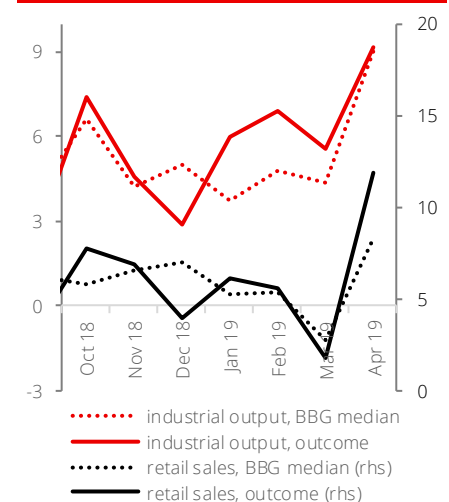
■ Polish domestic yields rose temporarily at the beginning of May in reaction to higher-than-expected inflation data in Poland and euro zone. Further in the month the yields were falling, following the core markets, which slid in response to the rising expectations of global slowdown. We believe that **yields and IRS rates will be decreasing further over June**, especially in the 5-10Y segment. A short pause is possible at the beginning of June, when the Polish inflation data and US labour market data are released.

CPI inflation, %y/y



Source: GUS, NBP, Santander

Economic performance vs forecasts, %y/y



Source: GUS, Bloomberg, Santander

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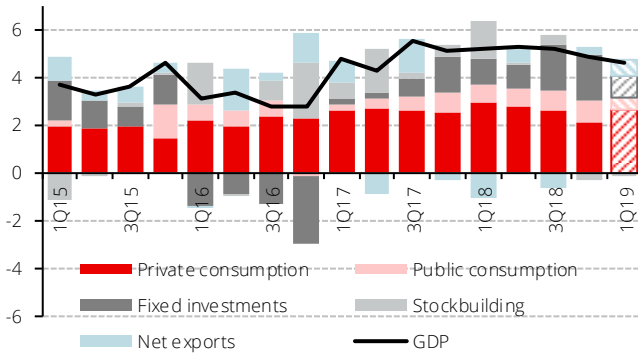
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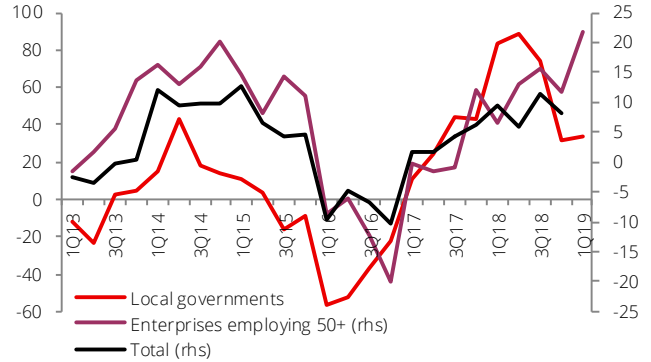
Economy in charts

GDP growth in 1Q19 was above expectations...



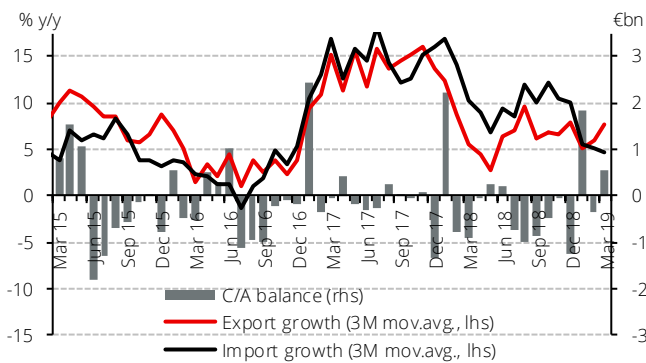
Source: GUS, Santander

...investment is likely to surprise to the upside...



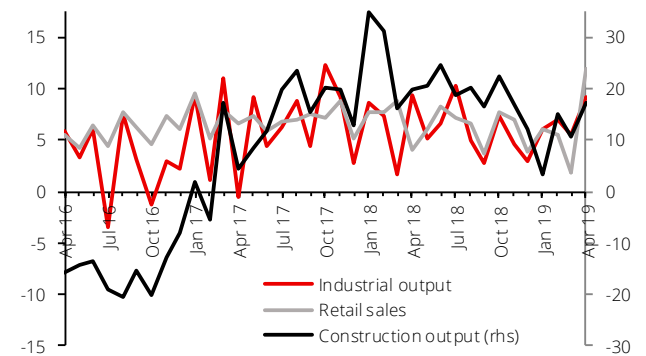
Source: Ministry of Finance, GUS, Santander

...net exports may do the same...



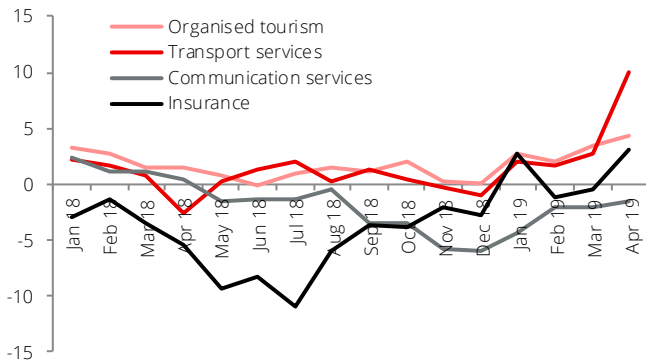
Source: NBP, Santander

... first data from 2Q also exceeded expectations.



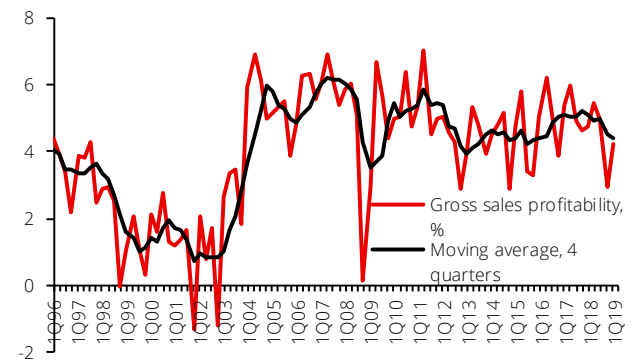
Source: GUS, Santander

Services prices increase strongly...



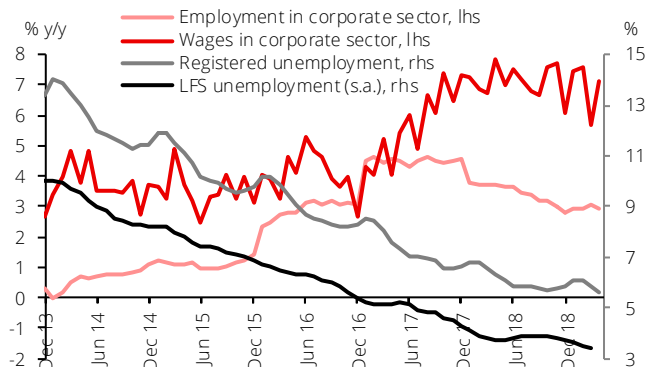
Source: GUS, Santander

... corporate margins still go down.



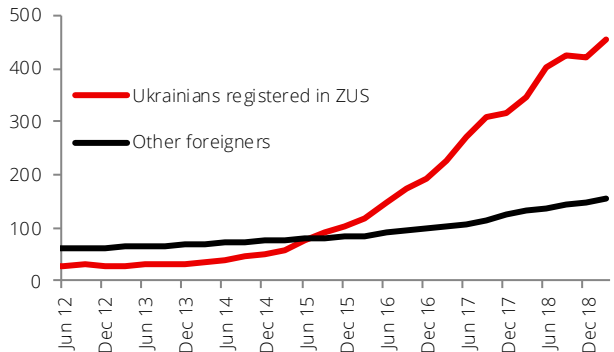
Source: GUS, NBP, Santander

Labour market still in shape...



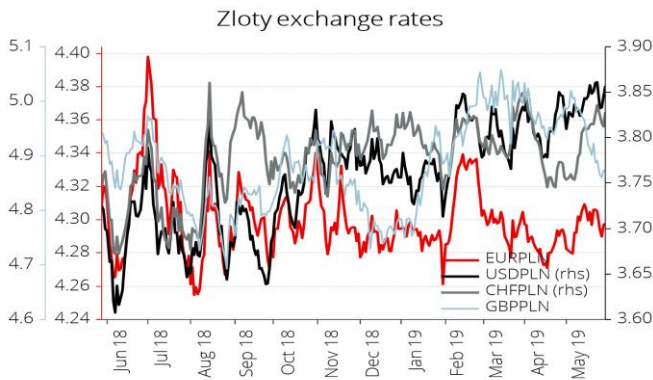
Source: GUS, Santander

...Ukrainians still coming.

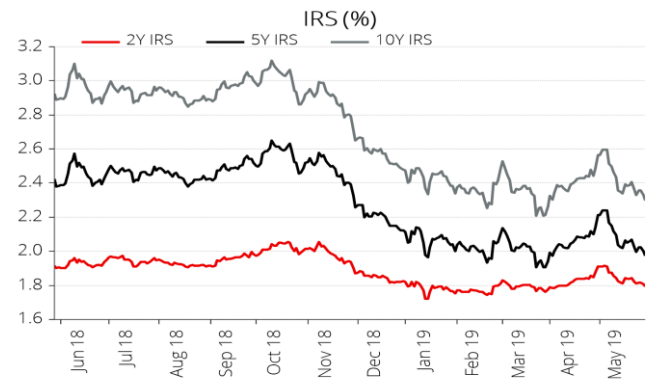


Source: ZUS, Santander

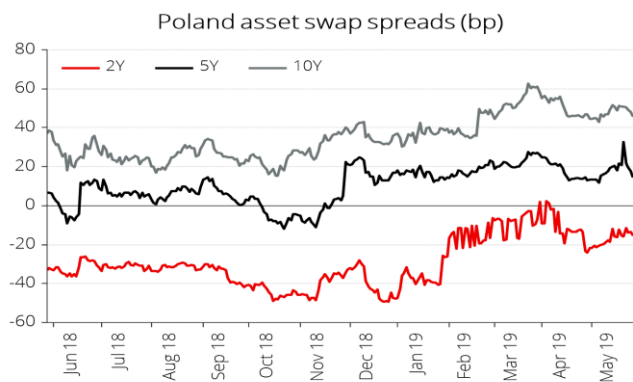
Markets in charts



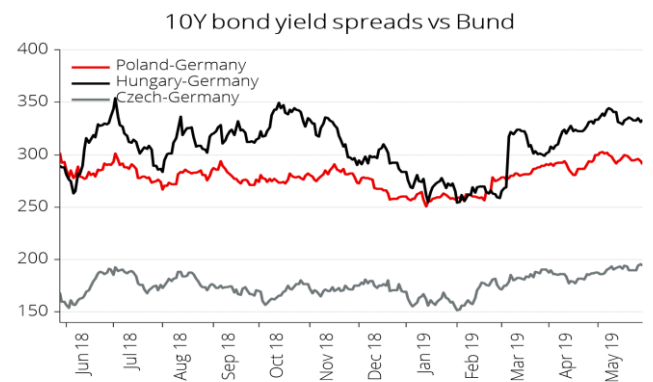
Source: Thomson Reuters Datastream, Santander Bank Polska



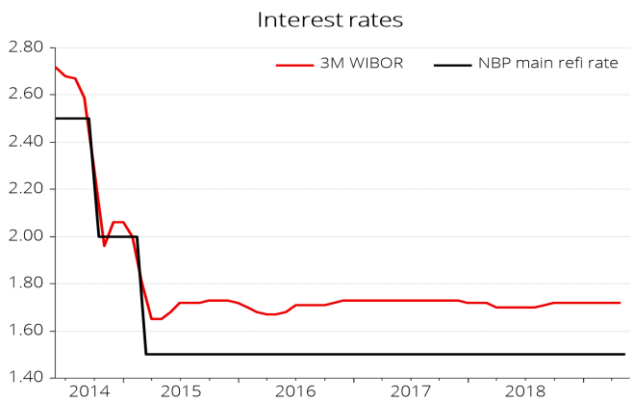
Source: Thomson Reuters Datastream, Santander Bank Polska



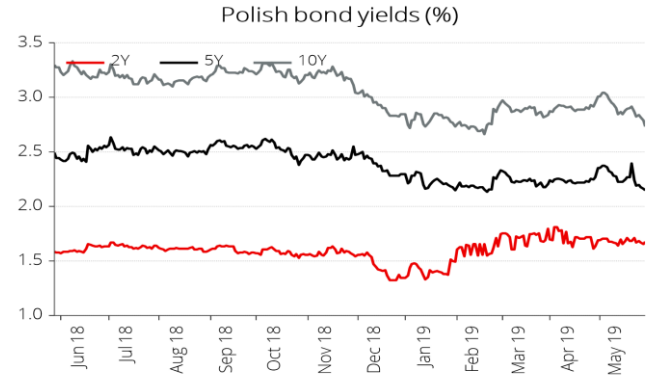
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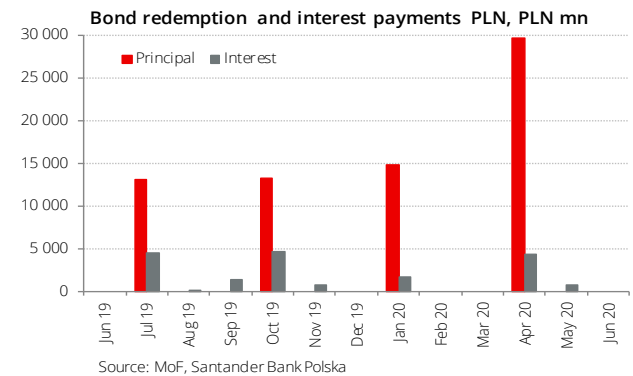


Source: Thomson Reuters Datastream, Santander Bank Polska

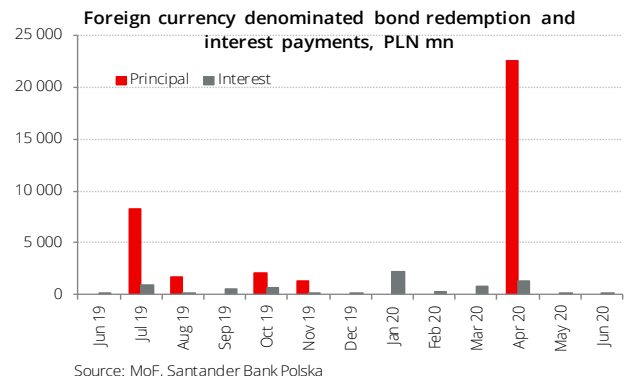


Source: Thomson Reuters Datastream, Santander Bank Polska

Principal and interest payments



Source: MoF, Santander Bank Polska



Source: MoF, Santander Bank Polska

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
27 May PL: Unemployment rate (Apr)	28 HU: Central bank decision US: Consumer confidence index (May)	29	30 US: Preliminary GDP (Q1) US: Pending home sales (May)	31 PL: GDP (Q1) CZ: Flash GDP (Q1) HU: Flash GDP (Q1) US: Michigan index (May) US: Personal spending (Apr) US: Personal income (Apr)
3 June PL: PMI – manufacturing (May) DE: PMI - manufacturing (May) EZ: PMI – manufacturing (May) US: ISM – manufacturing (May)	4 PL: Flash CPI (May) EZ: Flash HICP (May) US: Industrial orders (Apr)	5 PL: MPC decision DE: PMI – services (May) EZ: PMI – services (May) EZ: Retail sales (Apr) US: ADP report (May) US: ISM – services (May) US: Fed Beige Book	6 EZ: ECB decision DE: Industrial orders (Apr) CZ: Industrial output (Apr) HU: Industrial output (Apr) EZ: GDP (Q1)	7 DE: Industrial output (Apr) DE: Exports (Apr) HU: Inflation (May) US: Non-farm payrolls (May) US: Unemployment rate (May)
10	11 CZ: Inflation (May)	12 US: Inflation (May)	13 PL: Balance of payments (Apr) EZ: Industrial output (Apr)	14 PL: Inflation (May) US: Retail sales (May) US: Industrial output (May) US: Flash Michigan (Jun)
17 PL: Core inflation (May)	18 EZ: HICP (May) DE: ZEW (Jun) US: House starts (May)	19 PL: Employment (May) PL: Wages (May) US: FOMC decision	20 US: Philly Fed index (Jun)	21 PL: Industrial output (May) PL: PPI (May) PL: MPC minutes DE: Flash PMI – manufacturing (Jun) DE: Flash PMI – services (Jun) EZ: Flash PMI – manufacturing (Jun) EZ: Flash PMI – services (Jun) US: Home sales (May)
24 PL: Construction and assembly output (May) PL: Retail sales (May) DE: Ifo (Jun)	25 PL: Money supply (May) HU: Central bank decision US: New home sales (May) US: Consumer confidence index (May)	26 PL: Unemployment rate (May) CZ: Central bank decision US: Durable goods orders (May)	27 US: Final GDP (Q1) US: Pending home sales (May)	28 PL: Flash CPI (Jun) EZ: Flash HICP (Jun) CZ: GDP (Q1) US: Personal spending (May) US: Personal income (May) US: Michigan index (Jun)
1 July PL: PMI – manufacturing (Jun) DE: PMI - manufacturing (Jun) EZ: PMI – manufacturing (Jun) US: ISM – manufacturing (Jun)	2	3 PL: MPC decision DE: PMI – services (Jun) EZ: PMI – services (Jun) US: ISM – services (Jun) US: ADP report (Jun)	4 EZ: Retail sales (May)	5 DE: Industrial orders (May) US: Non-farm payrolls (Jun) US: Unemployment rate (Jun) HU: Industrial output (May)

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2019

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision	24	-	7	10	-	6	25	-	12	24	-	12
MPC decision	30	-	20	-	1	19	31	-	18	30	-	11
MPC minutes	9	6	6	3	15	5	3	-	11	2	6	4
Flash GDP*	31	21	21	18	30	21	-	22	26	17	21	19
GDP*	31	14	-	-	15	-	-	14	-	-	14	-
CPI	-	28	-	-	31	-	-	30	-	-	29	-
Core inflation	15	15	15	15	15	14	15	14	13	15	14	13
PPI	-	-	18	16	16	17	16	16	16	16	15	16
Industrial output	18	19	20	18	22	21	18	21	19	18	22	19
Retail sales	18	20	20	18	22	21	18	21	19	18	22	19
Gross wages, employment	22	21	21	23	23	24	19	22	20	21	25	20
Foreign trade	18	19	19	17	21	19	17	20	18	17	21	18
Balance of payments*	about 50 working days after reported period											
Balance of payments	-	-	29									
Money supply	14	13	18	12	14							
ECB decision	23	22	22	23	24							

Economic data and forecasts for Poland

Monthly economic indicators

		May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19
PMI	pts	53.3	54.2	52.9	51.4	50.5	50.4	49.5	47.6	48.2	47.6	48.7	49.0	49.5	49.9
Industrial production	% y/y	5.2	6.7	10.3	5.0	2.7	7.4	4.6	2.9	6.0	6.9	5.6	9.2	8.5	2.8
Construction production	% y/y	20.7	24.7	18.7	20.1	16.5	22.5	17.0	12.3	3.2	15.1	10.8	17.4	15.6	5.3
Retail sales ^a	% y/y	7.6	10.3	9.3	9.0	5.6	9.7	8.2	4.7	6.6	6.5	3.1	13.6	7.3	5.8
Unemployment rate	%	6.1	5.8	5.8	5.8	5.7	5.7	5.7	5.8	6.1	6.1	5.9	5.6	5.4	5.2
Gross wages in corporate sector	% y/y	7.0	7.5	7.2	6.8	6.7	7.6	7.7	6.1	7.5	7.6	5.7	7.1	7.9	7.1
Employment in corporate sector	% y/y	3.7	3.7	3.5	3.4	3.2	3.2	3.0	2.8	2.9	2.9	3.0	2.9	2.8	2.7
Exports (€)	% y/y	1.5	7.7	12.0	8.9	-1.5	13.2	7.6	2.3	5.0	10.0	7.9	11.4	7.4	1.5
Imports (€)	% y/y	4.1	9.4	12.4	14.0	4.2	18.0	9.1	2.3	4.9	7.8	1.4	10.4	8.4	3.5
Trade balance	EUR mn	-242.0	-369.0	-236.0	-542	-544	-467	10	-1 220	-290	-367	589	171	-438	-751
Current account balance	EUR mn	236.0	192.0	-754.0	-1 005	-876	-482	-29	-1 248	1 825	-342	533	-12	258	214
Current account balance	% GDP	-0.2	-0.1	-0.2	-0.4	-0.6	-0.7	-0.7	-0.7	-0.8	-0.7	-0.4	-0.4	-0.4	-0.4
Budget balance (cumulative)	PLN bn	9.6	9.5	-0.9	1.1	3.2	6.5	11.1	-10.4	6.6	-0.8	-4.5	-0.1	-1.4	-2.5
Budget balance (cumulative)	% of FY plan	-23.1	-23.0	2.1	-2.5	-7.7	-15.6	-26.7	25.1	-23.1	2.8	15.7	0.3	4.9	8.7
CPI	% y/y	1.7	2.0	2.0	2.0	1.9	1.8	1.3	1.1	0.7	1.2	1.7	2.2	2.5	2.6
CPI excluding food and energy	% y/y	0.5	0.6	0.6	0.9	0.8	0.9	0.7	0.6	0.8	1.0	1.4	1.7	2.0	2.1
PPI	% y/y	3.0	3.7	3.4	3.0	3.0	3.2	2.8	2.1	2.2	2.9	2.5	2.6	1.7	1.9
Broad money (M3)	% y/y	6.6	7.3	7.3	7.5	7.9	8.3	8.8	9.2	8.8	9.8	9.9	10.4	10.1	10.1
Deposits	% y/y	6.0	6.7	6.8	7.0	6.9	7.6	8.1	8.7	8.4	9.3	9.7	10.5	9.4	9.5
Loans	% y/y	5.5	5.6	5.6	6.1	5.9	6.7	7.0	7.6	7.4	7.5	8.1	7.7	6.5	6.4
EUR/PLN	PLN	4.28	4.30	4.33	4.29	4.30	4.31	4.30	4.29	4.29	4.31	4.30	4.29	4.30	4.30
USD/PLN	PLN	3.63	3.69	3.70	3.71	3.69	3.75	3.79	3.77	3.76	3.80	3.80	3.81	3.83	3.84
CHF/PLN	PLN	3.64	3.73	3.72	3.75	3.81	3.77	3.78	3.80	3.80	3.79	3.80	3.79	3.75	3.74
Reference rate ^b	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.70	1.70	1.70	1.70	1.71	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72
Yield on 2-year T-bonds	%	1.57	1.60	1.63	1.61	1.60	1.58	1.58	1.44	1.41	1.62	1.71	1.71	1.70	1.65
Yield on 5-year T-bonds	%	2.49	2.48	2.52	2.50	2.56	2.52	2.46	2.37	2.23	2.19	2.23	2.23	2.10	2.10
Yield on 10-year T-bonds	%	3.23	3.23	3.18	3.15	3.24	3.23	3.20	2.93	2.80	2.75	2.88	2.90	2.68	2.72

Note: ^a in nominal terms, ^b at the end of the period.

Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

Quarterly and annual economic indicators

		2016	2017	2018	2019E	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19E	3Q19E	4Q19E
GDP	PLN bn	1 861.1	1 989.3	2 115.7	2 252.3	487.1	507.6	525.2	595.8	520.9	541.6	558.3	631.5
GDP	% y/y	3.1	4.8	5.1	4.3	5.2	5.3	5.2	4.9	4.6	4.3	4.4	4.2
Domestic demand	% y/y	2.3	4.9	5.5	4.3	6.6	4.9	6.1	4.8	4.0	4.4	4.5	4.3
Private consumption	% y/y	3.9	4.5	4.5	4.6	4.6	4.8	4.4	4.2	4.2	4.3	4.9	4.8
Fixed investments	% y/y	-8.2	4.0	8.7	6.0	9.6	6.0	11.3	8.2	7.2	6.8	6.3	5.0
Industrial production	% y/y	2.9	6.5	5.9	6.0	5.5	7.0	5.3	5.5	6.1	6.8	6.0	5.3
Construction production	% y/y	-14.5	13.7	19.7	8.3	25.6	21.9	18.3	16.8	9.9	12.1	7.6	5.4
Retail sales ^a	% y/y	3.9	8.2	7.8	7.5	8.4	7.5	7.9	7.4	5.3	8.9	9.0	6.9
Unemployment rate ^b	%	8.2	6.6	5.8	5.3	6.6	5.8	5.7	5.8	5.9	5.2	5.2	5.3
Gross wages in the national economy ^a	% y/y	3.8	5.3	7.2	7.1	6.2	7.1	7.6	7.7	7.1	7.0	7.0	7.4
Employment in the national economy	% y/y	2.3	3.3	2.6	2.1	2.8	3.0	2.3	2.5	2.6	2.0	1.9	1.8
Exports (€)	% y/y	3.1	13.8	6.6	5.8	5.5	6.4	6.2	8.0	7.6	6.7	5.3	4.0
Imports (€)	% y/y	2.7	14.9	9.9	6.5	10.2	9.4	10.0	10.0	4.6	7.3	7.2	6.7
Trade balance	EUR mn	2 935	1 426	-5 179	-6 851	-1 567	-620	-1 319	-1 673	-68	-1 018	-2 436	-3 329
Current account balance	EUR mn	-2 248	715	-3 449	-3 559	535	400	-2 631	-1 753	2 395	466	-3 288	-3 132
Current account balance	% GDP	-0.5	0.2	-0.7	-0.7	-0.2	-0.1	-0.6	-0.7	-0.3	-0.3	-0.4	-0.7
General government balance	% GDP	-2.2	-1.4	-0.4	-1.7	-	-	-	-	-	-	-	-
CPI	% y/y	-0.6	2.0	1.6	2.2	1.5	1.7	1.9	1.4	1.2	2.4	2.6	2.7
CPI ^b	% y/y	0.8	2.1	1.1	2.9	1.3	2.0	1.9	1.1	1.7	2.6	2.5	2.9
CPI excluding food and energy	% y/y	-0.2	0.7	0.7	2.0	0.8	0.6	0.8	0.7	1.1	1.9	2.3	2.8
PPI	% y/y	-0.2	2.9	2.2	2.4	0.2	2.6	3.1	2.7	2.5	2.1	2.2	2.8
Broad money (M3) ^b	% y/y	9.6	4.6	9.2	8.7	5.8	7.3	7.9	9.2	9.1	8.9	8.8	8.7
Deposits ^b	% y/y	9.1	4.1	8.7	8.5	5.1	6.7	6.9	8.7	8.6	8.6	8.5	8.5
Loans ^b	% y/y	4.7	3.6	7.6	7.2	4.3	5.6	5.9	7.6	7.5	7.4	7.3	7.2
EUR/PLN	PLN	4.36	4.26	4.26	4.31	4.18	4.26	4.30	4.30	4.30	4.30	4.33	4.32
USD/PLN	PLN	3.95	3.78	3.61	3.79	3.40	3.58	3.70	3.77	3.79	3.83	3.82	3.74
CHF/PLN	PLN	4.00	3.84	3.69	3.72	3.59	3.63	3.76	3.79	3.80	3.76	3.72	3.63
Reference rate ^b	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.70	1.73	1.71	1.72	1.72	1.70	1.71	1.72	1.72	1.72	1.72	1.72
Yield on 2-year T-bonds	%	1.66	1.89	1.59	1.65	1.64	1.57	1.61	1.53	1.64	1.58	1.60	1.78
Yield on 5-year T-bonds	%	2.37	2.78	2.51	2.34	2.61	2.43	2.53	2.45	2.23	2.28	2.40	2.45
Yield on 10-year T-bonds	%	3.05	3.44	3.21	2.84	3.37	3.18	3.19	3.12	2.84	2.87	2.78	2.88

Note: ^a in nominal terms, ^b at the end of period. Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

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