

26 July 2019

Weekly Economic Update

ECB says “check”, now it is FOMC’s turn

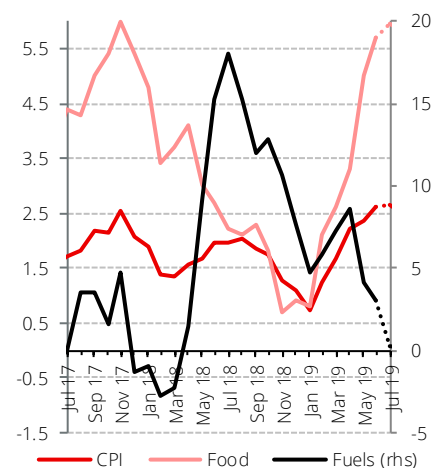
What’s hot next week

- The outcome of the ECB meeting has not satisfied the market and so global yields soared and the EM currencies depreciated. The central bank did not change the interest rates and the action plan for the upcoming months was presented as highly general.
- Next week, the market attention should turn to the USA where we will see numerous macro data and the Fed will announce their decision about the interest rates.
- The most recent comments of the US central bankers have clearly suggested that the rate cuts are on the table and the market expects at least a 25bp to be delivered on the last day of July.
- As far as the data are concerned, the monthly change of the US nonfarm payrolls should be the most awaited one. In June, the data showed a noticeable improvement after a very poor May. This time, the market expects the monthly change pulled back to around its 6-month average.
- In Poland, the stats office will release the flash July CPI. In our view, the inflation rate either remained unchanged at 2.6% y/y in line with the market consensus or increased to 2.7%. We think that in July Polish manufacturing PMI reversed the previous decline and returned to the levels where it tried to stabilise between March and May.
- Marian Banaś, who was sworn in as the finance minister on 4 June, has been proposed to head the Supreme Audit Office, which means he may have to be replaced soon, possibly in August.

Market implications

- We expect the Fed will cut the interest rates by 25bp in July but the forward guidance for the coming months could fall short of the market pricing. Should this be the case, we could see EURPLN moving further up, particularly if the dollar gains after the FOMC meeting. However, we do not expect the exchange rate to go much beyond 4.27.
- FI We do not expect the FOMC to provide fuel for the global market rate to resume the down move. The yields/IRS could stabilize somewhat before the Wednesday evening decision but the market reaction may be similar to what we have seen after the ECB meeting.

Inflation and selected components, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +48 22 534 18 85
 Grzegorz Ogonek +48 22 534 19 23
 Marcin Sulewski, CFA +48 22 534 18 84

Last week in economy

The streak of poor readings for June continued last week with construction output falling y/y for the first time since early 2017 and new orders going down y/y as well. Business sentiment indicators for July suggested further slide of expectations, but stable current situation in Poland, while the euro zone ones (flash PMIs) failed again to bottom out.

Polish **construction output** decelerated to -0.7% y/y in June from 9.6% y/y in May, in line with our expectations (0.0% y/y) and below the market median forecast (3.5% y/y). The construction data fits well into disappointing series of June readings, as many statistics were negatively affected by low number of working days, Corpus Christi holiday and exceptionally high temperatures. The data support our forecast of GDP growth decelerating to 4.5% y/y in 2Q19.

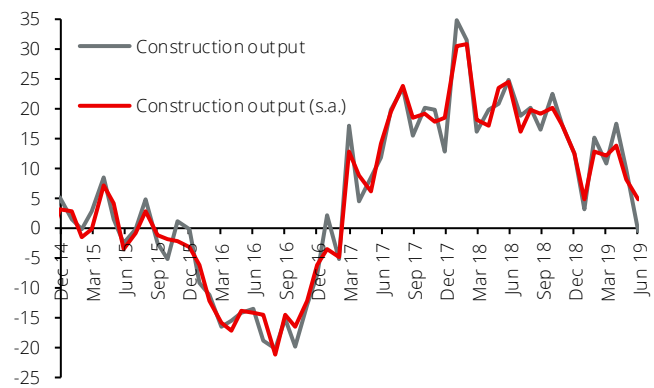
Detailed data about June **wages** revealed that the significant slowdown to 5.3% y/y in June was due not only to the abovementioned calendar and weather effects but also to the lower reading in mining. Wage growth excluding mining reached 6.3% y/y (vs 7.7% y/y in May) and in services 6.6% y/y (vs 7.5% y/y in May).

Another statistic for June that showed a drop of activity was the value of **new orders in industry**, going down 4.8% y/y after four months of double-digit growth.

GUS business climate indicators in July continued declining. All sectoral indexes fell m/m. The synthetic index is descending from the all-time highs to the long-term average (which it has almost reached) and is already the lowest in 2.5 years. Economic outlook concerns are reflected in further general expectations index decline, which for the first time in two years sits below the current situation index. Output expectations in industry dropped to the lowest level in six years which supports our forecasts that the average output growth in 2H19 will be notably lower than 5.5% y/y recorded in 1H. At the same time, flash euro zone manufacturing PMI indexes for July showed big declines, going deeper than the March lows after the recent readings had raised hopes of bottoming out in business sentiment. Services indexes were also worse than in June, but at least have not gone below the market expectations.

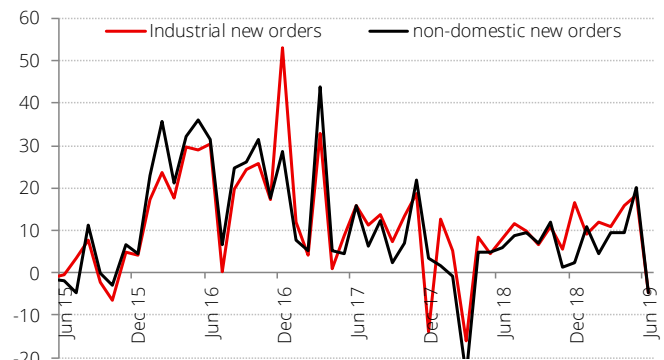
In June Poland **M3 money supply growth** decelerated to 9.3% y/y from 9.9% y/y in May mainly owing to slower growth of deposits of non-monetary financial institutions. The other components also recorded a slowdown: household deposits to 11% from 11.7%, corporate deposits to 6.7% from 7.5%. Current deposits accelerated to 14.4% from 14.1% and term deposits slowed to 0.9% from 3.2%. Pace of loans growth advanced to 6.8% from 6.4% after including the FX effect. Loans to households grew 6.3% vs 6.2% in May and to companies by 4.6% vs 4.4% the month earlier.

Construction production, % y/y



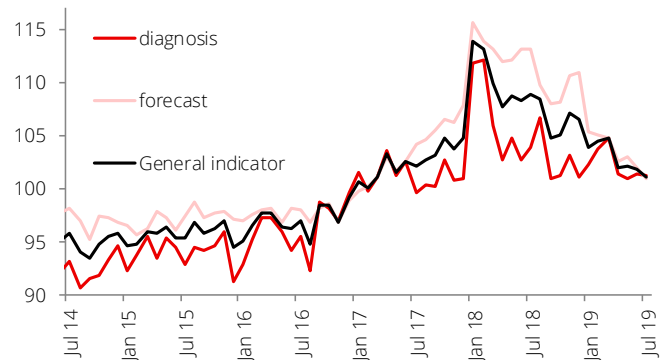
Source: GUS, Santander

Value of new orders in industry, % y/y



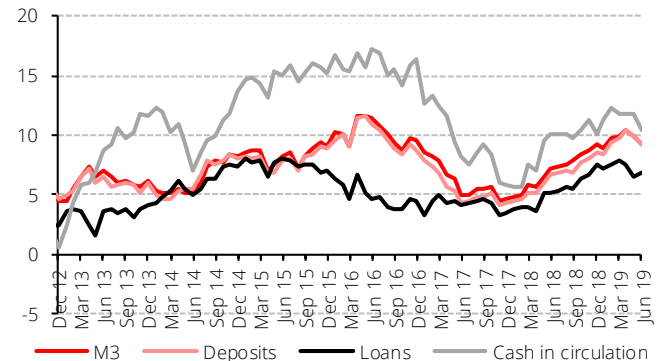
Source: GUS, Santander

GUS synthetic business sentiment indicators



Source: GUS, Santander

Money, loans and deposits, %/y



Source: NBP, Santander

FX and FI market

Last week on the market

FX In the recent days, the zloty has given up most of the gains recorded in the previous week versus the euro and pound and depreciated against the franc and dollar. Just like we anticipated, the outcome of the ECB meeting was less dovish than the market expected – the central bank did not change the interest rates and the action plan for the upcoming months was presented as highly general. This triggered some weakening of the CEE currencies since the hopes that the central bank will bold moves soon faded. Also, the start of EURPLN rise last week coincided with the yet another poor reading from the Polish economy (construction output) that joined the June sluggish package.

FI In the first part of the week, Polish IRS and bond yields continued the freefall as the market was expecting that the ECB would deliver at least part of what had been priced in. However, the central bank disappointed and this initiated a sharp upside move of the domestic and global rates. During the week, Polish 10Y benchmark yield neared its all-time-low at c1.94% but in the end was close to 2.10%.

The bond auction was pretty successful. At the primary auction the Ministry of Finance sold debt for PLN7bn (at the upper end of the planned supply) amid demand at PLN10.8bn.

Key events

Next week, the market attention should turn to the USA where we will see numerous macro data and the Fed will announce their decision about the interest rates.

The most recent comments of Jerome Powell and the other members of the FOMC clearly suggested that the rate cuts are on the table and the market expects at least 25bp to be delivered on the last day of July. In the recent weeks, investors were pricing c40% of probability that rates could be cut by 50bp this month but now they are much less convinced that this could happen.

Since the last FOMC meeting in late June, the 3M LIBOR USD fell by c10bp and 1M by c15bp. Considering the historical spread between the money market and the Fed Funds rates, it looks the market has already priced in the 25bp cut in July. The FRA rates imply that 50bp more is expected to be delivered in next nine months.

As far as the macro data releases are concerned, the monthly change of the US nonfarm payrolls should be the most awaited one. In June, the data showed a noticeable improvement after a very poor May. This time, the market expects the monthly change pulled back to around its six-month average.

In Poland, the stats office will release the flash July CPI. In our view, the inflation rate either remained unchanged at 2.6% y/y in line with the market consensus or increased to 2.7%.

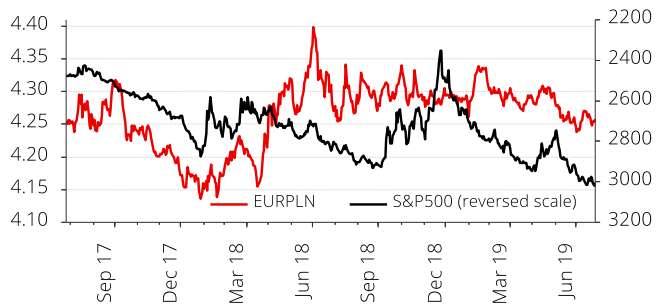
Market implications

FX The market reaction to the outcome of the ECB meeting showed that expectations regards the monetary policy easing are quite high. We expect the Fed will cut the interest rates by 25bp in July but the forward guidance for the coming months could fall short of the market pricing. Should this be the case, we could see EURPLN moving further up, particularly if the dollar gains after the FOMC meeting. However, we do not expect the exchange rate to go much beyond 4.27.

August starts next week. In the last 13 years, the zloty gained vs the euro only three times that month.

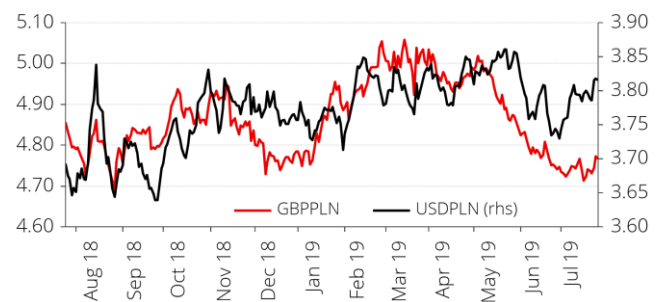
FI We do not expect the FOMC to provide fuel for the global market rate to resume the down move. The yields/IRS could stabilize somewhat before the Wednesday evening decision but the market reaction may be similar to what we have seen after the ECB meeting.

EURPLN and S&P500



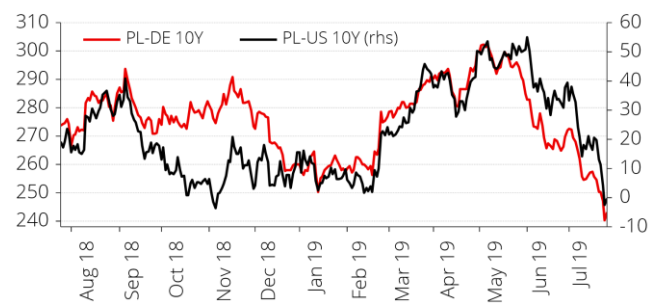
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and GBPPLN



Source: Refinitiv Datastream, Santander Bank Polska

10Y PL-DE and PL-US bond yield spreads (bp)



Source: Refinitiv Datastream, Santander Bank Polska

2-10 spreads (bp)



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST			LAST
				MARKET	SANTANDER	VALUE	
MONDAY (29 July)							
No important data releases							
TUESDAY (30 July)							
11:00	EZ	ESI	Jul	pct.	103.0	-	103.3
14:00	DE	HICP	Jul	% m/m	0.3	-	0.3
14:30	US	Personal Spending	Jun	% m/m	0.3	-	0.4
14:30	US	Personal Income	Jun	% m/m	0.3	-	0.5
14:30	US	PCE Deflator SA	Jun	% m/m	0.1	-	0.2
16:00	US	Consumer Conference Board	Jul	pts	125.0	-	121.5
16:00	US	Pending Home Sales	Jun	% m/m	0.3	-	1.1
WEDNESDAY (31 July)							
10:00	PL	Flash CPI	Jul	% y/y	2.6	2.7	2.6
11:00	EZ	Flash HICP	Jul	% y/y	1.2	-	1.2
11:00	EZ	GDP SA	2Q	% y/y	1.0	-	1.2
11:00	EZ	Unemployment Rate	Jun	%	7.5	-	7.5
14:15	US	ADP report	Jul	k	150	-	102
20:00	US	FOMC decision		%	2.25	-	2.50
THURSDAY (1 August)							
09:00	PL	Poland Manufacturing PMI	Jul	pts	48.0	48.8	48.4
09:55	DE	Germany Manufacturing PMI	Jul	pts	43.1	-	43.1
10:00	EZ	Eurozone Manufacturing PMI	Jul	pts	46.4	-	46.4
13:00	CZ	Central Bank Rate Decision		%	2.00	-	2.00
14:30	US	Initial Jobless Claims	week	k	218	-	206
16:00	US	ISM manufacturing	Jul	pts	52.0	-	51.7
FRIDAY (2 August)							
11:00	EZ	Retail Sales	Jun	% m/m	0.2	-	-0.3
14:30	US	Change in Nonfarm Payrolls	Jul	k	160	-	224
14:30	US	Unemployment Rate	Jul	%	3.7	-	3.7
16:00	US	Michigan index	Jul	pts	98.5	-	98.4
16:00	US	Durable Goods Orders	Jun	% m/m	0.7	-	2.0
16:00	US	Factory Orders	Jun	% m/m	0.6	-	-0.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawla II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.