

19 October 2018

Eyeopener

PL-US bond yield spread below zero

10Y US yields temporarily above their Polish counterpart

MPC's Żyżyński favours stable rates

Risk aversion weighs on the zloty and its CEE peers

Today, Polish retail sales data

On Thursday, there were no important macroeconomic releases. The markets focused on the Fed minutes published on Wednesday, fears about the Chinese growth and the conflict between the European Commission and Italy. As a result, the core yields dropped after overnight rise (although they jumped by c.10bp for the southern European countries), the dollar appreciated, whereas the commodity prices and stock exchanges went down. The CEE currencies depreciated and domestic yields were fairly stable.

MPC member Jerzy Żyżyński told PAP he agrees with NBP president Adam Glapiński that rates in Poland should remain stable. He added he sees some reasons for cutting rates, as they are among the highest in Europe. In his view, the ECB rate hike would not be an argument for lifting rates in Poland, but could ease pressure for more easing (in his view the spread between rates in Poland and the euro zone is too high). What is more, the MPC member said inflation "plays second fiddle" in decisions about rates. Credit demand is in his view the key factor – its quick rise would call for a rate hike but is not observed yet. Żyżyński is considered one of the most dovish members and has already suggested that the next rate change could be down rather than up. His yesterday remarks do not change our view on monetary policy (a rate hike coming no sooner than in late 2019). We are quite surprised by the remark about inflation not being that important, as it goes against the current monetary policy guidelines (the statutory target is price stability). **Grażyna Ancyparowicz** said that interest rates are at optimal level and should stay flat for at least a few quarters. Let us remind that on 15 October Ancyparowicz suggested the need to hike rates is likely to appear in 2H19. However, she is expecting 2019 GDP growth at 4.0-4.5% y/y. Realisation of our forecast (3.7% y/y) may make her less prone to hike rates.

EURUSD fluctuated between 1.15 and 1.153. Any attempts of breaking above 1.153 were limited by uncertainty related to European Commission-Italy tensions, worries about Chinese growth and hawkish tone of FOMC's minutes which were released on Wednesday. US data did not have significant impact on EURUSD. Today we expect EURUSD should stay at low level amid slight growth of US yields on the opening.

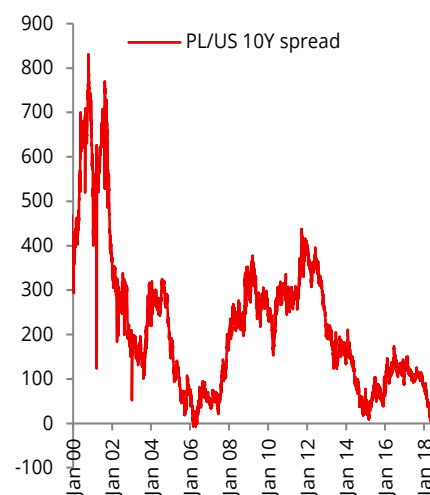
EURPLN was on a rise in a wave of aversion to emerging markets currencies, after the Wednesday's FOMC minutes publication. Furthermore the zloty stayed under the pressure of stock markets sell-off and uncertainty related to the political situation in the Southern Europe. As a consequence, EURPLN rose to 4.308 from 4.292. Today we expect the zloty to be under the pressures of the strong dollar.

Other CEE currencies also depreciated, reacting negatively to the sell-off on the stock exchanges and the strong dollar. EURHUF climbed to 323.40 from 322.10, EURCZK to 25.89 from 25.84 and USDRUB to 65.80 from 65.60. The ruble response was neutral despite the words of Elvira Nabiullina, the head of the Russian central bank, that the CBR intended to go back to buying foreign currencies on the market.

After the morning lift up of **domestic yields** they started to drop following decreasing yields of UST and Bunds (simultaneously ignoring the c10bp growth of yields of South Europe bonds). As a result the domestic yield curve returned to the opening level. The spread of 10Y POLGB vs. 10Y UST reached the negative territory in the intraday trading (the first time since 2006), while 2Y ASW spread reached the new record low. Today we expect the slight decreases of yields of Polish t-bonds, awaiting for the next week redemption.

Today at 10:00CET Poland real retail sales data will be released. In our view, growth amounted to 6.5% y/y in September, slightly less than in previous months, but still high enough to secure a higher average growth in 3Q (6.8% y/y) than in 2Q (6.1%).

Poland-US 10Y bond yield spread (bp)



Source: Thomson Reuters, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3014	CZKPLN	0.1663
USDPLN	3.7537	HUFPLN*	1.3308
EURUSD	1.1459	RUBPLN	0.0571
CHFPLN	3.7679	NOKPLN	0.4547
GBPPLN	4.8908	DKKPLN	0.5765
USDCNY	6.9316	SEKPLN	0.4160

*for 100HUF

Last session in the FX market 18/10/2018

	min	max	open	close	fixing
EURPLN	4.285	4.308	4.286	4.304	4.2966
USDPLN	3.718	3.754	3.718	3.752	3.7302
EURUSD	1.147	1.153	1.153	1.147	-

Interest rate market 18/10/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.56	1	4 paź 18	OK0720	1.517
DS1023 (5L)	2.49	0	4 paź 18	PS0424	2.732
WS0428 (10L)	3.20	1	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	2.89	4	-0.24	0
2L	2.05	0	3.10	3	-0.12	0
3L	2.28	0	3.16	2	0.04	-1
4L	2.45	0	3.18	2	0.21	-1
5L	2.60	0	3.18	2	0.37	-2
8L	2.88	0	3.22	2	0.78	-1
10L	3.03	0	3.25	2	0.98	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.57	-2
T/N	1.59	0
SW	1.59	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	1.76	0
6x9	1.79	0
9x12	1.85	1
3x9	1.84	0
6x12	1.90	0

Measures of fiscal risk

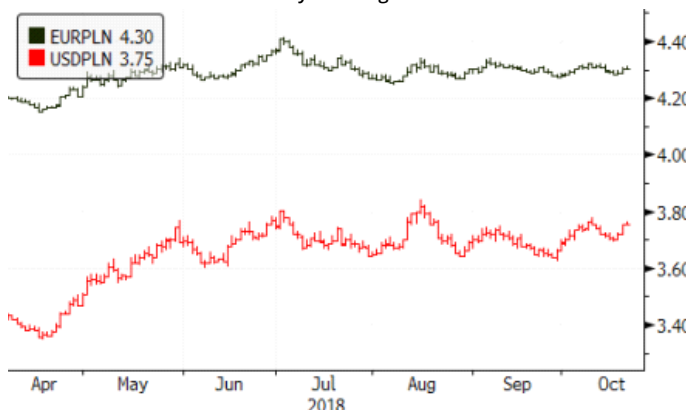
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.78 1
France	25 1	0.39 1
Hungary	116 1	3.34 0
Spain	65 4	1.32 1
Italy	221 8	3.30 3
Portugal	64 0	1.61 0
Ireland	25 0	0.59 1
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

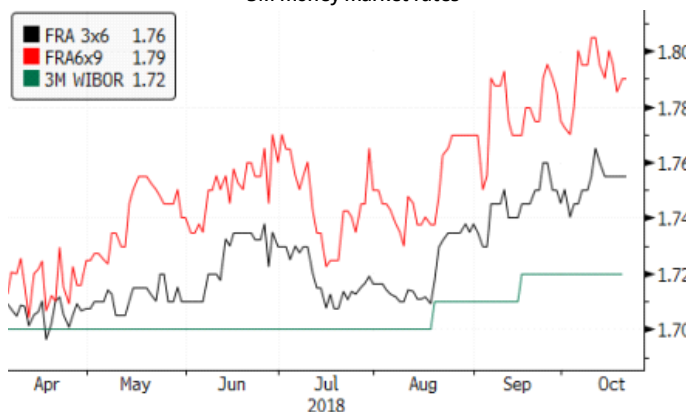
Zloty exchange rate



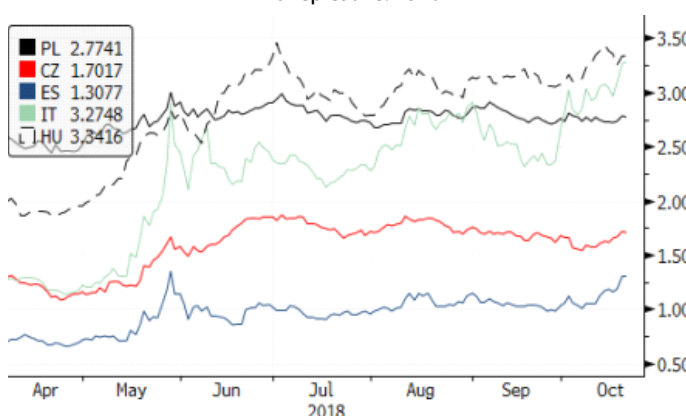
T-bonds yields



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
11:00	EZ	Industrial Production SA	Aug	% m/m	0.5	-	1.0
16:00	US	Michigan index	Oct	pts	100.5	-	99.0
MONDAY (15 October)							
10:00	PL	CPI	Sep	% y/y	-	1.8	1.9
14:00	PL	Current Account Balance	Aug	€mn	-396	-287	-549
14:00	PL	Trade Balance	Aug	€mn	-321	-415	-329
14:00	PL	Exports	Aug	€mn	16 944	16 874	17 195
14:00	PL	Imports	Aug	€mn	17 254	17 289	17 524
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	3.2
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	6.9	6.7
11:00	DE	ZEW Survey Current Situation	Oct	pts	74.3	74.4	70.1
14:00	HU	Central Bank Rate Decision		%	0.90	0.90	0.90
14:00	PL	CPI Core	Sep	% y/y	0.8	0.9	0.8
15:15	US	Industrial Production	Sep	% m/m	0.2	-	0.3
WEDNESDAY (17 October)							
10:00	PL	Sold Industrial Output	Sep	% y/y	4.5	2.3	2.8
10:00	PL	Construction Output	Sep	% y/y	18.5	15.8	16.4
10:00	PL	PPI	Sep	% y/y	2.8	2.9	2.9
11:00	EZ	HICP	Sep	% y/y	2.1	-	2.1
14:30	US	Housing Starts	Sep	% m/m	-5.6	-	-5.3
20:00	US	FOMC Meeting Minutes					
THURSDAY (18 October)							
14:30	US	Initial Jobless Claims	week	k	207	-	210
14:30	US	Index Philly Fed	Oct		21.0	-	22.2
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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