

23 August 2019

Weekly Economic Update

More volatility

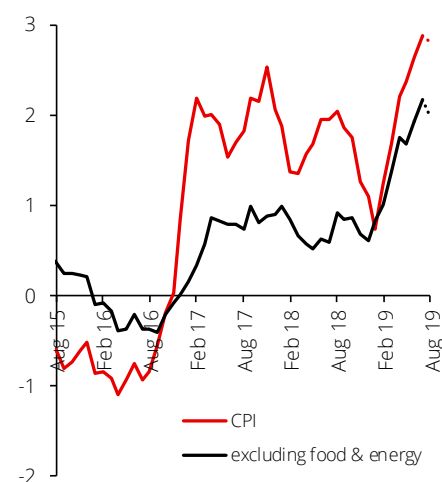
What's hot next week

- The last two weeks brought sharp changes on the global debt and EM FX markets. Global rise of yields noticeably hit Polish bonds while the zloty was under pressure of the Argentine peso depreciation. As a result, the domestic 10Y bond yields approached 2% vs its all-time-low of c1.71% and EURPLN recorded a temporary jump to nearly 4.40.
- The beginning of the upcoming week is rather light in terms of the global data releases and only on Thursday and Friday we will see some important US data. These are likely to be viewed in the context of the outcome of the Jackson Hole symposium that has just started.
- In the past, this meeting of the global central bankers has been utilised by the Fed governors to make at least a clear hint about the actions that are planned to be taken in the nearest future. The market is waiting what the Fed's Powell will say and whether he would open the door for more monetary policy easing after the July "hawkish cut". The market prices in that the Fed Funds rates could be trimmed by 75bp in the next 15 months but after the last yields' jump, bonds might recover in case of any dovish message. Reserved tone – which is our base scenario – would most likely push the market rates further up. The FX market has recently been rather stable and volatility might rise there after the weekend in any case.
- In Poland, on Friday we will see what was behind the pace of the GDP growth slowdown in 2Q (net exports, investments and public consumption, in our view) and the flash August CPI will be published (we expect marginal drop from the July's 2.9% y/y). Polish July data confirmed that the gradual economic slowdown continues while the flash August PMIs for Germany and the whole euro zone gave hope (again) that the business activity is already at its bottom. Shall this be the case, the pace of the Polish GDP slowdown should remain low in the quarters to come.

Market implications

- Powell's comments in the Jackson Hole and Polish macroeconomic data (CPI) are expected to be the main driving forces behind the Polish assets next week.
- We expect EM FX trading on the weaker side and with an increased volatility as the Fed's governor may not sound that dovish as the market hopes for. Lack of strong call that more rate cuts are on the way could weigh on bonds and we think curves could steepen further.

CPI inflation, % y/y



Source: GUS, NBP, Santander

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Last two weeks in economy

The set of data for July was less positive than we expected and the first soft indicators for August showed further drop of business sentiment. Still, wage growth rebounded even more than we assumed and consumers remain very optimistic and open to large expenditures. We still think there will be further gradual economic slowdown in 3Q (4.2% y/y vs 4.4% y/y in 2Q19). mitigated by acceleration of private consumption in 2H19.

Industrial output rose by 5.8% y/y in July, below market and our expectations. Seasonally-adjusted numbers showed a rise by 3.7% y/y, the second worst result this year. Output of intermediate goods was underperforming and this type of goods is strongly correlated with Polish exports to Germany. Thus, it seems that the weak economic climate in Germany has finally begun to take its toll on Polish industry. July construction output was in line with our claim that the sector will be decelerating this year due to EU funds cycle.

Overall **business sentiment** indicator was in August the weakest since February 2017 due to more pessimism in industry and construction. The industry's gauge of expected production remained the lowest in seven years and expected sales index in the retail trade sector was the weakest in more than 2.5 years.

Retail sales rose by 5.7% y/y in July vs 3.7% in June, as we expected. June was affected by many one-offs and July showed a healthy rebound, especially in sales of durable goods (11.4% y/y vs 6.8% y/y in June). Still, sales were a bit weaker than Jan-May 6.2% average.

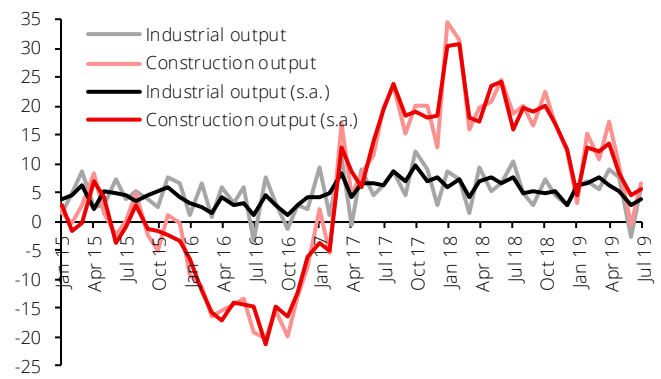
In August, main **consumer confidence** indexes were still historically high, despite some m/m decline. The largest drop was seen in households' financial situation expectations, possibly from rising inflation (CPI pushed to 2.9% y/y in July, no August inflation expectations measures are known yet). At the same time the major purchases index has set a new record. Taking into account the support to household budgets from the coming fiscal stimulus (lower PIT, additional child benefits), consumer sentiment supports our forecast of stronger private consumption growth in 2H19.

In July, **wages** in the Polish corporate sector rose by 7.4% y/y vs 7.1% market consensus and our 7.2% call. As we expected, the previous surprisingly low reading of 5.3% y/y was just a one-off related to calendar effects. The July acceleration confirms the wage pressure coming from the labour market shortage and the sound economic growth. Employment growth eased from 2.8% y/y to 2.7%. The July m/m change, +3.4k, was the weakest for this month since 2013.

According to **financial results of companies employing 50+ persons**, 2Q19 was the first time in three quarters that revenues growth (7.5% y/y) outpaced costs growth (7.2%). The 4Q-average profit margin rose (from 4.4% to 4.5%) for the first time in 1.5 years. We continue to highlight that the margin squeeze from previous periods has created high upside potential for CPI. The first signs of margin recovery are mostly seen in services sectors, and services prices inflation is now the backbone of CPI acceleration (apart from high food prices contribution). **Investment in companies employing 50+** people rose by 17.0% y/y in 2Q19 vs 21.7% in 1Q. The data confirmed that the private sector remained the main driver of investment growth in 2Q (our forecast of total investment sits at 9.0% y/y). We are expecting a further deceleration of investment outlays in the quarters to come.

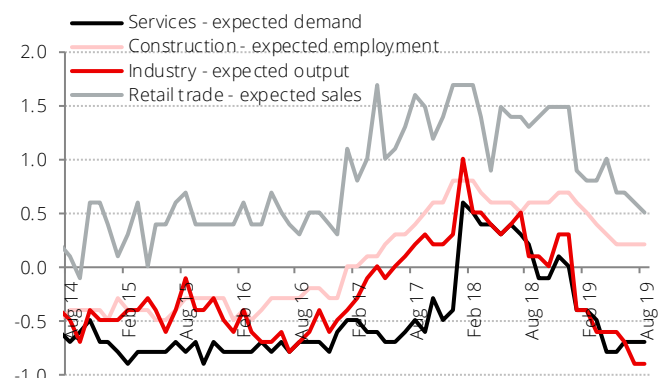
MPC minutes from the July meeting revealed that the Council voted on a 25bp rate hike. The motion was supported by E. Gatnar and K. Zubelewicz. In our view, as inflation climbs further, more members could join them (Ł. Hardt, J. Osiatyński, possibly J. Kropiwnicki), even if it might seem strange in the current global context. This would still be enough to change rates. The doves led by NBP Governor A. Głapiński have some valid arguments against hikes: monetary easing in key economies, slowdown and risks to GDP growth in Poland. We cannot rule out some dovish rhetoric by Głapiński to counter the impression stemming from the hike vote.

Production in Poland, %/y



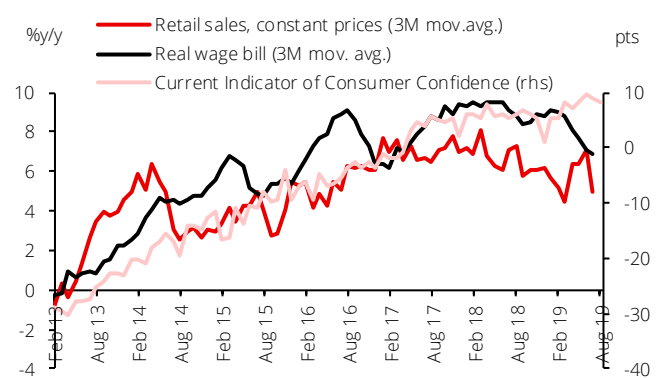
Source: GUS, Santander

GUS business sentiment indicators, expectations components



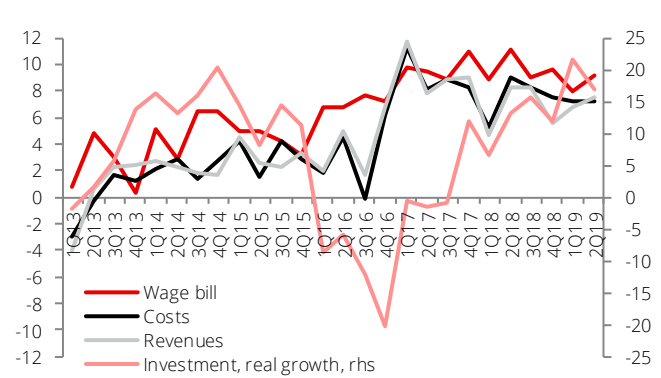
Source: GUS, Santander

Retail trade, consumer confidence and income



Source: GUS, Santander

Fin. results and investments of companies employing 50+, %/y



Source: GUS, Santander

FX and FI market

Last two weeks on the market

FX EURPLN has become more volatile over the last two weeks. Polish bank holiday on 15 August was partly to blame, as low liquidity of the market and lack of local PLN buyers (e.g. exporters) sent the rate to 4.397 up from 4.32 just a couple of days earlier. Only one day later the pair squeezed back to 4.326 only to finish the next week on the weaker side again at 4.38 after slightly weaker industrial output figures for July. More and more EM-focused asset managers are becoming aware of the CHF-mortgage issue in the Polish banking system and this has also undermined the zloty.

FI In the week of 12-16 August Polish government bonds followed the massive rally on the core markets and 10Y bonds closed the week at 1.73% after having started the week at 1.92%. Then in the second week both the core and the Polish yields gave back their gains: while Bunds trimmed their gains only slightly, Polish securities saw a major weakening to 2.03%, so PL-DE spread widened by 20bps to 267bps. 2-10 segments of bond and swap curves initially flattened (from 36bp to 24bp and from 2 to -8bp respectively) only to widen again in the 19-23 August week (to 50bp and 1bp).

Key events

Jerome Powell speech in Jackson Hole scheduled for Friday 23, 16:00 CET Warsaw time.

Next week in Poland we will get to see July unemployment rate (Monday) and, more importantly, detailed Q2 GDP and preliminary August CPI on Friday.

Abroad, US Durables on Monday; Q2 GDP, inventories and pending home sales on Thursday and July Personal Incomes, July PCE and August US Michigan on Friday. In Germany August IFO on Monday, Q2 GDP on Tuesday and July CPI on Thursday, Eurozone July M3 money supply will be known on Wednesday.

Elsewhere in the region, the Hungarian Central Bank rate decision is scheduled for Tuesday (0.90%, unchanged) and Hungarian and Czech Q2 GDP on Friday.

Market implications

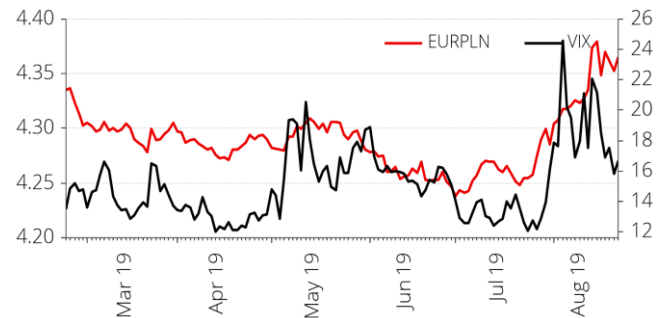
As the beginning of next week is relatively light in macro data, we believe that the market sentiment during the first days will be under influence of the Powell's Jackson Hole speech. The US data have been decent lately giving Powell less room for dovishness. The latter part of the week will be more macro-driven.

FX As noted above, in the early week PLN might trade in line with global post-Jackson Hole sentiment, which we expect to come on the hawkish side and help weaken EM currencies. From the local factors, we expect slightly higher volatility and a slightly bearish tone to remain (increased interest of the investors in the CHF-mortgages issue).

FI We think the market will spend the week positioning itself for the Friday PL August CPI release which is likely to come out at 2.8% y/y (the decline from 2.9% y/y in July mostly stems from high base effect in gas prices, while m/m momentum remains high). This could fuel the domestic bond sell-off and trigger a further curve steepening.

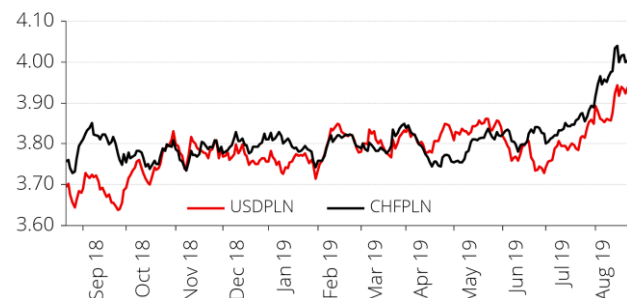
We think the core markets will trade heavily influenced by the Powell speech and by Germany's GDP on Tuesday, with a decent likelihood of another rebound in yields after this year's strong rally so far.

EURPLN and VIX



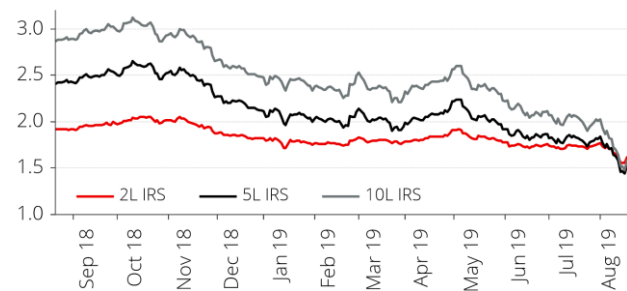
Source: Refinitiv Datastream, Santander Bank Polska

USDPLN and CHFPLN



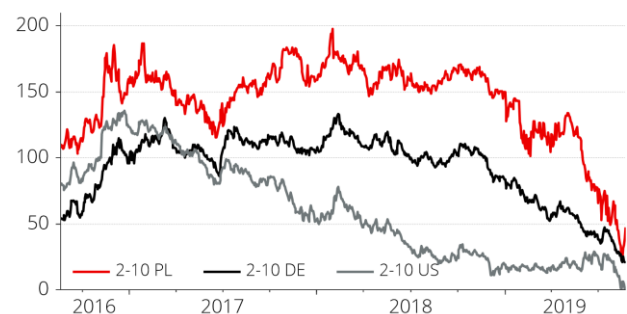
Source: Refinitiv Datastream, Santander Bank Polska

Polish IRS rates (bp)



Source: Refinitiv Datastream, Santander Bank Polska

2-10 bond yield spreads (bp)



Source: Refinitiv Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		LAST
					MARKET	SANTANDER	VALUE
MONDAY (26 August)							
10:00	DE	IFO Business Climate	Aug	pts	96.0	-	95.7
10:00	PL	Unemployment Rate	Jul	%	5.2	5.2	5.3
14:30	US	Durable Goods Orders	Jul	% m/m	1.1	-	1.9
TUESDAY (27 August)							
08:00	DE	GDP	2Q	% y/y	0.0	-	0.4
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90
16:00	US	Consumer Conference Board	Aug	pts	130.0	-	135.7
THURSDAY (29 August)							
11:00	EZ	ESI	Aug	pts	-	-	102.7
14:00	DE	HICP	Aug	% m/m	0.0	-	0.4
14:30	US	GDP Annualized	2Q	% q/q	2.0	-	2.1
14:30	US	Initial Jobless Claims	week	k	-	-	209
16:00	US	Pending Home Sales	Jul	% m/m	0.0	-	2.8
FRIDAY (30 August)							
09:00	CZ	GDP	2Q	% y/y	2.7	-	2.7
09:00	HU	GDP	2Q	% y/y	-	-	4.9
10:00	PL	Flash CPI	Aug	% y/y	-	2.8	2.9
10:00	PL	GDP	2Q	% y/y	-	4.4	4.4
11:00	EZ	Flash HICP	Aug	% y/y	1.1	-	1.1
11:00	EZ	Unemployment Rate	Jul	%	7.5	-	7.5
14:30	US	Personal Spending	Jul	% m/m	0.5	-	0.3
14:30	US	Personal Income	Jul	% m/m	0.3	-	0.4
14:30	US	PCE Deflator SA	Jul	% m/m	0.2	-	0.1
16:00	US	Michigan index	Aug	pts	92.3	-	92.1

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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