

1 October 2018

Eyeopener

PMI fell again in September

News from Italy weighed on euro and higher risk assets

Polish budget in surplus again; PMI lowest in almost two years

Today: manufacturing activity indicators, Polish flash CPI

The market sentiment worsened significantly at the end of last week, mainly due to news from Italy. Its government approved 2019 budget with a deficit rising from 0.8% planned for 2018 to 2.4% of GDP. This news caused a sharp selloff of Italian bonds and equities. It weighed also on European stocks and the euro was under pressure vs. the dollar. On core markets, bonds gained on lower demand for higher-risk assets. Afternoon data from the USA did not deviate much from forecasts and did not cause a meaningful market reaction.

EURPLN was hovering around 4.27 since the beginning of the session but later in the day it rose to 4.28. **USDPLN** increased to 3.69 from 3.66. We do not expect next attempts of EURPLN to break support at 4.265 any time soon, trends on the stock markets will be key for the zloty.

EURUSD decreased third day in a row due to newsflow from Italy and at the end of the session it was close to 1.158. During three sessions, the euro gave back almost all profits vs the dollar which were gained in the first part of September. Today we will know September ISM index for US industry, whose impact on equities can determine the course of EURUSD.

Polish bond yields fell on Friday in reaction to worse global sentiment and strengthening of Bund. Polish 10Y benchmark gained less than 2bps, while German more than 6bps.

The finance minister Teresa Czerwińska said that **after August the central budget showed a surplus** of PLN1.1bn. We were expecting the deficit to deepen from PLN0.9bn to PLN2.0bn, but revenues proved better than we expected and spending lower. VAT revenues in January-August grew by 4.7% y/y versus 2.8% y/y after July. August alone saw a VAT rise by 19.6% y/y, after over 6% y/y drop in July. Data on budget realization is a positive surprise after the last reading showed a worrying deterioration. Deputy finance minister Piotr Nowak said that the ministry has covered 81% of the borrowing needs (vs the planned realization of the budget). Three auctions are scheduled for 4Q18 and the ministry is to offer debt worth PLN11-22bn. In October, there will be two auctions with total issuance of PLN8-16bn.

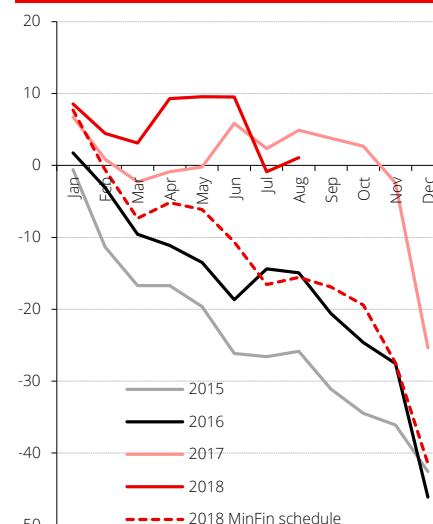
According to Ministry of Finance, **in August foreign investors sold POLGBs** worth PLN2.8bn. It was a third month in a row where non-resident reduced their long position in Polish T-bonds. Since the beginning of year non-residents reduced their positions by PLN15bn and the value of their portfolios fell to the lowest since November 2016. The most active sellers were foreign investment funds, which reduced their portfolios sixth month in a row, and cut their long positions by PLN4.2bn - the fastest since November 2016. Now their Polish t-bonds portfolio was PLN31.6bn - the lowest level since April 2014 (the first month of recording this statistics). Hedge funds dominated the buy side. Their positions increased by PLN1.4bn m/m - in the fastest pace - more than doubling value of their exposure. The domestic investors increased portfolio by PLN3.1bn (banks +PLN761mn, insurance companies by +PLN660mn and "others" +PLN881bn).

The Stat Office revised **estimates of this year's harvest**. Cereal harvest was estimated to be lower about 16% y/y - the first estimate of the end of July accounted to -14%. Estimates of vegetables production declined from -8% y/y to -9% y/y. It is significant loss from the point of view of domestic prices' formation. The drought effect was visible in August CPI and in September the influence can be even stronger.

In September, the **Poland's manufacturing PMI** fell to 50.5 from 51.4pts in August. The index was dragged lower by fall in new orders (subindex below neutral mark of 50pts) and especially new export orders, which were at the lowest level in 4 years. Output, employment, backlog and price indices also went down. The index is probably suffering from impact of trade wars and is in line with our forecasts of economic slowdown in Poland in 2H18: 5%+ growth from 1H18 is unlikely to be repeated.

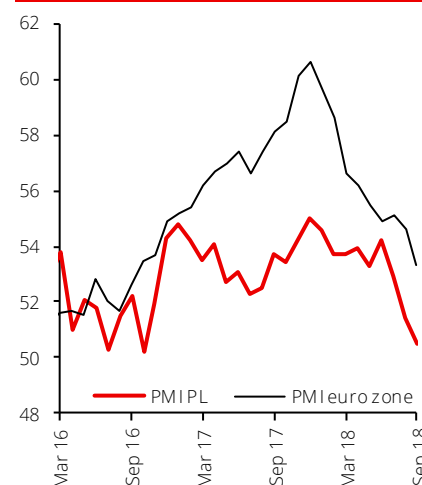
Important data are coming this week, in Poland and abroad. We are expecting the CPI inflation at 2.0% y/y, for the fourth month in a row. The MPC is unlikely to change its policy. Globally, the market attention might focus on the US data with the manufacturing ISM and nonfarm payrolls in particular. In the last few days, the zloty deviated from EURUSD and bonds and became more sensitive to trend on the equity market. We think the long end of the Polish bond yield curve might go slightly up in the coming days holding comfortably below the September peak at 3.36%. Poland CPI might generate only a mild upside pressure on the front end and belly of the curve.

Cumulative budget performance (PLNbn)



Source: Ministry of Finance, Santander Bank Polska

Manufacturing PMIs



Source: Markit, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2849	CZKPLN	0.1663
USDPLN	3.7012	HUFPLN*	1.3233
EURUSD	1.1577	RUBPLN	0.0565
CHFPLN	3.7678	NOKPLN	0.4532
GBPPLN	4.8224	DKKPLN	0.5746
USDCNY	6.8689	SEKPLN	0.4152

*for 100HUF

Last session in the FX market 28/09/2018

	min	max	open	close	fixing
EURPLN	4.266	4.288	4.273	4.281	4.2714
USDPLN	3.660	3.699	3.660	3.688	3.6754
EURUSD	1.157	1.167	1.167	1.160	-

Interest rate market 28/09/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.54	0	6 wrz 18	OK0720	1.610
DS1023 (5L)	2.54	0	6 wrz 18	PS0123	2.462
WS0428 (10L)	3.23	-1	6 wrz 18	WS0428	3.249

IRS on the interbank market**

Risks on the interbank market						
Term	PL			US		EZ
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	-1	2.78	-1	-0.24	0
2L	1.99	-1	2.98	-2	-0.11	-1
3L	2.18	-1	3.04	-2	0.07	-2
4L	2.36	-2	3.05	-3	0.24	-3
5L	2.52	-2	3.05	-2	0.39	-4
8L	2.83	-2	3.08	-2	0.78	-3
10L	3.00	-2	3.10	-2	0.99	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.60	-33
T/N	1.64	-12
SW	1.59	-1
2W	1.60	0
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	1.75	-1
6x9	1.78	-1
9x12	1.82	-1
3x9	1.84	-1
6x12	1.89	-1

Measures of fiscal risk

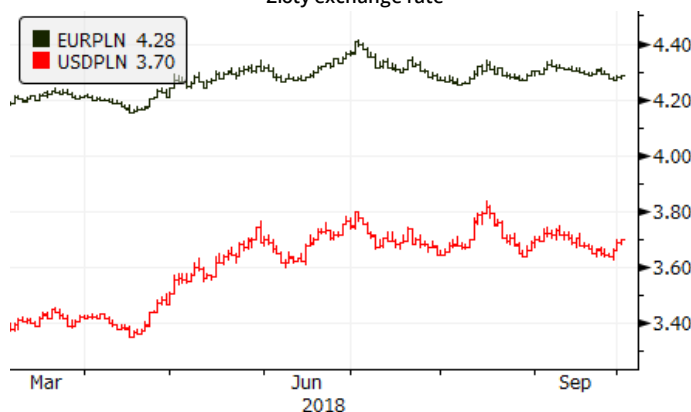
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.76 -2
France	25 1	0.34 1
Hungary	116 1	3.07 0
Spain	65 4	1.05 2
Italy	221 8	2.77 9
Portugal	64 0	1.41 1
Ireland	25 0	0.52 1
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

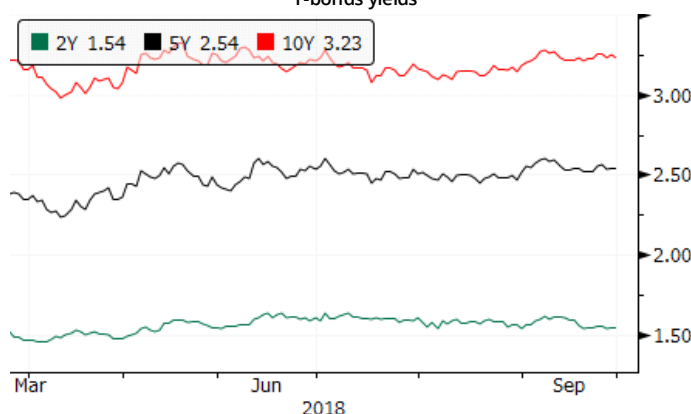
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

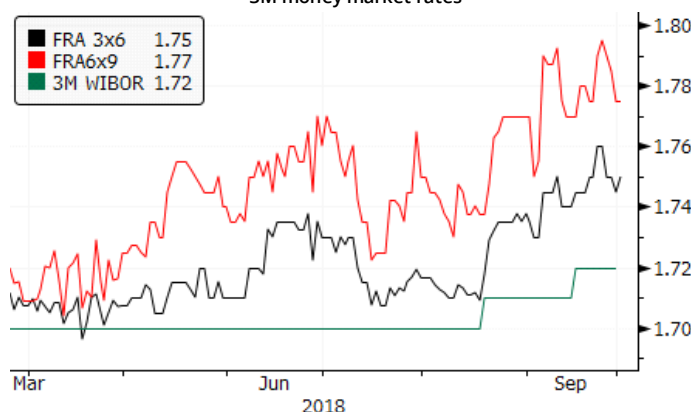
Zloty exchange rate



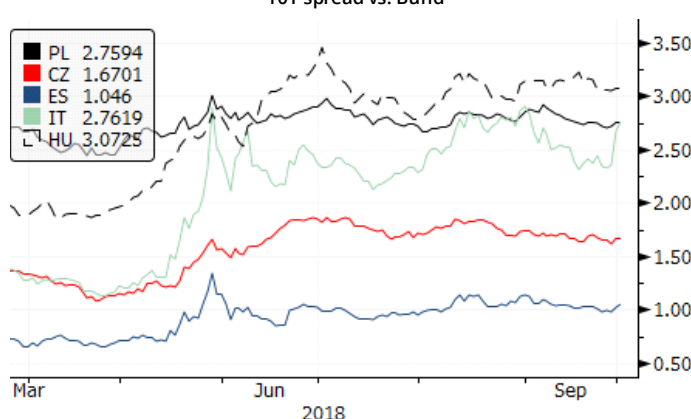
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (28 September)								
11:00	EZ	Flash HICP	Sep	% y/y	2.0	-	2.1	2.0
14:30	US	Personal spending	Aug	% m/m	0.3	-	0.3	0.4
14:30	US	Personal income	Aug	% m/m	0.4	-	0.3	0.3
14:30	US	PCE	Aug	% m/m	0.1	-	0.1	0.1
16:00	US	Michigan index	Sep	pt	100	-	100.1	100.8
MONDAY (1 October)								
9:00	PL	PMI – manufacturing	Sep	pts	51.5	51.2	50.4	51.4
9:55	DE	PMI – manufacturing	Sep	pts	53.7	-	-	53.7
10:00	EZ	PMI – manufacturing	Sep	pts	53.3	-	-	53.3
10:00	PL	Flash CPI	Sep	% y/y	1.9	2.0	-	2.0
16:00	US	ISM – manufacturing	Sep	pts	60.1	-	-	61.3
TUESDAY (2 October)								
9:00	CZ	GDP	Q2	% y/y	2.4	-	-	2.4
WEDNESDAY (3 October)								
	PL	MPC decision		%	1.50	1.50	-	1.50
9:55	DE	PMI – services	Sep	pts	56.5	-	-	56.5
10:00	EZ	PMI – services	Sep	pts	54.7	-	-	54.7
14:15	US	ADP report	Sep	k	185	-	-	163
16:00	US	ISM – services	Sep	pts	58.0	-	-	58.5
THURSDAY (4 October)								
14:30	US	Initial jobless claims	week	k	-	-	-	214
16:00	US	Industrial orders	Aug	% m/m	1.0	-	-	-0.8
FRIDAY (5 October)								
8:00	DE	Industrial orders	Aug	% m/m	0.0	-	-	-0.9
14:30	US	Non-farm payrolls	Sep	k	190	-	-	201
14:30	US	Unemployment rate	Sep	%	3.8	-	-	3.9

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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