

23 October 2018

Eyeopener

Zloty solid as a rock

The most stable month for EURPLN for over 20 years

Polish bonds stable, yields abroad lower

Business confidence slightly higher in October

Money growth accelerating

Today registered unemployment data in Poland

The optimism, which appeared on the global market during the Monday Asian session was gradually losing steam during the day. European stock indices gave back most of the morning gains, the large decline of Italian bond yields also proved temporary. PM Giuseppe Conte said the government will focus on not increasing the budget deficit in the following years, but the need to strengthen the Italian economy justifies the planned looser fiscal policy next year. The remark, suggesting that Italian authorities are not going to yield to the EU pressure on correcting the 2019 budget draft, was received negatively by the market and the euro gave back a half of the Friday gain vs. the dollar.

Stats Office's **general synthetic indicator of business confidence** rose in October by 0.4 pts to 105.6 pts after a large decline in September. This was caused by a small rise in industrial sentiment (+1.4 pts after a 7-point decline). Confidence indicators in construction and retail sales were stable at a high level, albeit lower than in 1H18. The index for services dropped for the ninth month in a row and was the only sectoral indicator to go below the long-term average (100 pts). Improvement in industry was based on new orders component, which corrected somewhat after a September drop. There was no rebound in expectations of enterprises regarding future output, which suggests the September disappointing result of industrial production was more than a one-off aberration. Indicator for retail trade showed a third decline in a row with an increase in expectations about future sales. Thus, the current and the leading measures diverged by most in more than eight years. When we commented on weak retail sales in September, we pointed out that this figure did not suggest a major slowdown, so the consumption will remain the main driver of GDP growth in 2H18. Analysis of **barriers for business** showed still rising problem of labour shortage (and rising labour costs) in industry and its stabilization in construction at all-time highs.

M3 money supply growth accelerated in September to 7.9% y/y from 7.5% y/y. PLN-denominated loans for individuals still rose in two-digit pace (for consumption c.10% y/y, mortgages c.11% y/y). Companies' current loans (after FX adjustment) accelerated from 10.3% y/y to 11.5% y/y amid sub-zero growth of investment loans (fourth month in a row). Growth rates of loans for individuals are still far away from their levels from 2006-2008, but in our opinion current trends are becoming so strong, that they will be able to maintain solid pace of private consumption of previous quarters (joining the list of potential inflation drivers).

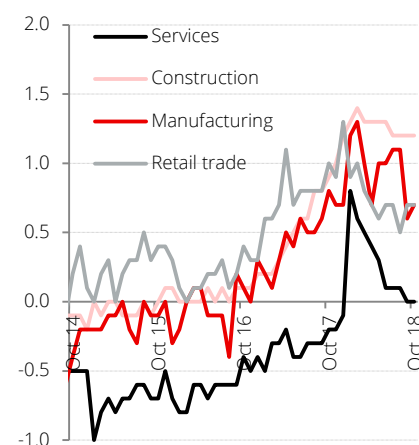
According to the revised data, in 2017, the **General Government balance** amounted to -1.4% of GDP as compared to -1.7% reported earlier. Result for 2016 improved to -2.2% from -2.3%.

EURUSD started the day below 1.16, but the euro failed to keep its gains until the end of the day. The negative news from Italy brought the rate down to 1.147 at the end of the Polish trading hours. In our view, today EURUSD will stay close October minimum at 1.143 ahead of tomorrow's flash PMI and Thursday ECB decision.

Yesterday **EURPLN** was hovering around 4.29, reacting neither to the local election result nor to the strengthening of USD. The bigger change was observed in case of USDPLN, which dropped to 3.715 and then climbed quickly to 3.74. In case of **other CEE currencies** the market was also relatively calm. Looking at today's calendar it is hard to find the impulse, which could trigger stronger move of EURPLN. Only few days before the end of October, according the Reuters data, the monthly range of high-low spread for EURPLN is the smallest since the November 1996.

At the beginning of the week **yields of Polish t-bonds** have not changed much. The biggest move was on the belly and the short end of the curve (by 1bp). The Polish bond yields changes were smaller than in other European markets.

Business confidence indicators



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2988	CZKPLN	0.1664
USDPLN	3.7513	HUFPLN*	1.3306
EURUSD	1.1459	RUBPLN	0.0574
CHFPLN	3.7669	NOKPLN	0.4531
GBPPLN	4.8632	DKKPLN	0.5762
USDCNY	6.9407	SEKPLN	0.4156

*for 100HUF

Last session in the FX market 22/10/2018

	min	max	open	close	fixing
EURPLN	4.288	4.310	4.293	4.293	4.2922
USDPLN	3.713	3.746	3.736	3.743	3.7273
EURUSD	1.146	1.155	1.151	1.147	-

Interest rate market 22/10/2018

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)	2.52	-1	4 paź 18	PS0424	2.732
WS0428 (10L)	3.25	0	4 paź 18	WS0428	3.303

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	0	2.89	-1	-0.24	0
2L	2.05	-1	3.10	-1	-0.11	0
3L	2.29	0	3.16	-2	0.06	0
4L	2.48	1	3.18	-1	0.23	0
5L	2.63	1	3.18	-1	0.39	1
8L	2.92	1	3.22	-1	0.79	0
10L	3.06	1	3.26	-1	1.00	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.50	-7
T/N	1.51	-8
SW	1.56	-3
2W	1.59	-1
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	0
3x9	1.84	-1
6x12	1.90	-1

Measures of fiscal risk

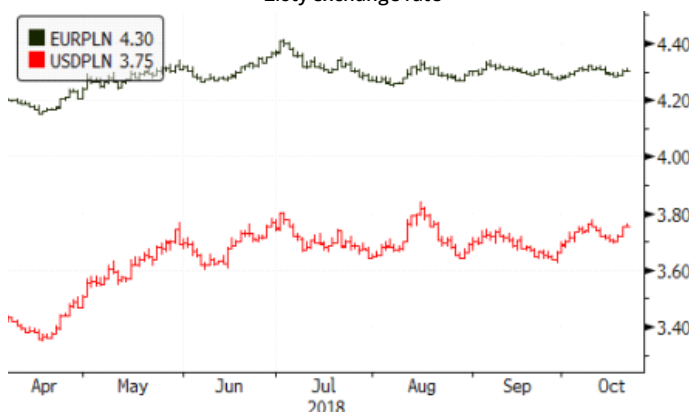
Measures of financial risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.82	2
France	25	1	0.38	0
Hungary	116	1	3.38	2
Spain	65	4	1.27	2
Italy	221	8	3.11	7
Portugal	64	0	1.58	2
Ireland	25	0	0.58	-1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

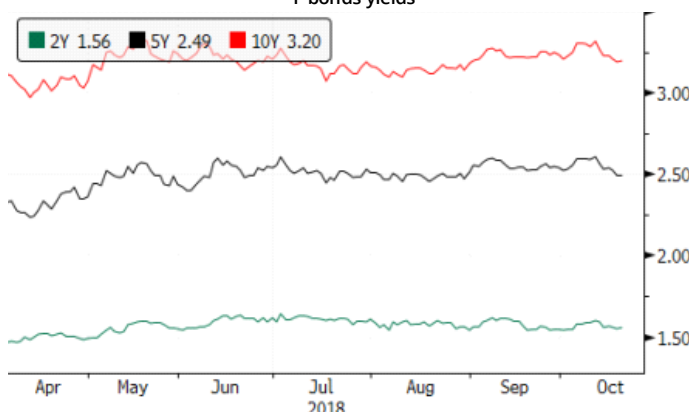
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



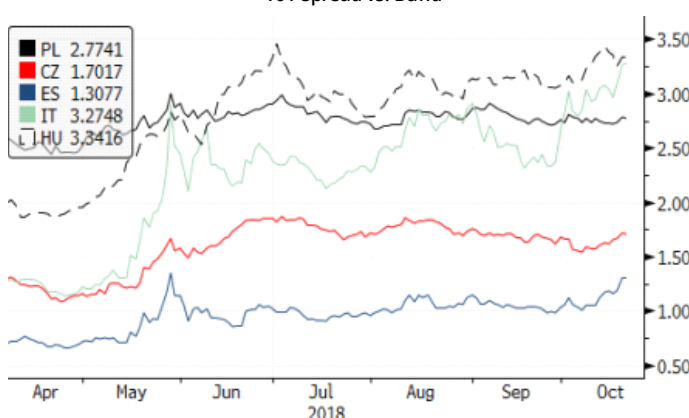
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE	
				MARKET	SANTANDER			
FRIDAY (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	7.5
TUESDAY (23 October)								
10:00	PL	Unemployment Rate	Sep	%	5.8	5.8		5.8
WEDNESDAY (24 October)								
09:30	DE	Flash Germany Manufacturing PMI	Oct	pts	53.45	-		53.7
09:30	DE	Flash Markit Germany Services PMI	Oct	pts	55.5	-		55.9
10:00	EZ	Flash Eurozone Manufacturing PMI	Oct	pts	53.0	-		53.3
10:00	EZ	Flash 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	Buyback OK1018 (PLN11.9bn)	Oct					
10:00	DE	IFO Business Climate	Oct	pts	103.15	-		103.7
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0
14:30	US	Durable Goods Orders	Sep	% m/m	-1.15	-		4.4
14:30	US	Initial Jobless Claims	week	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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