

12 October 2018

Eyeopener

Review of Poland's rating today

Stock prices go down, but CEE currencies gain thanks to stronger dollar
 Polish bonds supported by US inflation data
 GUS data suggest faster growth of exports and imports
 Today euro zone and US data, S&P and Fitch review Polish rating

Thursday saw a continuation of the sharp drop on the stock exchanges and this time bonds benefited from higher risk aversion. Next to lower demand for the risky assets, the US data on higher-than-expected weekly initial jobless claims and below-consensus September CPI supported bonds. European Commission spokesperson said there seems to be no breakthrough in the Brexit negotiations but we saw no market reaction to this comment. Today Asian stock indexes rose.

Kamil Zubelewicz, a MPC member, said in an interview for Polish Press Agency that in his opinion interest rates should be raised in Poland, yet he was worried that they would remain on hold for the entire term of the Council. He expressed concerns about excessive growth of loans for households. Zubelewicz also said that the banking tax made monetary policy more difficult as it had driven the rates up by increasing the spread between the interest on loans and deposits (by c50 bp, in Zubelewicz's opinion). According to the central banker, this is one of the reasons behind low inflation in Poland. Zubelewicz's comment does not change our call: we think that MPC will start rates hikes at the end of 2019 at the earliest.

According to Rzeczpospolita daily, the government has been working on **the system of compensation for higher energy prices** for businesses and households. The draft version envisages spending one third of the inflows from CO₂ permits sale (c. PLN5bn in 2018) on supporting energy-consuming businesses and two thirds for households. We think that the very existence of such a project increases the probability that the energy prices for households will go up (the tariff is approved by the Energy Regulatory Office (URE) - a government agency). Recently, we have revised our CPI forecast for 2019 to 2.6% from 2.3%, but we assumed that URE may wait with energy price rises for households. If URE does otherwise, increased energy prices will drive CPI up higher and faster than we expected.

EURUSD continued the rebound amid lower inflation in the US and slower growth of UST yields. It appears that sharp sell-off of the US bonds has had a positive impact on the - investors took a chance to buy the debt cheaper - while deceleration of this trend helped EURUSD to reverse. As a result, yesterday the pair hit the intraday peak at 1.16 and ended the Polish session near 1.155. Important euro zone and US data are on the agenda today that might trigger some reaction on the bonds and thus determine the EURUSD movements.

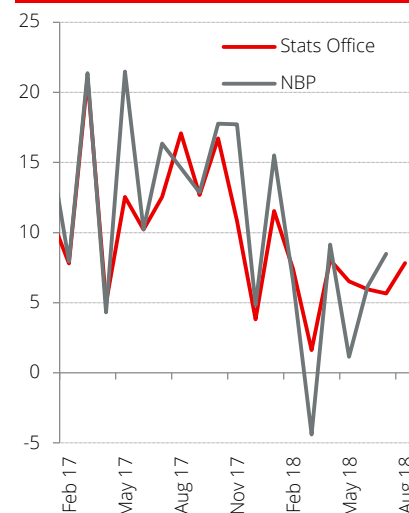
EURPLN fell yesterday below 4.31 from 4.32 and USDPLN to 3.715 from 3.74 amid weaker dollar. Polish currency might have been also supported by strengthening of the POLGBs. Other CEE currencies gained as well despite lower stock prices in Europe. Since the beginning of the week, EURPLN is trading in a narrow range and we expect it to hold below 4.32 today.

Yesterday **yields of domestic bonds** decreased by 2-5bp, mostly on the long end. Over the day, we saw two downside impulses - at the beginning of the day and after the US inflation data release (numbers surprised on the downside). Currently the resistance at 3.30% (for 10Y POLGB) is still valid and we do not expect any aggressive test of this level in the short term.

Stats office data on foreign trade showed a rise of exports in August by 7.8% y/y and imports by 11.4%. Both growth rates are c2pp higher than our forecast for NBP data (which are similar but not exactly the same as Stats Office numbers). Foreign trade data for August come at the time of unsettling decline in new export orders indices in many countries. The relatively strong readings for Poland are a positive signal, calming the global trade fears.

Today in the evening, **Fitch and S&P may review sovereign rating of Poland**, with an outcome of no change, in our view. Currently S&P assesses our debt at BBB+ w. positive outlook, Fitch at A-/stable, and it seems that the former may be more prone to act now. Particularly as it has just revised its Poland's 2018 GG deficit forecast to 0.9% of GDP from 2.0%. An upgrade from S&P is not very likely, in our view. While economic and fiscal parameters look very nice, the institutional erosion has not disappeared. Moreover, rising worries about global slowdown and risk factors (hard Brexit) do not create favourable environment for upgrades. S&P upgraded Polish rating outlook this April, but historically it does not give a strong signal a rating upgrade is coming. An outlook upgrade to positive in 2015 resulted in a downgrade a year later. In 2006, the agency moved back to stable outlook six months after switching to positive. In 2005 the same thing happened, but after 12 months.

Exports in €, %y/y



Source: Stats Office, NBP, Santander Bank Polska

Electricity forward prices, PLN/MWh



Source: TGE, 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 Luziński +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	4.3052	CZKPLN	0.1668
USDPLN	3.7141	HUFPLN*	1.3254
EURUSD	1.1591	RUBPLN	0.0562
CHFPLN	3.7509	NOKPLN	0.4537
GBPPLN	4.9174	DKKPLN	0.5770
USDCNY	6.9187	SEKPLN	0.4148

*for 100HUF

Last session in the FX market 11/10/2018

	min	max	open	close	fixing
EURPLN	4.306	4.323	4.315	4.307	4.3179
USDPLN	3.715	3.752	3.739	3.721	3.7399
EURUSD	1.152	1.160	1.154	1.158	-

Interest rate market 11/10/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.59	-1	4 paź 18	OK0720	1.517
DS1023 (5L)	2.57	-4	4 paź 18	PS0424	2.732
WS0428 (10L)	3.26	-6	4 paź 18	WS0428	3.303

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	0	2.83	0	-0.24	0
2L	2.04	1	3.06	-2	-0.09	0
3L	2.29	0	3.12	-3	0.09	-1
4L	2.48	-1	3.14	-3	0.28	-1
5L	2.63	-2	3.15	-4	0.44	-1
8L	2.94	-2	3.19	-4	0.84	-1
10L	3.09	-3	3.22	-5	1.05	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.69	-5
T/N	1.70	-4
SW	1.61	-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	1.76	-1
6x9	1.80	-1
9x12	1.85	-1
3x9	1.86	0
6x12	1.91	1

Measures of fiscal risk

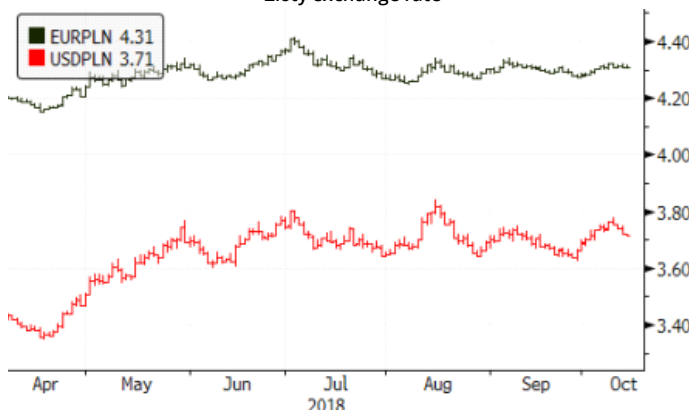
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.72 -8
France	25 1	0.36 -1
Hungary	116 1	3.35 -3
Spain	65 4	1.09 -3
Italy	221 8	2.98 -7
Portugal	64 0	1.47 -3
Ireland	25 0	0.54 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

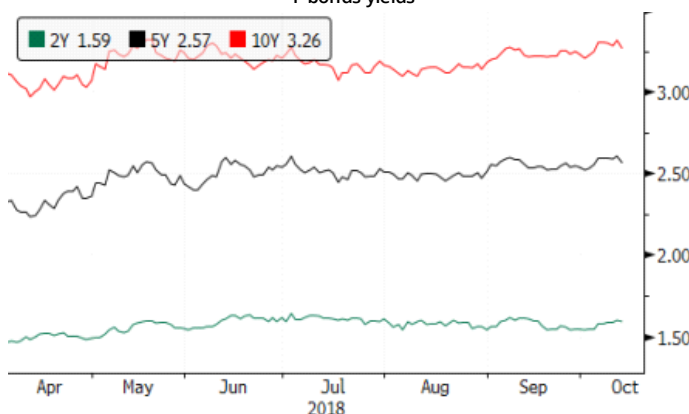
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

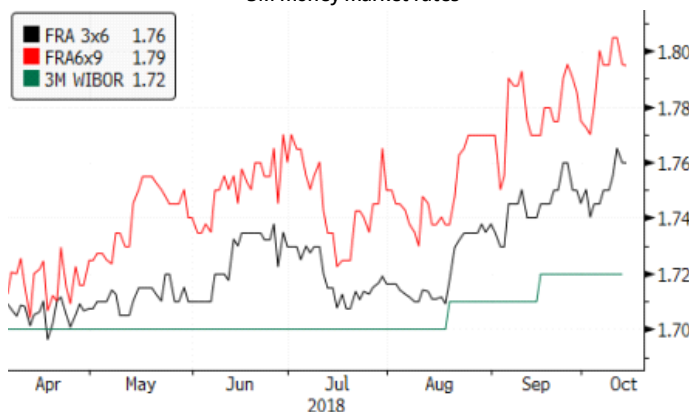
Zloty exchange rate



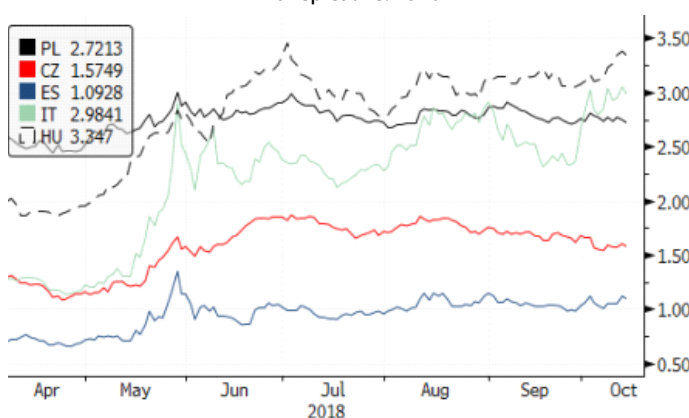
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (5 October)								
8:00	DE	Industrial orders	Aug	% m/m	0.8	-	2.0	-0.9
14:30	US	Non-farm payrolls	Sep	k	185	-	134	270
14:30	US	Unemployment rate	Sep	%	3.8	-	3.7	3.9
MONDAY (8 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	51.4	-	53.1	51.5
08:00	DE	Industrial Production SA	Aug	% m/m	0.5	-	-0.3	-1.1
09:00	CZ	Industrial Production	Aug	% y/y	2.6	-	1.9	10.3
TUESDAY (9 October)								
08:00	DE	Exports SA	Aug	% m/m	0.4	-	-0.1	-0.8
09:00	CZ	CPI	Sep	% y/y	2.5	-	2.3	2.5
09:00	HU	CPI	Sep	% y/y	3.5	-	3.6	3.4
WEDNESDAY (10 October)								
No important events						-		
THURSDAY (11 October)								
14:30	US	CPI	Sep	% m/m	0.2	-	0.1	0.2
14:30	US	Initial Jobless Claims	week	k	209	-	214	207
FRIDAY (12 October)								
	PL	Fitch Rating Review						
	PL	S&P Rating Review						
08:00	DE	HICP	Sep	% m/m	0.4	-		0.4
11:00	EZ	Industrial Production SA	Aug	% m/m	0.5	-		-0.8
16:00	US	Michigan index	Oct	pts	100.5	-		100.1

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.