

22 October 2018

Eyeopener

China pours optimism

European Court of Justice orders Poland to suspend Supreme Court act changes

Local election results most likely neutral for the markets

Bond sell-off at the end of the week

Złoty slightly stronger thanks to EURUSD rebound

Polish retail sales disappointed

Friday's session on the FX market saw correction of the Thursday's dollar appreciation and CEE currencies depreciation, while trading on the equity markets was pretty calm. The biggest changes were recorded on the bond market where bond yields jumped with the most significant weakening seen on the euro zone peripheries. These changes were driven by the Wednesday's hawkish FOMC minutes and the response sent by the EU to Italy calling the 2019 budget draft as breaking the EU law. Monday's Asian session brought sharp rise of the Chinese stock prices from their four-year low. President Xi Jinping said he is ready to offer 'unwavering support' to the private sector and some unofficial information emerged that the personal income tax could be cut. Optimism that emerged on the Asian equity market could last into the European trading hours, particularly with the Italian bonds gaining significantly after the Moody's decision. The agency downgraded Italian debt but the stable outlook calmed investors that have been worried that the Europe's third biggest economy might be awarded a "junk rating" soon.

Judging by exit polls, **Polish local elections** have not shown big enough swings in political support to have any significant impact on the złoty and Polish assets. From the investors' perspective it may mean maintenance of political stability in Poland. It is possible that Polish debt will react positively if the government considers the results as satisfactory (and such opinions prevail for now) and not encouraging it to change its policy to a more aggressive one before next elections to European Parliament in half a year and to Polish parliament in a year.

Friday's **decision of the Court of Justice of the European Union (CJEU)**, that approved the motion of the European Commission to suspend implementation of Polish act on the Supreme Court should not weigh on the domestic assets at this stage. Any negative reaction could be observed if the government does not respect the CJEU decision. In the next several weeks there will be a hearing of Polish side that might lead to withdrawal of the measures advised by the CJEU. Poland has one month to adjust to the CJEU decision.

Poland September **retail sales** disappointed. Instead of a robust 6.2% y/y real growth expected by the market, we saw only +3.6% y/y. This was even below the lowest forecast on the market, and we expected 6.5%. Sharp deceleration in auto sales related to the new exhaust emission limits does not explain the whole negative effect. Growth of the wage bill and consumer sentiment index eased somewhat in September, but are still at a high level. That is why we do not view the September's sales disappointment as a harbinger for a long-lasting deceleration.

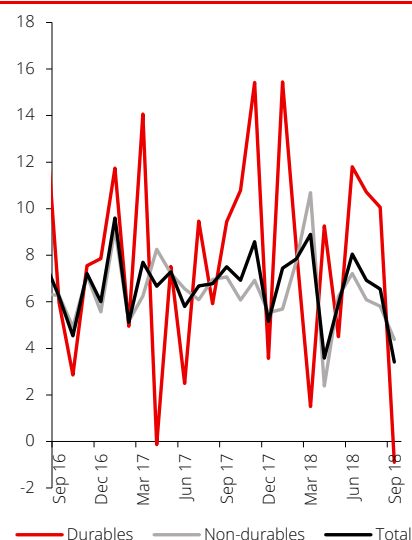
After three sessions of plummeting, the **EURUSD** finally rebounded going away from the October low at c1.143. Volatility was much lower than in the previous days, yet the euro still lost to the dollar in terms of the entire week. We think that today the rate will stay close to the local low ahead of important data planned to be released this week and the ECB decision.

The **EURPLN** dropped to almost 4.29 from 4.31 reached on Thursday evening. The USDPLN went slightly down, staying close to 3.75. The beginning of the week will not bring any important data readings so trading on the Polish foreign exchange market should be stable. The złoty is however supported by optimistic mood on equity markets. From August, the EURPLN has been fluctuating sideways (4.26-4.32) and waiting for an impulse to push it in a more definite direction. **Other CEE currencies** were stable (the forint) or gained (the koruna and the ruble).

At the end of the week **yields of Polish t-bonds** rose significantly (stronger on the long end, by 6 bp) following the core markets debt. In the domestic trading hours Polish debt lost faster than eurobonds peers.

This week, Poland September M3 money supply and unemployment rate data will be released. We might also see the state budget performance after September. We expect the unemployment rate stayed unchanged at 5.8%. We have already seen the preliminary data from the Ministry of Labour so any surprise is rather unlikely. M3 money supply likely grew 7.5% y/y, close to readings seen in the previous months. We think the state budget surplus might have grown somewhat in September.

Retail sales in main categories (% y/y)



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2904 | CZKPLN | 0.1660 |
| USDPLN | 3.7158 | HUFPLN* | 1.3298 |
| EURUSD | 1.1547 | RUBPLN | 0.0570 |
| CHFPLN | 3.7334 | NOKPLN | 0.4531 |
| GBPPLN | 4.8611 | DKKPLN | 0.5751 |
| USDCNY | 6.9323 | SEKPLN | 0.4145 |

*for 100HUF

Last session in the FX market 19/10/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.293 | 4.311 | 4.304 | 4.294 | 4.3049 |
| USDPLN | 3.725 | 3.766 | 3.752 | 3.731 | 3.7601 |
| EURUSD | 1.143 | 1.154 | 1.147 | 1.151 | - |

Interest rate market 19/10/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1020 (2L) | 1.56 | 0 | 4 paź 18 | OK0720 | 1.517 |
| DS1023 (5L) | 2.53 | 0 | 4 paź 18 | PS0424 | 2.732 |
| WS0428 (10L) | 3.25 | 0 | 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 | 2.90 | 1 | -0.24 | 0 |
| 2L | 2.06 | 1 | 3.11 | 1 | -0.11 | 1 |
| 3L | 2.29 | 1 | 3.18 | 1 | 0.06 | 1 |
| 4L | 2.48 | 2 | 3.19 | 1 | 0.23 | 1 |
| 5L | 2.62 | 3 | 3.20 | 1 | 0.38 | 1 |
| 8L | 2.91 | 2 | 3.23 | 1 | 0.80 | 2 |
| 10L | 3.05 | 2 | 3.26 | 1 | 1.01 | 3 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.57 | 0 |
| 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 | 1.86 | 1 |
| 3x9 | 1.85 | 1 |
| 6x12 | 1.91 | 1 |

Measures of fiscal risk

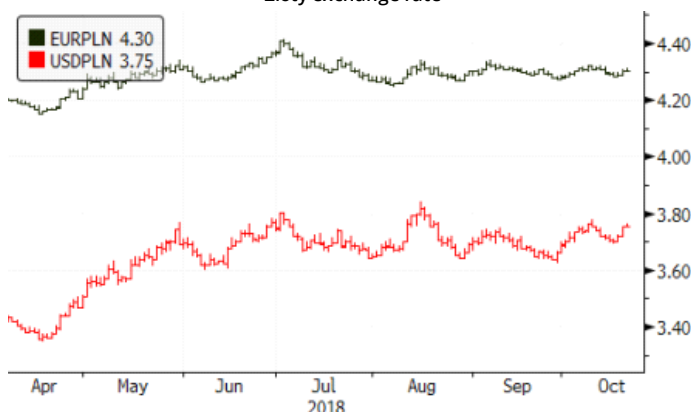
| Country | CDS 5Y USD | 10Y spread* |
|----------|--------------------|--------------------|
| | Level Change (bps) | Level Change (bps) |
| Poland | | 2.77 -2 |
| France | 25 1 | 0.36 -2 |
| Hungary | 116 1 | 3.33 -2 |
| Spain | 65 4 | 1.18 -9 |
| Italy | 221 8 | 2.86 -16 |
| Portugal | 64 0 | 1.48 -8 |
| Ireland | 25 0 | 0.56 -2 |
| Germany | 11 0 | - - |

* 10Y treasury bonds over 10Y Bunds

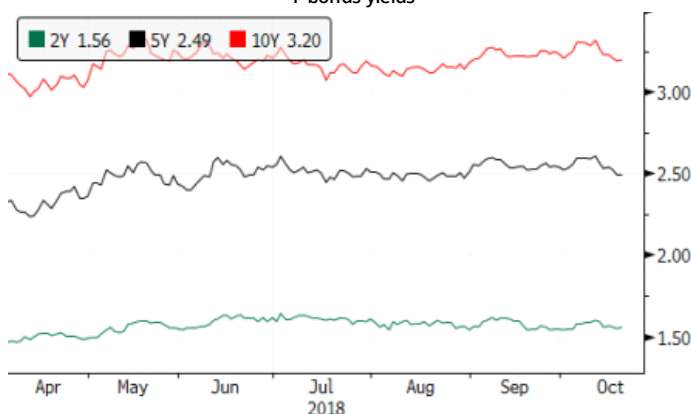
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

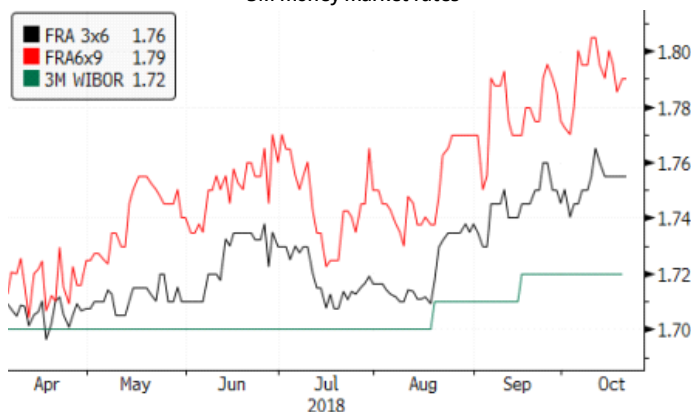
Zloty exchange rate



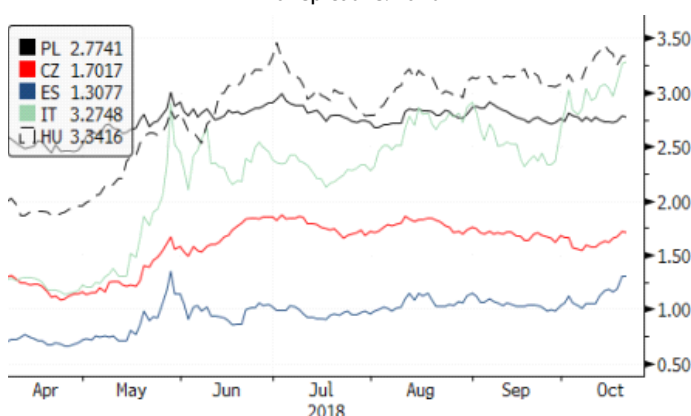
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL | LAST VALUE | |
|------------------------|---------|-----------------------------|--------|----------|-----------|--------|---------------|-------|
| | | | | MARKET | SANTANDER | | | |
| FRIDAY (19 October) | | | | | | | | |
| 10:00 | PL | Retail Sales Real | Sep | % y/y | 6.2 | 6.5 | 3.6 | 6.7 |
| 16:00 | US | Existing Home Sales | Sep | % m/m | -0.94 | | -3.4 | 0.0 |
| MONDAY (22 October) | | | | | | | | |
| 14:00 | PL | Money Supply M3 | Sep | % y/y | 7.5 | 7.5 | - | 7.5 |
| TUESDAY (23 October) | | | | | | | | |
| 10:00 | PL | Unemployment Rate | Sep | % | 5.8 | 5.8 | - | 5.8 |
| WEDNESDAY (24 October) | | | | | | | | |
| 09:30 | DE | Germany Manufacturing PMI | Oct | pts | 53.45 | | - | 53.7 |
| 09:30 | DE | Markit Germany Services PMI | Oct | pts | 55.5 | | - | 55.9 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Oct | pts | 53.0 | | - | 53.3 |
| 10:00 | EZ | Eurozone Services PMI | Oct | pts | 54.5 | | - | 54.7 |
| 16:00 | US | New Home Sales | Sep | % m/m | -0.64 | | - | 3.5 |
| THURSDAY (25 October) | | | | | | | | |
| | PL | Central Budget Cumul. | Sep | mn PLN | 2.3 | | - | 1.05 |
| | PL | BuybackOK1018 (PLN11.9bn) | Oct | | | | | |
| 10:00 | DE | IFO Business Climate | Oct | pts | 103.15 | | - | 103.7 |
| 13:45 | EZ | ECB Main Refinancing Rate | Oct-18 | % | 0.0 | | - | 0.0 |
| 14:30 | US | Durable Goods Orders | Sep | % m/m | -1.15 | | - | 4.4 |
| 14:30 | US | Initial Jobless Claims | Oct-18 | k | 214.0 | | - | 210.0 |
| 16:00 | US | Pending Home Sales | Sep | % m/m | -0.05 | | - | -1.8 |
| FRIDAY (26 October) | | | | | | | | |
| 11:30 | PL | Bond Auction | | | - | | | |
| 14:30 | US | GDP Annualized | 3Q | % Q/Q | 3.4 | | - | 4.2 |
| 16:00 | US | Michigan index | Oct | pts | 99.0 | | - | 99.0 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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