

24 October 2018

Eyeopener

Italian budget makes sentiment worse

Pessimism dominated the markets due to the Italian budget issue
 More data confirming a slowdown in Poland
 Zloty and other CEE fx stable, EURUSD close to local minimum
 Bonds gained on a wave of risk aversion
 Today flash October PMIs for euro zone

On Tuesday the European stock indexes plummeted, which was positive for core bonds. Changes on the FX market were minor – the dollar remained strong vs the euro and the CEE currencies did not move much. Later in the day the European Commission informed that it rejected the Italian 2019 budget draft (for the first time in history it made such a move against a member state). The EC gave Italy three weeks to show the next draft. Italy responded it does not plan to introduce any changes to the submitted document. This communication had a negative impact on the Italian bonds.

Stats Office's business sentiment indicators corrected for seasonal effects showed a significant deterioration of mood in industry in October – the general index dropped by 2pts, to the lowest level in more than a year, and the component describing current output by almost 5pts to the lowest level in two years. The sentiment also got somewhat worse in construction. On the other hand hotels and restaurants, as well as retail trade/repair sectors saw improvement of soft indicators (the latter has set a new record of optimism). Such pattern of results confirms our call that the outlook for industry for the months to come is not so rosy, while private consumption should still look decent. However an alternative retail turnover measure (which includes small outlets, but omits car sales) is showing a fading growth impulse recently.

The **registered unemployment rate** was 5.7% in September instead of the Ministry of Labour estimate of 5.8%. The surprise was the result of the Stats Office revision of the number of employed up by some 130-140k (or c1%). Unemployment data imply that in 2018 employment rose at more than 2% y/y a tended to slow down during the year. These data likely include immigrants, unlike LFS data – which point to stagnation of employment in 2018.

Wage growth in the corporate sector after exclusion of the volatile mining sector recorded a slowdown in September to 6.6% y/y from 7.2%. This is the lowest reading in a year. Negative working day effect was at play here, but we are surprised by the slower growth of wages in services (from 6.9% y/y to 6.3%). Wage growth in the sector is generally going down since the start of the year despite the tight labour market. It seems the sector may be a drag on overall growth of wages. It cannot be excluded that this is caused by inflow of immigrants (mainly to this sector) which reduces the pressure on wage hikes.

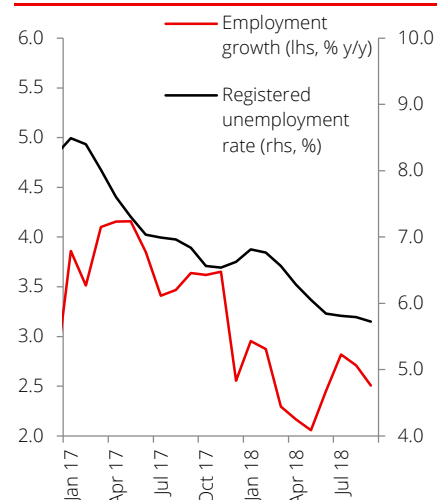
After the Monday fall, the **EURUSD** stabilised yesterday close to 1.145. Today, market volatility may slightly increase, tilted by manufacturing and services flash PMI readings for the euro area. The indices have been consistently falling since the beginning of the year and further negative surprises may pressure the EURUSD downwards. Moreover, the euro may lose in response to the yesterday news concerning Italy.

The **EURPLN** oscillated yesterday around 4.296, slightly above the Monday low (just below 4.29) and the USDPLN remained flat at 3.75. We think that the EURPLN will keep today within 4.28-4.32. As we wrote yesterday, the monthly range of volatility in October has been the smallest in over 20 years. On the other hand, implied volatility is quoted above the April levels (when there was a local low of EURPLN and of implied volatility), therefore we do not think that the slight changes this month are serious signals of the zloty weakening to come (in the case of CEE currencies, higher volatility usually means their depreciation).

In the case of **other CEE currencies**, HUF stayed stable, RUB lost under the pressure of lower oil prices, while CZK gained thanks to Czech central banker's remarks. Yesterday Mojmir Hampl said that interest rates should be above the current level, taking into account the phase of business cycle. Mr. Hampl is identified as a monetary policy hawk and his commentary positive influenced CZK only slightly.

Yesterday yields of **Polish t-bonds** decreased strongly following the strengthening of core markets bonds. Belly and the long end of the curve slid down by 4-5bp, while the short end by 2bp (to the lowest level since May). IRS rates also decreased, but remain close to the highest levels recorded in the last two years.

Labour market data



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2957	CZKPLN	0.1667
USDPLN	3.7479	HUFPLN*	1.3308
EURUSD	1.1461	RUBPLN	0.0572
CHFPLN	3.7670	NOKPLN	0.4526
GBPPLN	4.8625	DKKPLN	0.5758
USDCNY	6.9378	SEKPLN	0.4154

*for 100HUF

Last session in the FX market 23/10/2018

	min	max	open	close	fixing
EURPLN	4.289	4.301	4.293	4.292	4.2984
USDPLN	3.735	3.758	3.743	3.738	3.7485
EURUSD	1.144	1.149	1.147	1.148	-

Interest rate market 23/10/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.54	-2	4 paź 18	OK0720	1.517
DS1023 (5L)	2.47	-5	4 paź 18	PS0424	2.732
WS0428 (10L)	3.20	-5	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	2.87	-2	-0.24	1
2L	2.03	-2	3.06	-4	-0.11	0
3L	2.25	-4	3.11	-5	0.05	-1
4L	2.44	-4	3.12	-6	0.22	-1
5L	2.59	-4	3.13	-6	0.37	-2
8L	2.87	-4	3.17	-5	0.77	-3
10L	3.02	-4	3.20	-5	0.98	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.40	-10
T/N	1.42	-9
SW	1.55	-1
2W	1.59	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	1.74	-1
6x9	1.78	-1
9x12	1.85	-1
3x9	1.82	-2
6x12	1.88	-2

Measures of fiscal risk

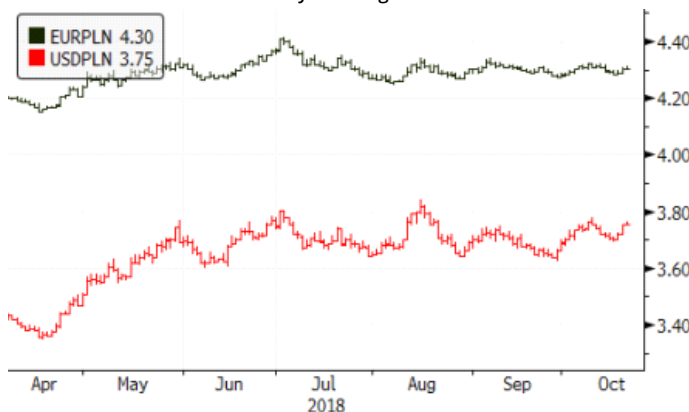
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.78 -6
France	25 1	0.37 0
Hungary	116 1	3.39 -1
Spain	65 4	1.24 -1
Italy	221 8	3.13 -5
Portugal	64 0	1.58 -2
Ireland	25 0	0.57 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

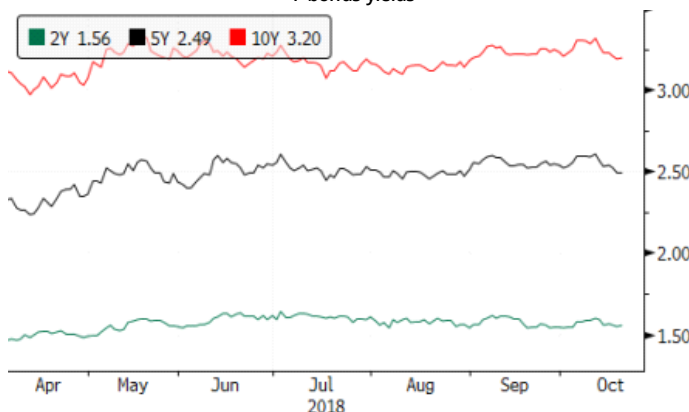
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

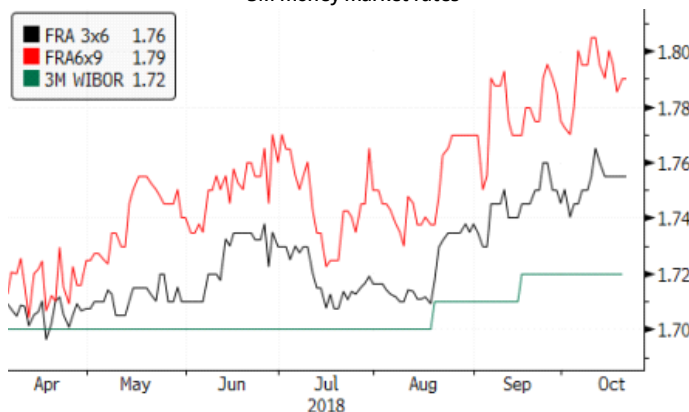
Zloty exchange rate



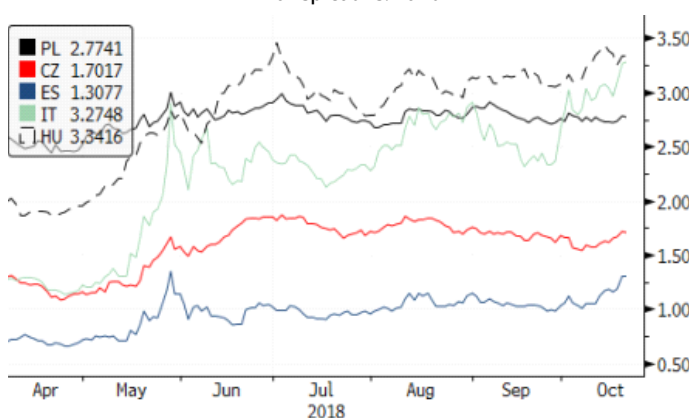
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL SANTANDER	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	5.7	5.8
WEDNESDAY (24 October)								
09:30	DE	Flash Germany Manufacturing PMI	Oct	pts	53.4	-		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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