

25 September 2018

# Eyeopener

## ECB hit bonds

ECB chairman strengthen EUR and hit sovereign bonds  
 EC sued Poland to the Court of Justice  
 Further deterioration of domestic leading indicators  
 Zloty and CEE currencies a little stronger, bonds under pressure  
 Today: domestic unemployment rate, US consumer Conference Board

Canceling negotiations about trade with US administration by the China compensated very good sentiment on markets which was before the weekend. In Poland there was publication of industrial economic situation data (again weaker data) and monetary supply data (it grew faster than in July). European bonds did not benefit from growth of demand on safe assets which was disturbed by the President of ECB's remark. Mario Draghi told that he expects significant acceleration of core inflation and this hawkish comment pushed yields up and influenced on strengthen of the euro vs the dollar.

Publication of **GUS leading indicators** showed that there was a drop of the main indicator of processing industry sixth time in a row in September. Last month big companies experienced the weakening of current situation significantly. In their case, the main indicator fell to the lowest level since two years. On the other hand they suggested rebound in domestic orders in September but on the contrary small and medium companies suggested rebound in foreign orders. Among sectors there was significant differences in demand from abroad: big weakening among producers of metals and pharmaceuticals but orders on computers, electronic and optic equipment and furniture went up.

**The European Commission (EC)** decided to sue the Polish government's judiciary reforms before the Court of Justice of the EU, assessing that these acts are against the EU law (breach of judicial independence, including the irremovability of judges). At the same time, the EC has asked the Court to use expedited procedure and requested provisional measures in order to give this case the top priority. Decision to pass the issue to the Court is a way to move forward in the conflict between the Polish government and the EC. Procedure related to the Article 7 is unlikely to lead to any sanctions against Poland due to high probability of the Hungarian veto, while the ruling of the Court does not have to be approved by the EU governments. If a country does not comply with the Court ruling, the EC may ask the Court to impose a financial penalty related to the length of the breach or/and flat-rate fee.

**M3 money supply** rose in August by 7.5% y/y, in line with market expectations and slightly faster than in July (7.3%). Households deposits kept accelerating (from 7.0% to 7.4% y/y), similarly as corporate deposits (from 6.5% to 6.8% y/y). Total loan growth (FX adjusted) rose 6.0% y/y, which is the second best reading in the last three years. Corporate loan growth also was maintained above 6% y/y. Loans to local governments have been improving – since the start of the year it has accelerated from around zero to 3.8% y/y, following two years of contraction. PLN-denominated loans for private individuals (both mortgages and consumer loans) maintained pace above 10% y/y (reaching 10.4% and 11.2% y/y, correspondingly).

**MPC member Łukasz Hardt** said in the interview for the Polish Press Agency that stable interest rates is now the best strategy. He did not exclude, however, that next year a hike might be required should the pro-inflationary factors strengthen. He suggested that maturity of the open market operations could be extended to 6 months in order to improve the balance of the interbank market and support the corporate debt market.

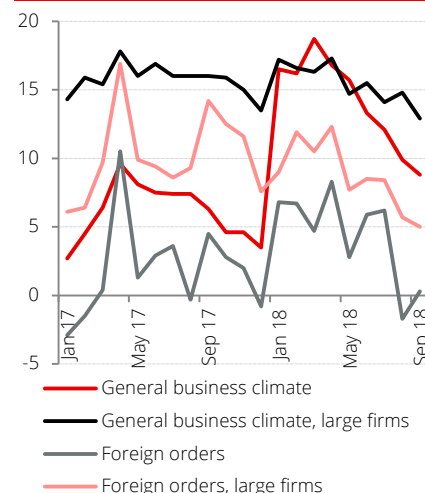
**EURUSD** started to rise since the beginning of the session and this trend accelerated in the afternoon after the comment of the ECB governor. The hawkish comment of Mario Draghi pushed the exchange rate to 1.18 from 1.173. Still, the upside move was only temporary and EURUSD soon fell to 1.175 and today in the morning is close to this level. Today we will see US consumer confidence index but we do not expect this release to have any persistent impact on EURUSD a day before the FOMC decision.

**EURPLN** eased somewhat yesterday after a significant rise seen at the end of the past week and at the end of the day the exchange rate was near 4.30 vs 4.31 at the opening. USDPLN fell to 3.64 from 3.67 on higher EURUSD. Yesterday's EC decision and falling stock prices did not have any meaningful impact on the zloty. Monday's session did not bring any breaking changes on the EURPLN chart and we expect the market to remain fairly stable waiting for tomorrow's FOMC decision.

**The other CEE currencies** also gained slightly. EURHUF fell to 323.4 from 324.20, EURCZK rose only temporarily to 25.64, while USDRUB dropped to 65.7 z 66.6. The ruble benefited from the more than 2% oil price rise and weaker dollar.

**Polish bond yields** rose 1-4bp, the most on the long end. Domestic debt followed the trend observed on the European market and the Polish 10Y benchmark lost at a similar scale to its German peer.

Business sentiment indicators, industry



Source: Stats Office, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2976	CZKPLN	0.1677
USDPLN	3.6540	HUFPLN*	1.3289
EURUSD	1.1761	RUBPLN	0.0556
CHFPLN	3.7811	NOKPLN	0.4489
GBPPLN	4.7916	DKKPLN	0.5761
USDCNY	6.8636	SEKPLN	0.4162

\*for 100HUF

### Last session in the FX market 24/09/2018

	min	max	open	close	fixing
EURPLN	4.293	4.312	4.306	4.295	4.3092
USDPLN	3.640	3.674	3.664	3.650	3.662
EURUSD	1.172	1.182	1.175	1.177	-

## Interest rate market 24/09/2018

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.56	1	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.55	2	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.25	3	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	1.79	2	2.77	-1	-0.25	0
2L	1.99	1	2.98	-1	-0.11	2
3L	2.19	2	3.05	0	0.06	3
4L	2.38	3	3.07	0	0.24	4
5L	2.54	3	3.08	0	0.40	5
8L	2.85	3	3.11	0	0.80	5
10L	3.02	3	3.14	0	1.00	4

## WIBOR rates

Term	%	Change (bps)
O/N	1.82	28
T/N	1.81	27
SW	1.58	4
2W	1.60	1
1M	1.64	0
3M	1.72	0
6M	1.79	0
9M	1.82	0
1Y	1.87	0

### FRA rates on the interbank market\*\*

Term	%	Change (bps)
1x4	1.73	0
3x6	1.76	1
6x9	1.79	2
9x12	1.83	2
3x9	1.85	1
6x12	1.89	1

## Measures of fiscal risk

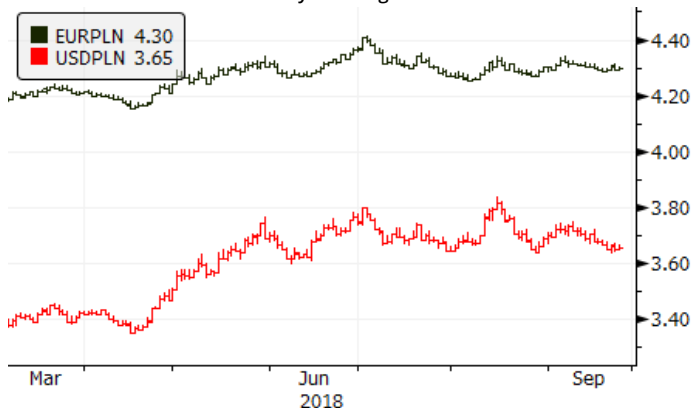
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.73 1
France	25 1	0.32 0
Hungary	116 1	3.04 -2
Spain	65 4	0.99 -2
Italy	221 8	2.37 -7
Portugal	64 0	1.36 -2
Ireland	25 0	0.49 0
Germany	11 0	- -

\* 10Y treasury bonds over 10Y Bunds

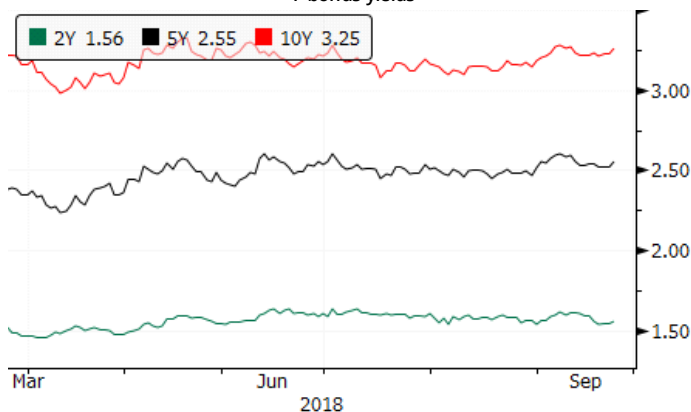
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

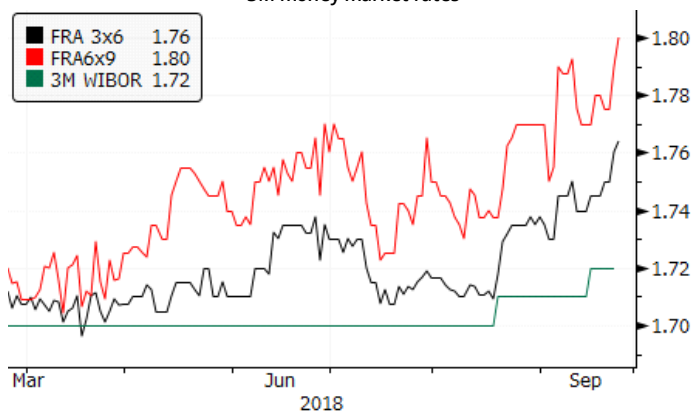
## Zloty exchange rate



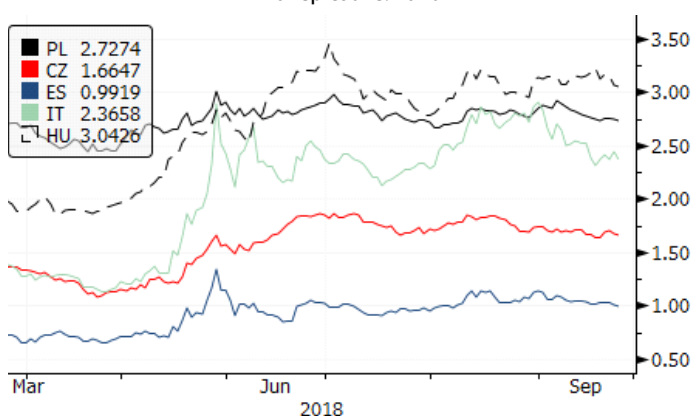
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

Economic calendar						ACTUAL VALUE		LAST
TIME		INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE
CET					MARKET	SANTANDER		
FRIDAY (21 September)								
09:30	DE	Flash Manufacturing PMI	Sep	pts	55.7	-	53.7	55.9
09:30	DE	Flash Services PMI	Sep	pts	55.0	-	56.5	55.0
10:00	EZ	Flash Manufacturing PMI	Sep	pts	54.5	-	53.3	54.6
10:00	EZ	Flash Services PMI	Sep	pts	54.4	-	54.7	54.4
10:00	PL	Retail Sales Real	Aug	% y/y	7.0	6.4	6.7	7.1
MONDAY (24 September)								
10:00	DE	Ifo index	Sep	pt	103.0	-	103.7	103.9
14:00	PL	Money supply M3	Aug	% y/y	7.5	7.4	7.5	7.3
TUESDAY (25 September)								
10:00	PL	Unemployment rate	Aug	%	5.9	5.9		5.9
16:00	US	Consumer confidence index	Sep	pt	132.0	-		133.4
WEDNESDAY (26 September)								
13:00	CZ	Central bank decision		%	1.50	-		1.25
16:00	US	New home sales	Aug	% m/m	0.8	-		-1.7
20:00	US	FOMC decision		%	2.25	-		2.0
THURSDAY (27 September)								
8:00	DE	Retail sales	Aug	% m/m	0.5	-		-0.4
11:00	EZ	ESI	Sep	pt	0.0	-		111.6
14:00	DE	HICP	Sep	% m/m	0.0	-		0.0
14:30	US	Durable goods orders	Aug	% m/m	1.7	-		-1.7
14:30	US	GDP	2Q	% q/q	4.2	-		4.2
14:30	US	Initial jobless claims	week	k	210	-		204
16:00	US	Pending home sales	Aug	m/m	-0.4	-		-0.7
FRIDAY (28 September)								
11:00	EZ	Flash HICP	Sep	% y/y	2.0	-		2.0
14:30	US	Personal spending	Aug	% m/m	0.3	-		0.4
14:30	US	Personal income	Aug	% m/m	0.4	-		0.3
14:30	US	PCE	Aug	% m/m	0.1	-		0.1
16:00	US	Michigan index	Sep	pt	100	-		100.8

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

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