

13 September 2018

Eyeopener

Today ECB decision and data from Poland

Markets calm ahead of ECB

Forint and koruna under impact of external events

Zloty a bit weaker, Polish bonds gain

Today data from Poland and USA, ECB decision

Wednesday session was calm, no key publications were released and markets were awaiting today's decision and press conference of ECB. As a result the intraday volatility of major currencies was lower than on Tuesday. Bond yields were going down as investors likely assumed that the ECB rhetoric will become more dovish due to the recent weak economic data. This morning the market sentiment is rather positive thanks to US willingness to continue trade talks with China.

EURUSD did not see big moves yesterday and stayed close to 1.16, within the range set by Tuesday minimum and maximum. As we expected, the exchange rate moved without a clear trend, but the situation may change today in reaction to Mario Draghi's words. The market assumes that the ECB rhetoric will be softened given the streak of poor economic data. However, in our view even if the ECB notes the worrying data, it will stick to the plan to stop asset purchases by the end of the year. The ECB meeting may thus turn out to be positive for the euro.

EURPLN rose yesterday above 4.31 from c4.30 due to sudden decline of the forint (details below), while USDPLN remained close to 3.72. Exchange rate volatility was lower in Poland than in the rest of the region. Today the zloty may be influenced by the ECB meeting. We think the central bank's rhetoric will send EURUSD higher and if the negative correlation of the exchange rate with EURPLN holds, then the zloty might gain.

In case of the **other CEE currencies** we witnessed some bigger changes. EURCZK fell temporarily to its lowest since May (25.53) after the Czech central bank governor Jiří Rusnok said that the next rate hike could take place as soon as this month. At the same time, the forint has clearly underperformed with EURHUF rising temporarily above 326 (from below 325) after the European Parliament voted to start an Article 7 procedure against Hungary (the same that was launched against Poland in December 2017). The "Polish case" shows that the yesterday's PE decision may not have a long-lasting impact on the forint.

On the domestic interest rate market yields fell by more than 4bp and IRS by c3bp on the belly and long end of the curves. Yesterday Polish bonds outperformed its German and US peers. We think that the ECB rhetoric will rather not be supportive for bonds and today we might see some profit taking after the yesterday's strengthening.

Today we will see final August CPI. Flash release at 2% y/y is likely to be confirmed. We do not know the details yet but it seems that core inflation may have made a significant step higher for the first time this year, to 0.8-0.9%. We might finally see some increase in services inflation, which was depressed in 1H18 from 2.8% y/y to 1.4%, and failed to rebound despite all the pressure coming from the labour market.

Today at 14:00CET the NBP will release July balance of payments data. Stats office data on foreign trade indicate a quite strong turnover in July, with exports up 12.4% y/y and imports +13.3% y/y. This suggests some upside risk to our estimates of exports and imports that will be presented in NBP C/A data, which we are expecting at 10.1% y/y and 10.7% y/y, respectively (the figures from the two data sources, Stats office and NBP, usually differ slightly, with the latter getting more attention). July was also a month of stronger-than-expected industrial output. The next release of trade data will be more interesting, as it might show the scale of negative response of Polish exports to falling business confidence and poor performance of German industry, as seen in recent publications.

NBP released a draft of its **monetary policy guidelines** for 2019. The document does not include any meaningful changes compared to previous years, the inflation target is to stay at 2.5% y/y. According to the central bank, the biggest risk factor for the Polish economy would be the intensification of foreign trade tensions.

EURPLN (2 November 2017 – 1 March 2018)



Source: Stats Reuters, Santander Bank Polska

Foreign trade, Stats Office data, % y/y



Source: Stats Office, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: skarb.santander.pl

Piotr Bielski +48 22 534 18 87

Marcin Łuziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

FX market

Today's opening

EURPLN	4.3112	CZKPLN	0.1686
USDPLN	3.7078	HUFPLN*	1.3254
EURUSD	1.1628	RUBPLN	0.0539
CHFPLN	3.8249	NOKPLN	0.4488
GBPPLN	4.8345	DKKPLN	0.5780
USDCNY	6.8498	SEKPLN	0.4129

*for 100HUF

Last session in the FX market 12/09/2018

	min	max	open	close	fixing
EURPLN	4.303	4.315	4.306	4.312	4.3103
USDPLN	3.695	3.728	3.716	3.708	3.7198
EURUSD	1.157	1.165	1.159	1.163	-

Interest rate market 12/09/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.61	-1	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.55	0	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.23	-4	6 wrz 18	WS0428	3.249

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.77	0	2.73	0	-0.25	0
2L	1.96	0	2.93	0	-0.15	0
3L	2.15	-1	2.98	0	0.00	0
4L	2.33	-2	2.99	-1	0.16	0
5L	2.48	-3	2.99	-1	0.31	-1
8L	2.80	-3	3.00	-1	0.71	-1
10L	2.96	-4	3.03	-1	0.92	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.53	-1
T/N	1.53	-1
SW	1.55	0
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.74	-1
6x9	1.78	-2
9x12	1.81	-1
3x9	1.82	-1
6x12	1.86	-1

Measures of fiscal risk

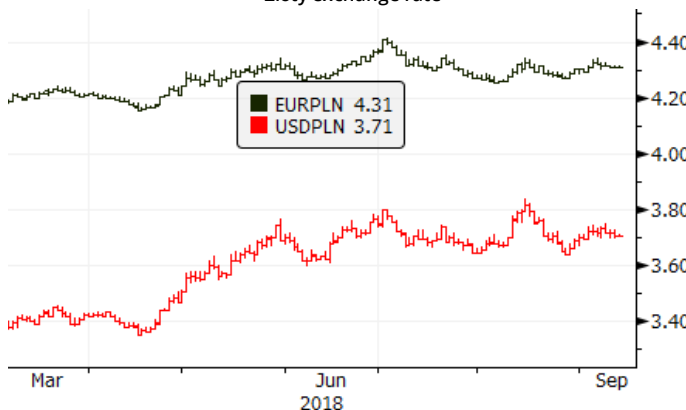
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.82 -4
France	25 0	0.31 0
Hungary	116 1	3.15 0
Spain	62 1	1.05 0
Italy	236 5	2.57 3
Portugal	64 0	1.45 0
Ireland	25 0	0.48 1
Germany	10 0	- -

* 10Y treasury bonds over 10Y Bunds

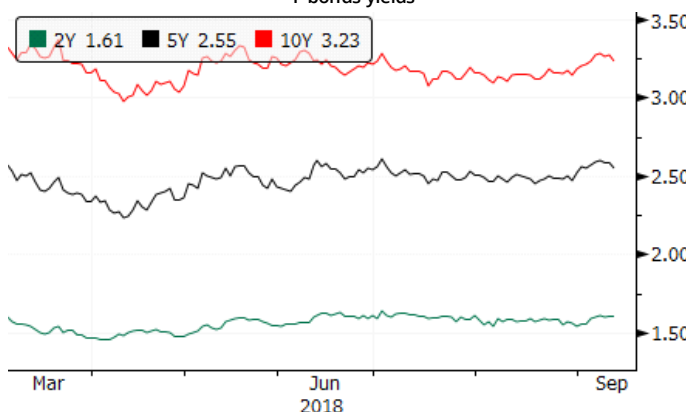
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

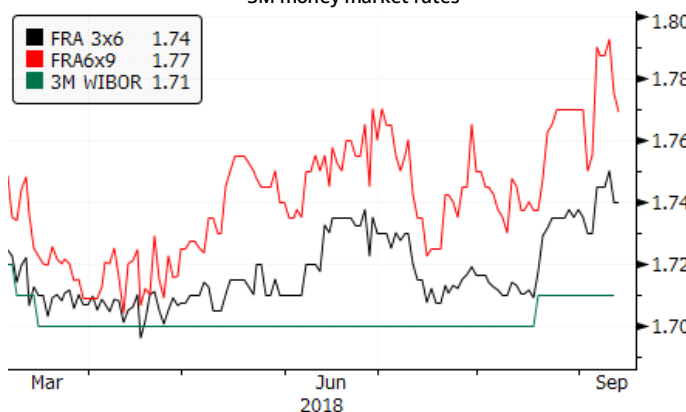
Zloty exchange rate



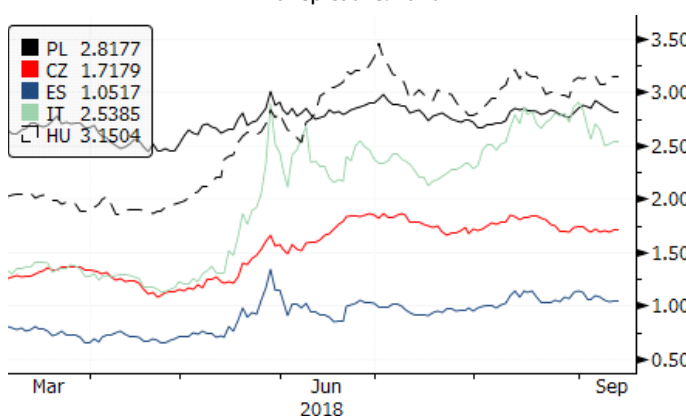
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Time CET	Country	Indicator	Period	Forecast		Actual value	Last value	
				Market	Santander			
Friday (7 September)								
08:00	DE	Export	Jul	% m/m	0.2		-0.9	0.1
08:00	DE	Industrial Production	Jul	% m/m	0.2	-	-1.1	-0.9
11:00	EZ	GDP SA	2Q	% y/y	2.2	-	2.1	2.2
14:30	US	Change in Nonfarm Payrolls	Aug	k	192	-	201	157
14:30	US	Unemployment rate	Aug	%	3.8		3.9	3.9
Monday (10 September)								
09:00	CZ	CPI	Aug	% y/y	2.4		2.5	2.3
Tuesday (11 September)								
09:00	HU	CPI	Aug	% y/y	3.3		3.4	3.4
11:00	DE	ZEW Survey Current Situation	Sep-18	pts	71.6	-	76.0	72.6
Wednesday (12 September)								
11:00	EZ	Industrial Production	Jul	% m/m	-0.5	-	-0.8	-0.8
Thursday (13 September)								
08:00	DE	HICP	Aug	% m/m	0.0	-	0.0	0.0
10:00	PL	CPI	Aug	% y/y	2.0	2.0		2.0
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:00	PL	Current Account Balance	Jul	€mn	-659	-418		-240
14:00	PL	Trade Balance	Jul	€mn	-356	-255		-413
14:00	PL	Exports	Jul	€mn	17059	17160		18071
14:00	PL	Imports	Jul	€mn	17457	17415		18484
14:30	US	CPI	Aug	% m/m	0.3	-		0.2
14:30	US	Initial Jobless Claims		k	210	-		213
Friday (14 September)								
14:00	PL	CPI Core	Aug	% y/y	0.8	0.8		0.6
14:30	US	Retail Sales Advance	Aug	% m/m	0.6	-		0.5
15:15	US	Industrial Production	Aug	% m/m	0.4	-		0.1
16:00	US	Michigan Index	Sep	pts	96.2	-		96.2
	PL	Rating Review by Moody's						

Source: Santander Bank Polska, Bloomberg, Parkiet
* in case of the revision the data is updated

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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>.