

15 October 2018

# Eyeopener

## The new old rating

S&P unexpectedly upgrades Polish rating  
Mixed European data, good output and higher inflation in Germany  
Dollar and zloty gain  
Yields fall on the Polish and core markets

On Friday, the ECB governor said that the core inflation's return to the target may be slower than he expected. US data on consumer confidence were below expectations. On Friday the euro weakened versus the dollar, the zloty gained, while bond yields fell.

On Friday evening the **S&P agency surprised with an announcement that it raises Polish long-term rating** in foreign currency from BBB+ to A- with a stable outlook. In January 2016, the agency unexpectedly downgraded Poland highlighting the weakening of the independence of key institutions. In April this year, the agency changed rating outlook to positive from stable adding that the solid economic growth that was strengthening fiscal position was a reason to upgrade the country's credit score. This Friday's upgrade was explained by the balanced economic growth, improvement of fiscal situation and better competitiveness of the Polish economy. According to the S&P, the rating would be upgraded more, if real income growth stays above the growth of the main trading partners, the public debt falls, and the private savings rise (thanks to the introduction of Employee Capital Plans) leading to partial neutralization of the effect of ageing population and falling supply of labour force. A negative pressure on rating would be exerted by deterioration of fiscal metrics or too fast wage growth (undermining the economy's competitiveness). The Fitch did not change its assessment of Polish credit standing (A-, stable outlook).

On Friday, **EURUSD** fell despite better data from Europe and worse from the U.S. – a dovish comment of the ECB head was decisive. As a result, EURUSD dropped to 1.153 from 1.16. The week opens with poor sentiment on the market, however if core yields go down, the dollar should not appreciate further.

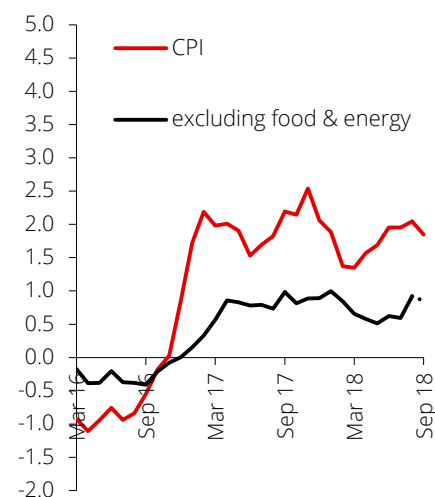
**EURPLN** kept falling for the second session in a row amid slower stock prices drop, relief of tension between U.S. and Turkey (which strengthened the local currencies) and lower UST yields. In effect, EURPLN went below 4.30 from slightly above 4.305. This morning, the exchange rate has been testing 4.29 and we think that the Friday evening decision of S&P may support the zloty at the beginning of the week. Nonetheless, the appreciation potential could be capped by poor global moods.

**Domestic yields** fell driven by growing core debt prices and domestic demand (generated by the buybacks expected at the end of the month). The domestic yield curve shifted down by 2-4bp, stronger on the long end of the curve. The IRS dropped at a lesser scale and ASW spreads narrowed down close to this-year minimum. Today, we have been expecting the domestic yields to continue the downward movement.

Today **final reading of September's CPI** will cast more light on price developments. We are curious to know which subcategory was the main culprit behind decline of CPI to 1.8% from 2.0% in August. Fuels was one force driving CPI down, but in our view core categories also showed some decline, so core inflation is likely to fall in 0.8-0.9% range (versus 0.9% in August). Still, in our view the price pressure will be building up in the months to come.

**This week**, numerous Polish data are on the agenda with the September industrial output and retail sales being the most awaited. Our forecast for the former is clearly below the market consensus. Globally, investors are likely to focus on the US data and the quarterly earnings published by companies as the release season is gaining pace. The EU summit devoted to Brexit will be held on 17-18 October. A negative result would be a tough test for the pound, which was appreciating for several weeks on hopes that the negotiations are almost finished. Euro zone member states have to deliver draft 2019 budgets to the European Commission by Monday. This will remind investors of the Italy-EU spat regarding compliance with fiscal rules, that proved painful for the Italian debt. In the CEE region, the Hungarian central bank will make a decision on the interest rates.

### Inflation measures, % y/y



Source: Stats Office, NBP, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2870	CZKPLN	0.1661
USDPLN	3.7098	HUFPLN*	1.3232
EURUSD	1.1556	RUBPLN	0.0563
CHFPLN	3.7445	NOKPLN	0.4538
GBPPLN	4.8653	DKKPLN	0.5747
USDCNY	6.9226	SEKPLN	0.4130

\*for 100HUF

### Last session in the FX market 12/10/2018

	min	max	open	close	fixing
EURPLN	4.293	4.315	4.307	4.295	4.3022
USDPLN	3.706	3.726	3.721	3.716	3.713
EURUSD	1.154	1.161	1.158	1.156	-

## Interest rate market 12/10/2018

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.56	-3	4 paź 18	OK0720	1.517
DS1023 (5L)	2.53	-4	4 paź 18	PS0424	2.732
WS0428 (10L)	3.23	-3	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	1.78	-1	2.82	-1	-0.24	0
2L	2.03	-1	3.03	-3	-0.10	-1
3L	2.28	-1	3.09	-3	0.08	-1
4L	2.46	-1	3.11	-3	0.26	-2
5L	2.61	-1	3.12	-4	0.42	-2
8L	2.92	-2	3.15	-4	0.82	-2
10L	3.07	-2	3.18	-4	1.03	-2

## WIBOR rates

Term	%	Change (bps)
O/N	1.65	-4
T/N	1.66	-4
SW	1.60	-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	1.79	0
9x12	1.84	-1
3x9	1.85	-1
6x12	1.90	-1

## Measures of fiscal risk

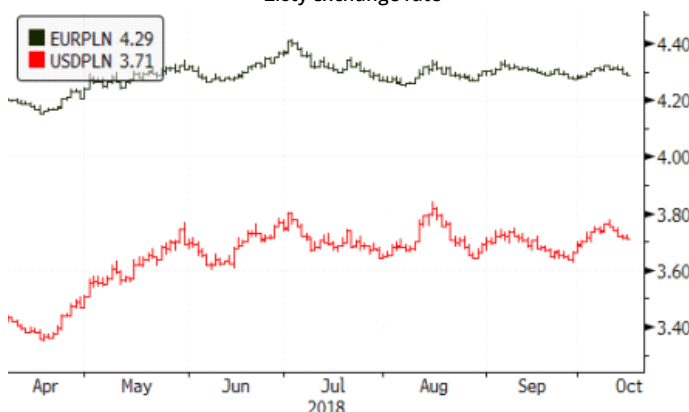
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.75 -2
France	25 1	0.37 0
Hungary	116 1	3.44 4
Spain	65 4	1.18 0
Italy	221 8	3.07 0
Portugal	64 0	1.54 0
Ireland	25 0	0.57 1
Germany	11 0	- -

\* 10Y treasury bonds over 10Y Bunds

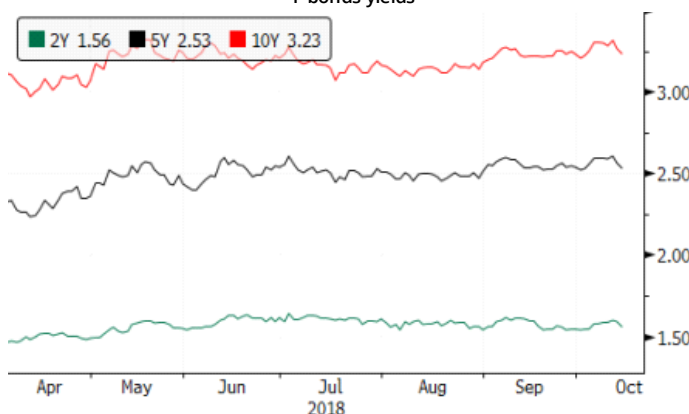
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

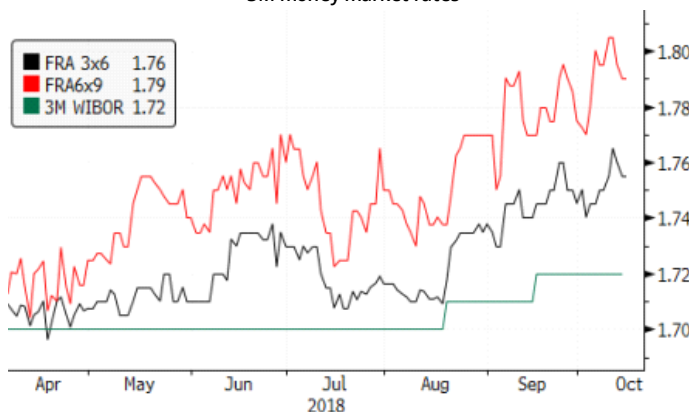
## Zloty exchange rate



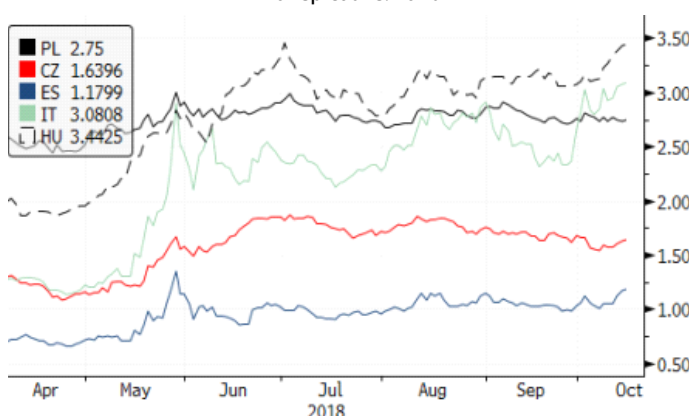
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL .....	LAST VALUE*
					MARKET	SANTANDER		
FRIDAY (12 October)								
	PL	Fitch Rating Review						
	PL	S&P Rating Review						
08:00	DE	HICP	Sep	% m/m	0.4	-	0.4	0.4
11:00	EZ	Industrial Production SA	Aug	% m/m	0.5	-	1.0	-0.8
16:00	US	Michigan index	Oct	pts	100.5	-	99.0	100.1
MONDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	-	1.8	-	1.8
14:00	PL	Current Account Balance	Aug	€mn	-396	-287	-	-809
14:00	PL	Trade Balance	Aug	€mn	-321	-415	-	-432
14:00	PL	Exports	Aug	€mn	16 944	16 874	-	17 115
14:00	PL	Imports	Aug	€mn	17 254	17 289	-	17 547
14:30	US	Retail Sales Advance	Sep	% m/m	0.7	-	-	0.1
TUESDAY (16 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	3.4	3.4	-	3.4
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	6.9	-	6.8
11:00	DE	ZEW Survey Current Situation	Oct	pts	74.3	-	-	76.0
14:00	HU	Central Bank Rate Decision		%	0.9	-	-	0.9
14:00	PL	CPI Core	Sep	% y/y	0.8	0.9	-	0.9
15:15	US	Industrial Production	Sep	% m/m	0.25	-	-	0.41
WEDNESDAY (17 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	4.5	2.27	-	5.0
10:00	PL	Construction Output	Sep	% y/y	18.5	15.8	-	20.0
10:00	PL	PPI	Sep	% y/y	2.8	2.9	-	3.0
11:00	EZ	HICP	Sep	% y/y	2.1	-	-	2.1
14:30	US	Housing Starts	Sep	% m/m	-5.0	-	-	9.2
20:00	US	FOMC Meeting Minutes						
THURSDAY (18 October)								
14:30	US	Initial Jobless Claims	week	k	207	-	-	214
14:30	US	Index Philly Fed	Oct		21.0	-	-	22.9
FRIDAY (19 October)								
10:00	PL	Retail Sales Real	Sep	% y/y	6.2	6.5	-	6.7
16:00	US	Existing Home Sales	Sep	% m/m	-0.5	-	-	0.0

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

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