14 June 2019

Bi-Weekly Economic Update

Meeting global uncertainty

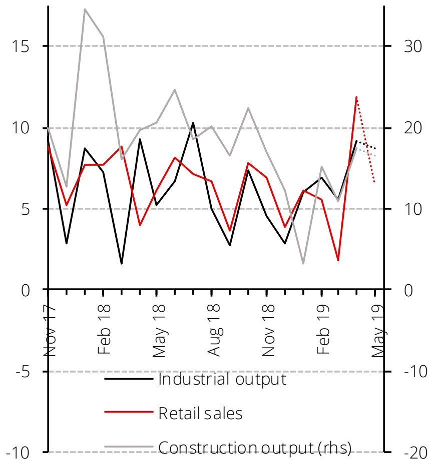
What's hot in the next two weeks

- The issue of the trade wars in the global political leaders' comments should still be highlighted in the nearest future and concerns about the global growth should stay alive. Key global policy makers will have many opportunities this week to explain their views and plans. Higher uncertainty and risks for the economic activity are likely to be reflected in the statement from the FOMC meeting and in the new GDP and CPI forecasts. Having quickly moved to pricing-in rate cuts in the USA, the markets will be interested to what extent the Fed's view, to be expressed on a dot chart, has also moved in this direction, soon after the US president's criticism that the Fed policy was too strict. The ECB members will also get a chance to clarify their view on the need and method to deliver further stimulus – ECB Forum on Central Banking takes place in Sintra, 17-19 June. Bank of England and Bank of Japan also have policy meetings scheduled for the coming week.
- The presidents of the USA and China are supposed to meet at the G20 summit in Osaka, 28-29 June, which could be another milestone event in the ongoing trade negotiations.
- Among the upcoming data, the flash June euro zone and German PMIs (and Ifo to be released next week) should be the most interesting. In the US, we will get to see consumer revenues, spending and sentiment index as well as PCE deflator. In our view, the data releases would have to be well-above consensus to overshadow the picture painted by the politicians' comments.
- In Poland, in the next two weeks data about retail sales, industrial and construction output and their prices as well as data from the labour market will be released. We think output could continue to deliver sound results, while retail sales could offer some disappointment. The NBP will publish May core CPI and minutes from the last MPC meeting, there will also be flash CPI for June on the last working day of the month, possibly showing a hit on the NBP's 2.5% y/y goal or even the first above-target reading since November 2012. In our view, domestic events will not attract much of the market attention. The exception could be the budget performance data (if they are released) that could be debt-positive. GUS June sentiment indicators will also be revealed, with business optimism wearing off and stable consumer confidence at very high levels, in our view.

Market implications

- We think that persistent tensions related to the global economic growth would make the market still price-in the Fed rate cuts and this should allow EURPLN to go further slightly down in the short term. This trend could be reversed by the release of the German Ifo and flash European PMIs later in the month.
- In our view, the IRS and yields down trend should continue in the next two weeks. The move should be fuelled not by the macro data but by the next fronts of the trade war that could be opened by the US administration. Polish debt could be supported by the budget data and likely dovish tone during the FOMC post-meeting press conference, as well as euro zone sentiment indicators.

Output and sales (in real terms), %y/y



Source: GUS, Santander

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Last week in economy

Final **May CPI reading was 2.4% y/y** vs the flash estimate of 2.3% and after April's 2.2%. The details of CPI confirmed our call that there was a one-off distortion in transport services prices, most likely due to the Easter and ahead of Polish holidays in early May – strong enough to affect the headline print. This category now saw prices falling by 22.1% m/m, which is why our estimate of core inflation suggests a pause at 1.7% y/y in the upward trend seen so far this year. It also made the overall services inflation decline from 3.6% to 3.3%, while goods price growth continued to rise, from 1.7% y/y to 2.0%. We forecast that inflation might soon reach the 2.5% target and to rise towards 3% by the end of the year. The path next year will depend on the transmission of higher energy prices for medium and large enterprises from 2H19 to consumer prices.

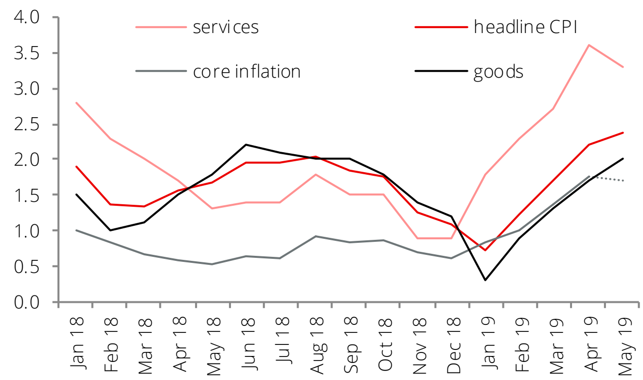
The government accepted **macroeconomic assumptions for 2020 budget**, which are in line with the Convergence Program Update released in April. Next year GDP growth is to be 3.7% and CPI 2.5%, vs our forecasts of 3.8% and 3.2% respectively. The macroeconomic assumptions look conservative, leaving even some space for a positive surprise with the size of nominal GDP next year.

Polish Parliament Energy Committee approved in the first reading a **draft of the bill of the energy prices**. According to the draft, energy prices for the households, local governments, hospitals, and small and micro companies will be frozen at the June 2018 level. Medium and big companies (employing 50 people or more on average and recording revenues above EUR10mn total in two years) will be charged at market prices since 1 of July 2019 and then will be eligible to apply for a state compensation based on the de minimis rule. According to this rule, the state help granted to one company cannot exceed EUR200k in three years. In our opinion, the part of the strong pro-inflationary impact on the energy prices will be neutralized by falling coal prices (by half since December 2018). However, the high prices of carbon emission allowance will work in the opposite direction.

Poland's C/A reached surplus EUR718m in April, slightly lower than we predicted and a bit above market consensus. As we expected, export growth re-accelerated to double-digit 10.3% y/y, confirming the resilience of Polish producers to weakening business climate in the euro zone. Import growth also accelerated (8.7% y/y) but was lagging behind exports. Other elements of the balance of payments were consistent with our expectations. The rolling 12-month current account balance reached merely -0.2% of GDP, according to our estimate. We think it will be impossible to maintain such low external imbalance in the coming quarters as strong consumption and investments should eventually boost imports while export growth may finally moderate amid uncertain global environment. However, any deterioration should not be dramatic. So far, the balance of payments data support expectations that GDP growth in 2Q19 may be again stronger than expected.

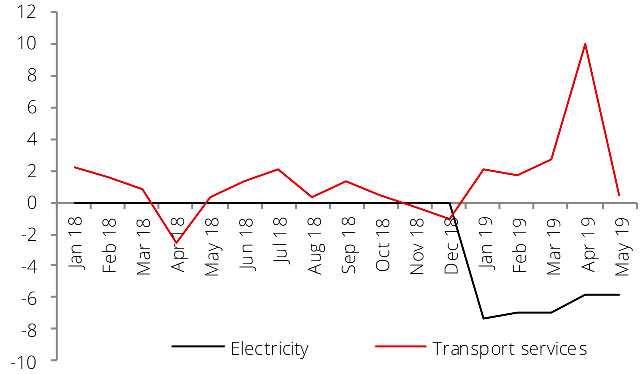
NBP governor Adam Glapiński published an article in the "Global Public Investor 2019", in which he pointed out that conservative monetary policy (central bank rates above zero) and fiscal policy (falling path of the debt/GDP ratio) give a room to accommodate a meaningful external shock. The governor also stressed that the global environment could deteriorate in the coming years. He underlined that strong economic growth in Poland has not generated any economic imbalances or inflation so far. In our opinion, the statement opens the door for the central bank to suggest that rate cuts are more likely than hikes. Still, we assume that inflation will go higher and stay high longer than the Council is currently expecting. **Jerzy Osiatyński** – a moderate MPC member, commented after the May CPI release that a rate hike should be considered in 2020 (in line with his previous remarks).

Inflation measures, %y/y



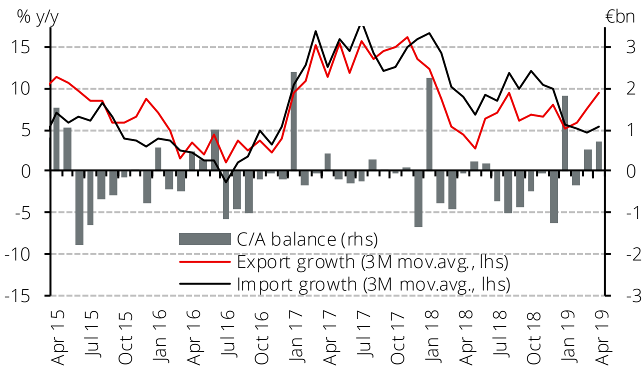
Source: GUS, NBP, Santander

Selected CPI categories, %y/y



Source: GUS, Santander

Balance of payments data



Source: NBP, Santander

FX and FI market

Last week on the market

FX EURUSD rise at the end of the previous week, aggressive pricing of the Fed rate cuts and pretty good situation on the global equity market fuelled appreciation of the zloty and its CEE peers. As a result, EURPLN broke the lower end of the 4.26-4.34 range in which it had been trading since August and reached 4.252. USDPLN remained near 3.765 in a narrow trading range. GBPPLN fell for the sixth week in a row but at a smaller scale than recorded in April/May.

FI After the continuous yields' down trend observed for the last three weeks, bonds gave up part of gains at the beginning of the week. Still, the correction was only short-lived and soon yields resumed the down move. This was driven by the lower-than-expected US inflation and next Trump's warnings that sanctions could be imposed on companies that are involved in the Nord Stream 2 project and tariffs on the European auto sector are on the agenda. Polish bond curve followed the core markets and shifted 6-7bp down in the2Y and 10Y segment and 1pb on the belly, holding near their lowest levels since April 2015. The IRS curve moved 1-7bp down.

Key events

The case of the trade wars in the global political leaders comments shall not recede from the spotlight in the nearest future and concerns about the global growth should stay alive. Higher uncertainty and risks for the economic activity is likely to be reflected in the statement from the FOMC meeting and in the new GDP and CPI forecasts.

Among the upcoming data, the flash June euro zone and German PMIs (and Ifo to be released in the next week) should be the most interesting. In the US, we will get to see consumer revenues, spending and sentiment index as well as PCE deflator. In our view, the data releases would have to be well-above consensus to overshadow the picture painted by the politicians' comments.

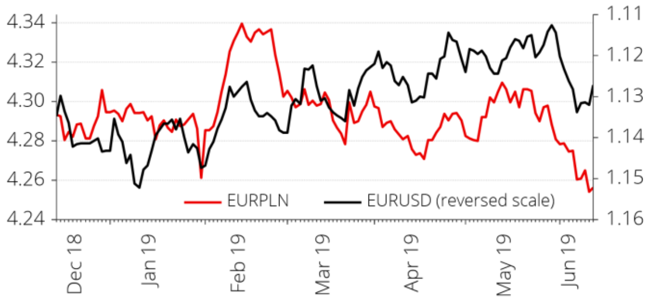
In Poland, in the next two weeks data about retail sales, industrial output and its prices and from the labour market will be released. The NBP will publish May core CPI and minutes from the last MPC meeting. In our view, domestic events will not attract much of the market attention. The exception could be the budget performance data (if they are released) that could be debt-positive.

Market implications

FX We think that persistent tensions related to the global economic growth would make the market still price in the Fed rate cuts and this should allow EURPLN to go further slightly down, in the short term. This trend could be stopped by the release of the German Ifo and flash PMIs for the euro zone planned for the turn of the new two weeks. In the coming two weeks, the zloty could weaken slightly owing to the still high global uncertainty related to the economic growth, should the next politicians' comments be accompanied by above-consensus US consumers revenues and spending.

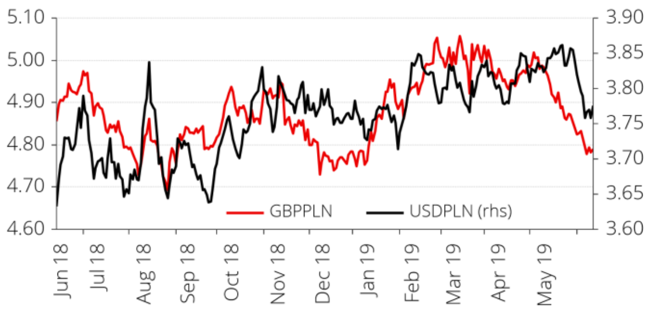
FI In our view, the IRS and yields down trend should continue in the next two weeks. The move should be fuelled not by the macro data but by the next fronts of the trade war that could be opened by the US administration. Polish debt could be supported by the budget data and likely dovish tone during the FOMC post-meeting press conference. In these circumstances, macro data releases – like Ifo or PMIs – should provide supportive environment for the yields' down trend.

EURPLN and EURUSD



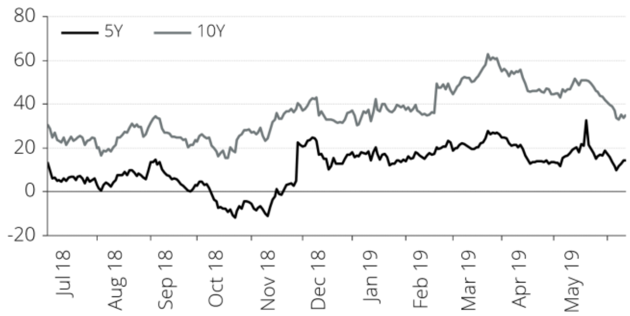
Source: Thomson Reuters Datastream, Santander Bank Polska

GBPPLN and USDPLN



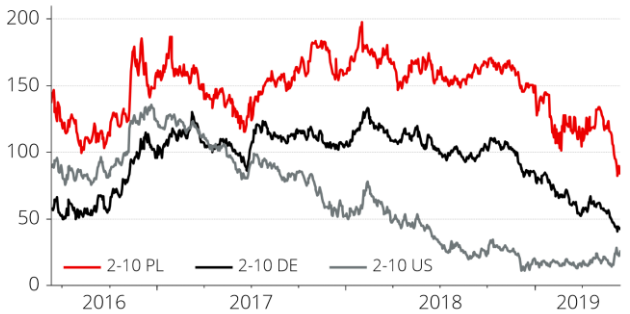
Source: Thomson Reuters Datastream, Santander Bank Polska

Asset swap spreads (bp)



Source: Thomson Reuters Datastream, Santander Bank Polska

2-10 yield spreads (bp)



Source: Thomson Reuters Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	LAST VALUE
			MONDAY (17 June)				
14:00	**PL**	**CPI Core**	**May**	**% y/y**	**1.7**	**1.7**	**1.7**
			TUESDAY (18 June)				
11:00	EZ	HICP	May	% y/y	1.2		1.2
11:00	DE	ZEW Survey Current Situation	Jun	pts	7.0		8.2
14:30	US	Housing Starts	May	% m/m	0.4		5.7
			WEDNESDAY (19 June)				
10:00	**PL**	**Employment in corporate sector**	**May**	**% y/y**	**3.0**	**3.0**	**2.9**
10:00	**PL**	**Average Gross Wages**	**May**	**% y/y**	**7.2**	**7.0**	**7.1**
20:00	US	FOMC decision	Jun/19		2.5		2.5
			THURSDAY (20 June)				
14:30	US	Initial Jobless Claims	Jun/19	k	220.0		222.0
14:30	US	Index Philly Fed	Jun		10.5		16.6
			FRIDAY (21 June)				
09:30	DE	Germany Manufacturing PMI	Jun	pts	44.6		44.3
09:30	DE	Markit Germany Services PMI	Jun	pts	55.25		55.4
10:00	EZ	Eurozone Manufacturing PMI	Jun	pts	48.0		47.7
10:00	EZ	Eurozone Services PMI	Jun	pts	53.0		52.9
10:00	**PL**	**Sold Industrial Output**	**May**	**% y/y**	**7.9**	**8.7**	**9.2**
10:00	**PL**	**PPI**	**May**	**% y/y**	**1.6**	**1.5**	**2.6**
16:00	US	Existing Home Sales	May	% m/m	2.12		-0.38
			MONDAY (24 June)				
10:00	DE	IFO Business Climate	Jun	pts	-		97.9
10:00	**PL**	**Construction Output**	**May**	**% y/y**	**-**	**16.6**	**17.4**
10:00	**PL**	**Retail Sales Real**	**May**	**% y/y**	**-**	**6.5**	**11.9**
			TUESDAY (25 June)				
14:00	HU	Central Bank Rate Decision	Jun/19	%	-		0.9
14:00	**PL**	**Money Supply M3**	**May**	**% y/y**	**-**	**9.7**	**10.4**
16:00	US	Consumer Conference Board	Jun	pts	133.0		134.1
16:00	US	New Home Sales	May	% m/m	1.04		-6.9
			WEDNESDAY (26 June)				
10:00	**PL**	**Unemployment Rate**	**May**	**%**	**5.4**	**5.4**	**5.6**
13:00	CZ	Central Bank Rate Decision	Jun/19		-		2.0
14:30	US	Durable Goods Orders	May	% m/m	0.8		-2.1
			THURSDAY (27 June)				
	DE	Retail Sales	May	% m/m	-		-2.0
11:00	EZ	ESI	Jun	pct.	-		105.1
14:00	DE	HICP	Jun	% m/m	0.3		0.3
14:30	US	GDP Annualized	1Q	% Q/Q	3.3		3.1
16:00	US	Pending Home Sales	May	% m/m	0.0		-1.5
09:00	CZ	GDP SA	1Q	% y/y	-		2.6
11:00	EZ	Flash HICP	Jun	% y/y	-		1.2
14:30	US	Personal Spending	May	% m/m	0.5		0.3
14:30	US	Personal Income	May	% m/m	0.0		0.5
14:30	US	PCE Deflator SA	May	% m/m	0.1		0.3

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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.