

26 October 2018

Eyeopener

ECB unfazed by the data

ECB's rhetoric did not influence the market
 Zloty and other CEE currencies stable
 Bond yields in Poland and abroad slightly higher
 Today auction of domestic bonds, important US data

Thursday's session did not bring any material changes on the global market. Despite the next weak German data and decent figures from the US the session was fairly calm. The outcome of the ECB meeting did not influence bonds, stocks and currencies much either. The central bank kept its monetary policy parameters unchanged and still views the risks to economic outlook as balanced. Governor Mario Draghi said the bank acknowledged the recent poor European data but in the Council's opinion these were not a game-changer as for now. During today's Asian session the market sentiment deteriorated and the yuan reached its weakest level for 10 years despite market talking about likely VAT cut in China. Core bonds gained overnight which does not bode well for the risky assets for today. In the evening, the S&P may revise Italian rating that is currently only two notches above the "junk level".

MPC member Eugeniusz Gatnar said in an interview for Reuters that the Council could consider rate hike in 1Q19 and the November inflation projection could provide support for such decision as it will include higher energy and commodity prices. In his view, the MPC should hike rates twice by 25bp in the coming 4-6 quarters, conditional on the slope of the CPI trend and actions taken by the ECB. He mentioned that the CPI forecast at his disposal assumes inflation might near 3% y/y in 1Q19. In our view, the November projection is rather unlikely to bring the rate hike closer as already previous editions were showing inflation (including the core measure) rising above the target in 2019. The majority of the MPC members is likely to favour keeping rates stable underlining the risks to the GDP growth and pointing to the fact that higher inflation will be driven by higher energy prices that are beyond the influence of the monetary policy. **Minutes from the MPC October meeting** included the same conclusion to previous ones – stable interest rates favour balanced economic growth. The new element is the broader consensus that inflation might rise in 1H19 due to supply factors. However, the majority of the members still share the opinion that CPI should "remain close to the target in the monetary policy transmission horizon". Updated projection will be available at the November meeting.

Quarterly business sentiment survey conducted by the NBP showed that 2Q and 3Q were very good in terms of sales volumes. However, companies are more cautious in forecasting demand and output (but not exports). Despite higher costs (of materials and labour, among others) the profitability rose. Companies reported some easing of the wage pressure despite difficulties in finding new workers and expect smaller wage hikes than in the previous survey. However, given the further rise in costs and expected energy price hikes, companies reduced their optimism as regards business performance in 2019. Perception of lower shortage of inventories added to the negative picture. The survey showed that private investments accelerated in 2Q, including sectors that do not extensively use the EU funds. On the other hand, the share of companies that increase investments has fallen. Moreover, when asked about reaction to the scarce spare capacity, companies mentioned 'selection of orders' and 'rising own prices' more often than in the previous survey but were less eager to invest (although the latter is still the dominant response in the manufacturing sector).

Yesterday **EURUSD** did not change importantly, in the intraday trading EURUSD rose temporarily to 1.1430 from 1.1400, but in the evening trading slipped to 1.1370. As we assumed, ECB did not manage to strengthen EUR and we believe that today EURUSD will stay low as a consequence of last unfavourable news from Europe (weak data release, the Italian budget problem). The pace of fall of EURUSD may decelerate as a result of profit taking after last decreases.

Yesterday **EURPLN** was hovering around 4.31, in the narrow range, while USDPLN stayed close to 3.78. **Other CEE currencies** also stayed relatively stable. EURPLN remained slightly below the October peak – 4.32. Today morning the mood on the market is gloomy, so at the end of the week EURPLN may be even closer to this nearest important resistance level.

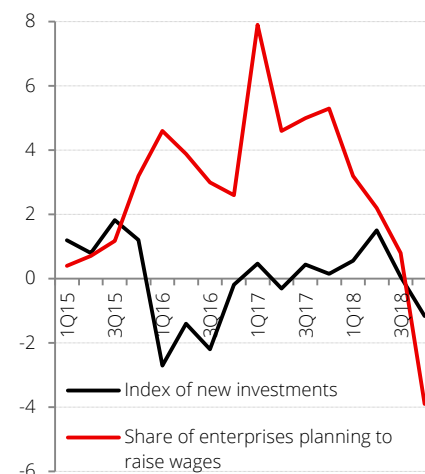
Yesterday **Polish yields** rose by 2bp across the curve following the core markets trend. Polish bond prices were going down a little more than German peers, but less than US peers, while the prices of South European bonds decreased. Today the regular auction is scheduled. We expect strong results of the auction thanks to good liquidity situation.

NBP's Quick Monitoring survey of business sentiment – y/y changes of indices



Source: NBP, Santander Bank Polska

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Source: NBP, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3118	CZKPLN	0.1667
USDPLN	3.7895	HUFPLN*	1.3300
EURUSD	1.1379	RUBPLN	0.0577
CHFPLN	3.7930	NOKPLN	0.4537
GBPPLN	4.8541	DKKPLN	0.5780
USDCNY	6.9570	SEKPLN	0.4151

*for 100HUF

Last session in the FX market 25/10/2018

	min	max	open	close	fixing
EURPLN	4.305	4.317	4.305	4.308	4.3123
USDPLN	3.770	3.793	3.779	3.788	3.7796
EURUSD	1.137	1.143	1.139	1.137	-

Interest rate market 25/10/2018

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)	2.45	2	4 paź 18	PS0424	2.732
WS0428 (10L)	3.19	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	1.78	0	2.89	1	-0.24	0
2L	2.01	0	3.07	0	-0.12	0
3L	2.22	0	3.11	1	0.04	0
4L	2.39	-1	3.12	1	0.21	0
5L	2.52	-1	3.13	1	0.36	1
8L	2.79	-2	3.17	0	0.76	0
10L	2.93	-2	3.20	1	0.97	0

WIBOR rates

Term	%	Change (bps)
O/N	1.25	-23
T/N	1.48	-1
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	1.79	2
9x12	1.85	2
3x9	1.82	0
6x12	1.87	1

Measures of fiscal risk

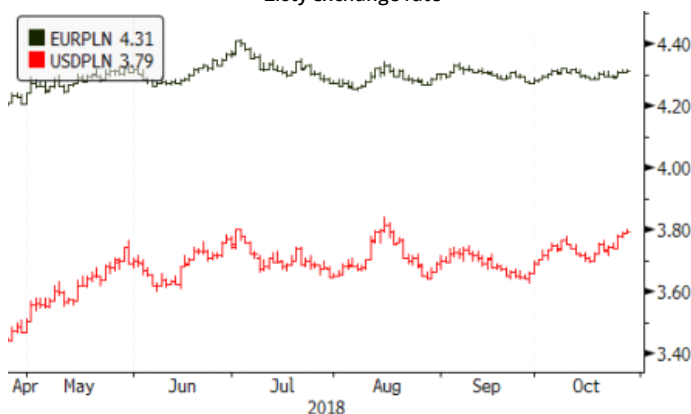
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.81 3
France	25 1	0.38 1
Hungary	116 1	3.34 1
Spain	65 4	1.20 2
Italy	221 8	3.12 3
Portugal	64 0	1.56 2
Ireland	25 0	0.59 1
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

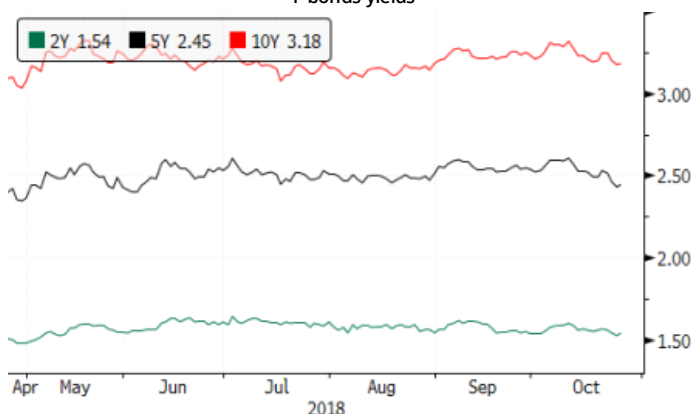
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



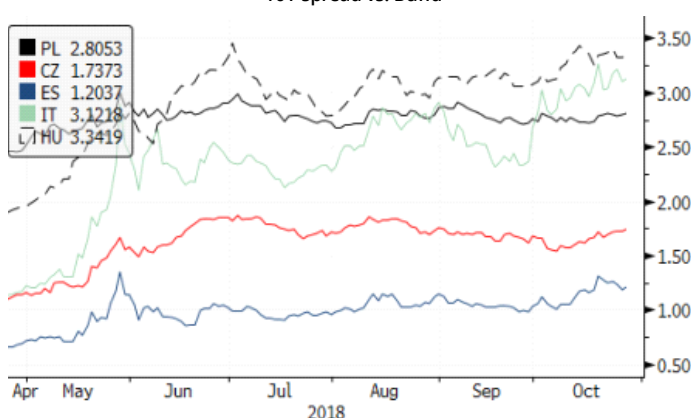
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (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	-	102.8	103.7
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Durable Goods Orders	Sep	% m/m	-1.5	-	0.8	4.6
14:30	US	Initial Jobless Claims	week	k	214	-	215	210
16:00	US	Pending Home Sales	Sep	% m/m	0.0	-	0.5	-1.9
FRIDAY (26 October)								
11:30	PL	Bond Auction			-			
14:30	US	GDP Annualized	3Q	% Q/Q	3.3	-		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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