

4 October 2018

Eyeopener

MPC stance unchanged

MPC sees no reason to change rates

Zloty stable, dollar stronger after robust data from the USA

Bond yields rise following core markets

Today Polish bond auction and US orders

On Wednesday, Eurozone services PMIs were released (negative surprise) while ADP and services ISM index were out in the USA (both beat expectations). Fed officials (Evans and Powell) highlighted great shape of the US economy in their speeches, while Polish MPC remained willing to leave rates unchanged at least until the end of 2019. In a reaction to these releases and events the dollar strengthened and the zloty's valuation did not change much. Domestic and core market bonds were losing value.

In line with expectations, **the MPC did not change interest rates** with the main refi rate still at 1.50%. The tone of the statement did not change either despite being shorter than the previous one. The press conference did not spur any doubts about the fact that majority of the Council's members does not see reasons to change course in the monetary policy and the interest rates should stay on hold at least until late 2019.

Stats Office revised GDP data for 2017 – growth rate was raised from 4.6% to 4.8%. The largest upgrade was seen in investments (by 0.5pp, to 3.9%), private and public consumption were also raised (by 0.1%, to 4.9% and 3.5%). We do not know how the revision affected quarterly readings (this information is to be released before the end of November), which adds uncertainty to 3Q18 GDP forecast.

EURUSD started the session at 1.159 and was near 1.153 at the end of the European trading hours as the European data disappointed and US figures surprised to the upside boosting the dollar. Comments of the FOMC members strengthened the down trend that continued during the night and today in the morning EURUSD is close to 1.148. We expect the dollar appreciation to decelerate after the yesterday's sharp move.

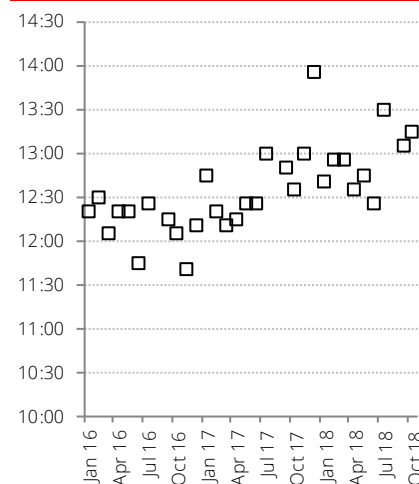
EURPLN stayed in a narrow range of 4.285-4.295 ignoring the European and US data, the tone of the MPC statement and press conference was neutral as well. Only in the late afternoon the zloty joined the global trend of weakening EM currencies and EURPLN broke 4.305. We think the zloty may remain weak today amid strong dollar.

As regards the **CEE currencies**, CZK and HUF strengthened slightly. CZK was supported by, among others, news about surplus at the level of 3.1% of the GDP in public finance in Q2. As a result, EURCZK moved from 25.80 to 25.72. EURHUF fell from 323.00 to 322.50, the new low since August, pushed down by the minutes of the September MNB conference - the central bank suggested a gradual withdrawal from non-standard monetary policy instruments. Similar to the PLN market, the stock exchange reacted negatively to the appreciation of the dollar after the closing of the session. USDRUB marched upwards (from 65.30 to 65.70), driven by the falling oil prices and investors taking profits after the last ruble appreciation.

Yields of **Polish T-bonds** (5-10Y segment) were increasing over the day (after temporary drops in the morning). As a result, at the end of the day yields of domestic T-bonds were 1-2bp higher than at Tuesday's close. The upward move of yields was supported by core markets behaviour, where strong US data (ISM-services and ADP report), pushed the US and German curves up. Core markets' weakening was additionally fueled by Fed members remarks. The MPC conference did not affect Polish securities. Late in the afternoon we saw a strong sell-off on the US market (yields of 10Y bonds surged by 10bp), which is likely to negatively affect Polish bonds today. The delayed market reaction to the Fed members remarks and inconsistent other markets reactions (inflation swaps, commodities, stock market) suggested that this move could have been triggered by changes in the main investors portfolios – we saw a similar development in the spring.

We are pleased to inform that in Q3 we ranked first in Bloomberg EURPLN forecasting accuracy competition (we were also first in Q1 and Q2), second in EURCZK forecasting (also second in Q2), second in USDCZK (first in Q2) and fourth in USDPLN (third in Q2).

Release time of MPC decision



Source: Thomson Reuters, Bloomberg, Santander Bank Polska

GDP growth in 2017

	before revision	after revision	difference
GDP	4.6	4.8	0.2
Domestic demand	4.7	4.9	0.2
Total consumption	4.4	4.5	0.1
Individual consumption	4.8	4.9	0.1
Public consumption	3.4	3.5	0.1
Gross accumulation	6.2	6.2	0.0
Fixed Investments	3.4	3.9	0.5
Export	8.2	9.5	1.3
import	8.7	10.0	1.3

Source: GUS, 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 Luzziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.3053	CZKPLN	0.1671
USDPLN	3.7487	HUFPLN*	1.3297
EURUSD	1.1485	RUBPLN	0.0567
CHFPLN	3.7826	NOKPLN	0.4556
GBPPLN	4.8547	DKKPLN	0.5774
USDCNY	6.8689	SEKPLN	0.4141

*for 100HUF

Last session in the FX market 03/10/2018

	min	max	open	close	fixing
EURPLN	4.285	4.302	4.294	4.301	4.2949
USDPLN	3.697	3.736	3.718	3.735	3.7103
EURUSD	1.151	1.159	1.155	1.152	-

Interest rate market 03/10/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.55	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	1.78	0	2.80	2	-0.24	0
2L	1.99	1	3.02	4	-0.10	0
3L	2.19	2	3.09	5	0.07	2
4L	2.38	3	3.12	6	0.25	3
5L	2.52	3	3.13	6	0.40	3
8L	2.83	2	3.16	7	0.80	4
10L	3.00	3	3.18	7	1.01	4

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.60	0
SW	1.58	0
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	1.83	1
3x9	1.84	0
6x12	1.88	0

Measures of fiscal risk

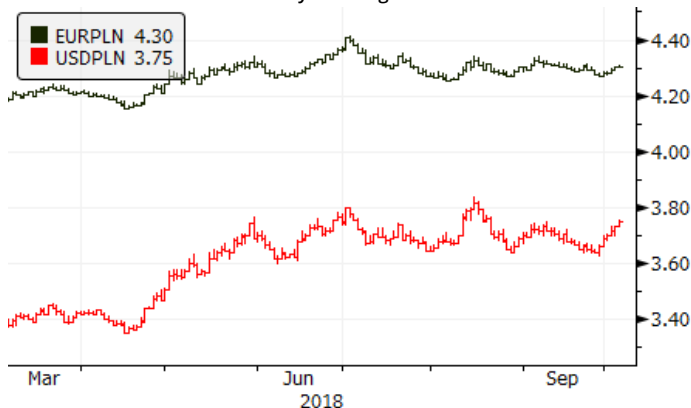
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.71 -4
France	25 1	0.33 -1
Hungary	116 1	3.05 -4
Spain	65 4	1.03 -3
Italy	221 8	2.74 -10
Portugal	64 0	1.38 -4
Ireland	25 0	0.51 -1
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

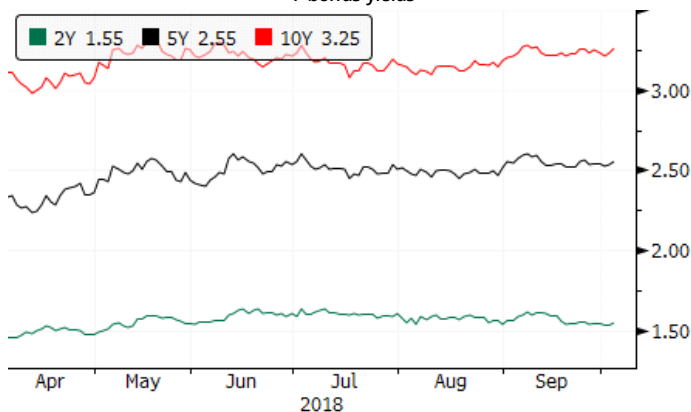
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

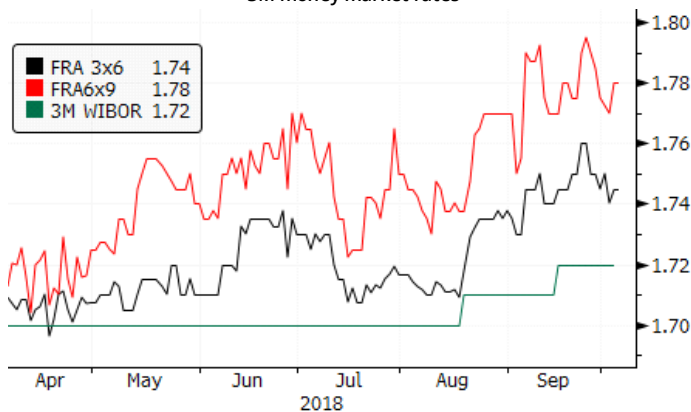
Zloty exchange rate



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	53.7
10:00	EZ	PMI – manufacturing	Sep	pts	53.3	-	53.2	53.3
10:00	PL	Flash CPI	Sep	% y/y	1.9	2.0	1.8	2.0
16:00	US	ISM – manufacturing	Sep	pts	60.1	-	59.8	61.3
TUESDAY (2 October)								
9:00	CZ	GDP	Q2	% y/y	2.4	-	2.4	2.4
WEDNESDAY (3 October)								
	PL	MPC decision		%	1.50	1.50	1.50	1.50
9:55	DE	PMI – services	Sep	pts	56.5	-	55.9	56.5
10:00	EZ	PMI – services	Sep	pts	54.7	-	54.7	54.7
14:15	US	ADP report	Sep	k	185	-	230	163
16:00	US	ISM – services	Sep	pts	58.0	-	61.6	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

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 Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.