

25 October 2018

# Eyeopener

## Next weak data before the ECB decision

Weak European data, weak US companies' results spoiling market sentiment  
Zloty under pressure of lower EURUSD  
Bond yields lower after weak PMIs  
ECB decision today

Yesterday, FX and debt markets were under the influence of European data. Flash PMIs for euro zone's manufacturing and services surprised negatively again in October and supported worries about economic outlook for Europe. As a result, the euro lost vs the dollar, the pound and Swiss franc, which had negative impact on CEE currencies and triggered drop of European yields. Weaker-than-expected financial results of US companies caused strong sell-off on equity markets in the USA and later in Asia. As a result, today at the beginning of the session the market sentiment is negative.

Today we will know the German Ifo index and ECB's decision. Change of monetary policy parameters is very unlikely but investors will be awaiting the ECB's opinion on the economic outlook for the euro zone. The European data have been clearly disappointing in recent months and it seems that ECB would have to try very hard to improve investors' sentiment and cause significant and persistent strengthening of the euro.

**Official results of local elections**, published yesterday evening, indicate that PiS won 254 mandates in regional (voivodeship) councils while Koalicja Obywatelska (coalition formed around Civic Platform and Nowoczesna) got 194. PiS will be able to govern six voivodeships (out of 16) on its own, in three more it will need to find a coalition partner. Koalicja Obywatelska has clear majority in one voivodeship and in it will have to seek a partner to govern six more. As we wrote earlier, the local election results do not change the political landscape enough to trigger a market response.

Stats Office published results of the **semi-annual survey of company investment plans**. The industry signaled that this year investments may be 2.1% higher than last year, which is a downward revision of the plans shown in the March edition (+6.7%). Estimates decreased mostly among big companies (to +14.5% from +23.3%), especially in production of coke and oil refining. The largest positive revision of 2018 plans was seen among producers of construction materials. Industrial companies plan to push investments up by 5.5% in 2019, but with SMEs decreasing their investment outlays.

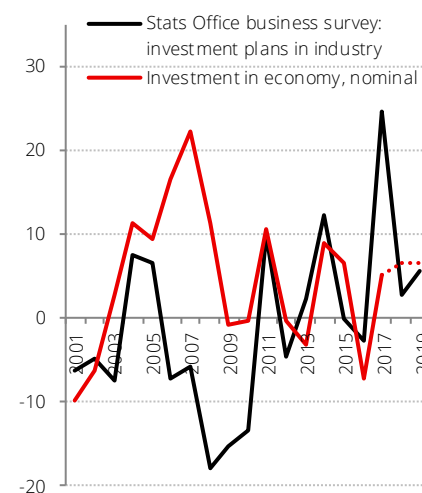
**EURUSD** plummeted yesterday temporarily below 1.14 from 1.148 reaching its fresh October low. The exchange rate is nearing this year's bottom 1.13 reached in mid-August and in our view there is little chance the ECB rhetoric could trigger a significant upside move of EURUSD anytime soon.

**EURPLN** rose above 4.31 and USDPLN to 3.78 amid euro depreciation vs the dollar. The yesterday's EURPLN reaction confirmed that changes of EURUSD are still vital driver for zloty. Despite further stock sell-off on the US and Asian markets, today EURPLN is still close to 4.31. Later in the day, the market shall focus on the ECB decision and EURUSD response to the outcome of the meeting should show direction for EURPLN. We think that there are bigger chances for the exchange rate to near October peak at 4.32 rather than to move towards 4.28.

Among **other CEE currencies**, yesterday the ruble was the best performer and in the first phase of the session it gained vs the dollar after remark of US administration representative that US authorities don't consider now imposing new sanctions on Russia. However the ruble was not able to keep profits till the end of the day and USDRUB went back from c.65 to 65.55. Today strong correction of oil prices could harm the ruble. The koruna and the forint lost vs. the euro since the beginning of the session.

**Yields of Polish t-bonds** recorded another session of noticeable drop. The belly and the long end of the curve slid by 3-4bp, while the short end decreased by 1bp. Polish t-bonds performed better than German, worse than US and similar to Southern Eurozone peers. At Friday's auction the Ministry of Finance will offer PLN7-10bn of bonds (formerly planned to sell PLN5-10bn) series OK0720, PS0424, WZ0524, WS0428 i WZ0528. We assume that today's ECB meeting will positively influence Polish t-bonds market.

### Semi-annual investment survey



Source: Stats Office, Santander Bank Polska

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## FX market

### Today's opening

|        |        |         |        |
|--------|--------|---------|--------|
| EURPLN | 4.3120 | CZKPLN  | 0.1667 |
| USDPLN | 3.7784 | HUFPLN* | 1.3328 |
| EURUSD | 1.1412 | RUBPLN  | 0.0576 |
| CHFPLN | 3.7912 | NOKPLN  | 0.4534 |
| GBPPLN | 4.8775 | DKKPLN  | 0.5780 |
| USDCNY | 6.9453 | SEKPLN  | 0.4152 |

\*for 100HUF

### Last session in the FX market 24/10/2018

|        | min   | max   | open  | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.291 | 4.312 | 4.292 | 4.305 | 4.3036 |
| USDPLN | 3.736 | 3.785 | 3.738 | 3.779 | 3.7698 |
| EURUSD | 1.138 | 1.149 | 1.148 | 1.139 | -      |

## Interest rate market 24/10/2018

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

| Benchmark (term) | %    | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1020 (2L)      | 1.53 | -1           | 4 paź 18     | OK0720    | 1.517         |
| DS1023 (5L)      | 2.43 | -4           | 4 paź 18     | PS0424    | 2.732         |
| WS0428 (10L)     | 3.17 | -3           | 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                            | 1.78 | 0            | 2.88 | 2            | -0.24 | 0            |
| 2L                            | 2.00 | -3           | 3.06 | 0            | -0.12 | -1           |
| 3L                            | 2.22 | -4           | 3.10 | 0            | 0.04  | -1           |
| 4L                            | 2.39 | -5           | 3.12 | -1           | 0.20  | -1           |
| 5L                            | 2.53 | -6           | 3.12 | -1           | 0.35  | -2           |
| 8L                            | 2.80 | -7           | 3.16 | -1           | 0.76  | -1           |
| 10L                           | 2.95 | -7           | 3.20 | -1           | 0.97  | -1           |

## WIBOR rates

| Term | %    | Change (bps) |
|------|------|--------------|
| O/N  | 1.48 | 8            |
| T/N  | 1.49 | 7            |
| SW   | 1.55 | 0            |
| 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 | 0            |
| 6x9  | 1.77 | -1           |
| 9x12 | 1.83 | -1           |
| 3x9  | 1.82 | 0            |
| 6x12 | 1.87 | -1           |

## Measures of fiscal risk

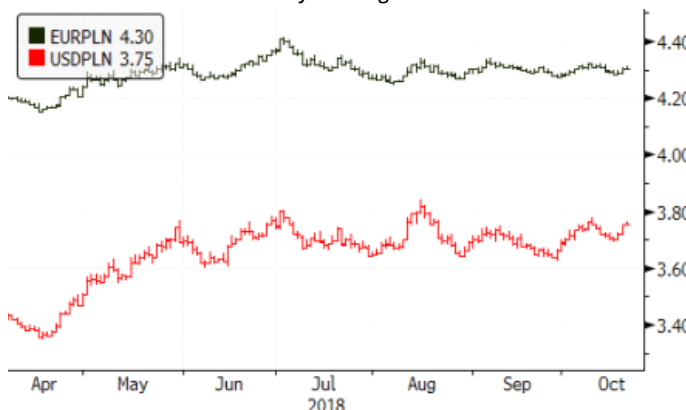
| Country  | CDS 5Y USD         | 10Y spread*        |
|----------|--------------------|--------------------|
|          | Level Change (bps) | Level Change (bps) |
| Poland   |                    | 2.78 -2            |
| France   | 25 1               | 0.37 0             |
| Hungary  | 116 1              | 3.34 0             |
| Spain    | 65 4               | 1.23 0             |
| Italy    | 221 8              | 3.18 -3            |
| Portugal | 64 0               | 1.58 0             |
| Ireland  | 25 0               | 0.57 0             |
| Germany  | 11 0               | - -                |

\* 10Y treasury bonds over 10Y Bunds

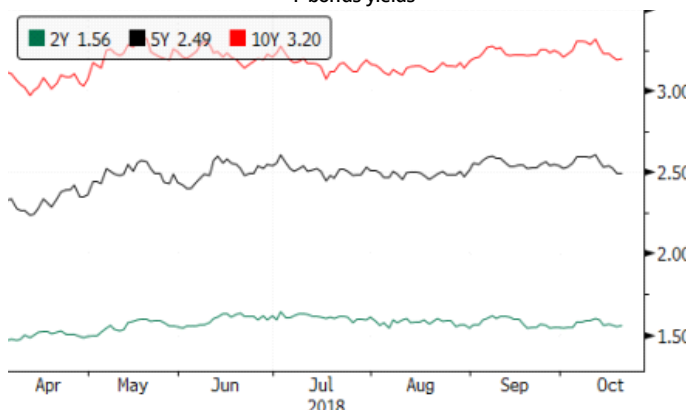
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

## Zloty exchange rate



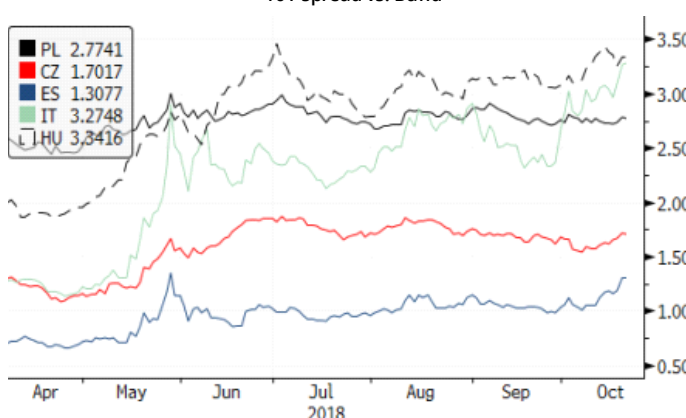
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

| TIME<br>CET            | COUNTRY | INDICATOR                         | PERIOD | FORECAST |           | ACTUAL | LAST<br>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      | -      | 52.3          | 53.7  |
| 09:30                  | DE      | Flash Markit Germany Services PMI | Oct    | pts      | 55.5      | -      | 53.6          | 55.9  |
| 10:00                  | EZ      | Flash Eurozone Manufacturing PMI  | Oct    | pts      | 53.0      | -      | 52.1          | 53.3  |
| 10:00                  | EZ      | Flash Eurozone Services PMI       | Oct    | pts      | 54.5      | -      | 53.3          | 54.7  |
| 16:00                  | US      | New Home Sales                    | Sep    | % m/m    | -0.6      | -      | -5.5          | -3.0  |
| THURSDAY (25 October)  |         |                                   |        |          |           |        |               |       |
|                        | PL      | Central Budget Cumulative         | Sep    | mn PLN   | 2.3       | -      |               | 1.05  |
|                        | PL      | Buyback OK1018 (PLN11.9bn)        | Oct    |          |           |        |               |       |
| 10:00                  | DE      | IFO Business Climate              | Oct    | pts      | 103.2     | -      |               | 103.7 |
| 13:45                  | EZ      | ECB Main Refinancing Rate         |        | %        | 0.0       | -      |               | 0.0   |
| 14:30                  | US      | Durable Goods Orders              | Sep    | % m/m    | -1.5      | -      |               | 4.4   |
| 14:30                  | US      | Initial Jobless Claims            | week   | k        | 214       | -      |               | 210.0 |
| 16:00                  | US      | Pending Home Sales                | Sep    | % m/m    | 0.0       | -      |               | -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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