

29 October 2018

# Eyeopener

## Bonds gained after successful auction

Zloty stable at the end of the week  
Best regular domestic bonds auction for a year  
Today US data

Last week finale did not bring any improvement in the sentiment and the downward trend deepened across European stock indices. Bonds continued to benefit from high risk aversion and that was not impeded by better-than-expected US GDP Q3 estimates. This reading, however, had a slight, positive impact on the dollar. On Friday, S&P lowered the outlook for Italian debt from stable to negative, while affirming the credit rating at BBB. Local elections took place in Hesse over the weekend. CDU obtained 28% votes (down 10.3 pp.) and SPD 19.8% votes (down 10.9 pp.) These results may weaken Chancellor Angela Merkel's position in CDU. The CJEU press service informed that the hearing of the parties regarding the decision to suspend the application of the Supreme Court Act was scheduled for 16 November. This morning witnesses a visible rebound in the equity markets after the Friday's declines.

On Friday, the **MPC member Jerzy Osiatyński** said that in his opinion, inflation would remain below the target for the next three-four quarters. This belief differs from the view presented on the previous day by Eugeniusz Gatnar (in Q1, the inflation may reach 3%). Our forecasts also assume CPI growth above 2.5% in H1 2019. On the other hand, Jerzy Żyżyński said that "perhaps there will be no need to change the interest rates throughout 2019".

**EURUSD** was going down on Friday since the start of the session, but less than in the previous days. After the US GDP data the exchange rate set a new minimum for October, at 1.133, but at the end of the Polish session it was close to 1.138, so a bit higher than at the opening. We think the following days could see a correction of the recent declines of EURUSD.

**EURPLN** was on the rise since the beginning of the session amid high risk aversion and neared its October peak at c4.32 while USDPLN rebounded to nearly 3.81. At the end of the Polish session, the zloty recovered all losses vs the euro and roughly half vs the dollar. We expect the global market sentiment to stabilize in the days to come while could help the zloty to gain.

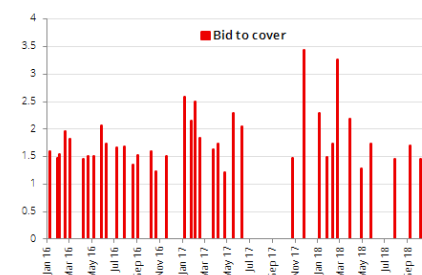
**Among other CEE currencies**, the ruble was the weakest one and it was under pressure of central bank's rhetoric. In the line with expectations CBR remained interest rates unchanged including the main rate at the level of 7.5% but according to the market, the bank's comment was not enough hawkish in the context of the last weakening of the ruble which generates inflation's risk growth (which accelerated since June from 2.3% y/y to 3.4% y/y). The koruna gained vs the euro and took profits after Thursday's losses. The forint stayed relative stable.

**Polish bond yields** climbed somewhat at the start of the day, despite core market strengthening. Only the successful bond auction (details below) encouraged the yields to go down. Eventually, the domestic curve shifted by 2-5bps down, mostly on the longer end. Polish 10Y benchmark gained at a similar scale as its US and German counterparts.

Friday **bond auction** proved to be successful. On the regular auction the Finance Ministry sold debt worth PLN10bn (upper border of the planned offer) with bid-to-cover ratio above 3. The Ministry has also run a top-up auction, where is sold securities worth PLN2.0bn with demand above PLN6.0bn. Last time we saw bid-to-cover ratio above 3.0 in November 2017. After the auction the Ministry informed it has financed 92% of this year's borrowing needs and 6% of 2019 borrowing needs.

The **coming week** can be interesting from the investors' perspective. Much data will be released (mainly in the US) which can bring new insight into the outlook for the world economy. On domestic market there will be two important publications: flash CPI in October and industrial PMI. We expect inflation stayed unchanged at 1.9% while PMI might have dropped below 50pt for the first time for four years. In our base case scenario, we assume that the market sentiment may stabilize giving a relief to the risky assets. As a result, we expect EURPLN to hold below 4.34. Bonds gained noticeably in the last several days and we think that some correction of this move could now take place.

Bid to cover ratio on the regular auction



Source: NBP, Santander Bank Polska

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
email: ekonomia@santander.pl  
website: skarb.santander.pl  
**Piotr Bielski** +48 22 534 18 87  
**Marcin Łuziński** +48 22 534 18 85  
**Grzegorz Ogonek** +48 22 534 19 23  
**Konrad Soszyński** +48 22 534 18 86  
**Marcin Sulewski, CFA** +48 22 534 18 84

## FX market

### Today's opening

EURPLN	4.3065	CZKPLN	0.1668
USDPLN	3.7748	HUFPLN*	1.3287
EURUSD	1.1409	RUBPLN	0.0574
CHFPLN	3.7835	NOKPLN	0.4522
GBPPLN	4.8434	DKKPLN	0.5772
USDCNY	6.9534	SEKPLN	0.4134

\*for 100HUF

### Last session in the FX market 26/10/2018

	min	max	open	close	fixing
EURPLN	4.306	4.319	4.308	4.311	4.3125
USDPLN	3.774	3.809	3.788	3.781	3.7899
EURUSD	1.134	1.142	1.137	1.140	-

## Interest rate market 26/10/2018

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.52	-3	26 paź 18	OK0720	1.456
DS1023 (5L)	2.39	-5	26 paź 18	PS0424	2.604
WS0428 (10L)	3.13	-6	26 paź 18	WS0428	3.179

### 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	0
2L	1.98	-2	3.02	-4	-0.12	0
3L	2.17	-4	3.06	-5	0.03	-1
4L	2.33	-6	3.07	-5	0.19	-2
5L	2.45	-7	3.07	-5	0.34	-2
8L	2.72	-7	3.11	-5	0.73	-3
10L	2.86	-7	3.15	-5	0.94	-3

### WIBOR rates

Term	%	Change (bps)
O/N	1.45	20
T/N	1.49	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	-1
6x9	1.77	-2
9x12	1.83	-2
3x9	1.82	0
6x12	1.87	-1

### Measures of fiscal risk

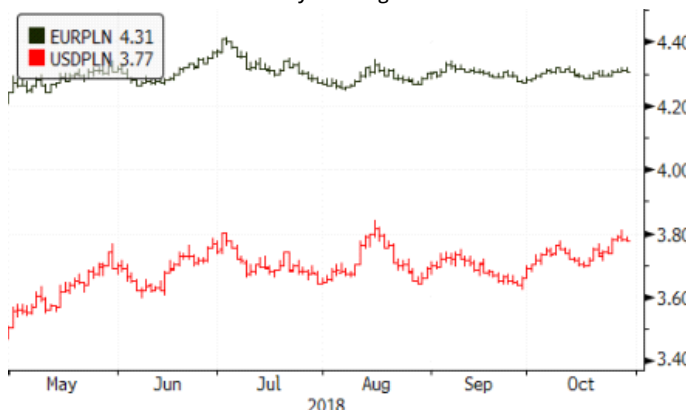
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.77 -6
France	25 1	0.38 0
Hungary	116 1	3.25 0
Spain	65 4	1.19 -2
Italy	221 8	3.01 -9
Portugal	64 0	1.54 -2
Ireland	25 0	0.59 0
Germany	11 0	- -

\* 10Y treasury bonds over 10Y Bunds

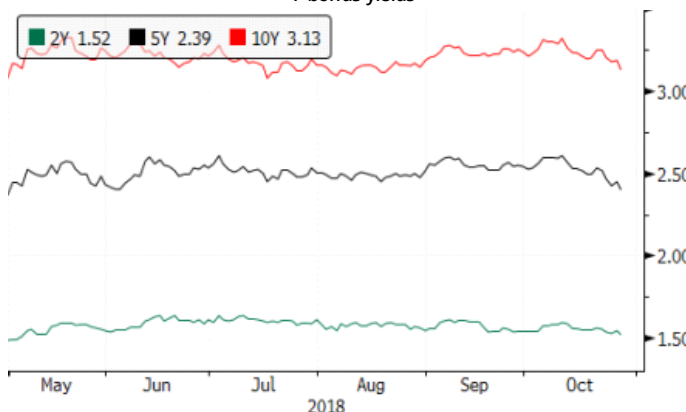
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

### Zloty exchange rate



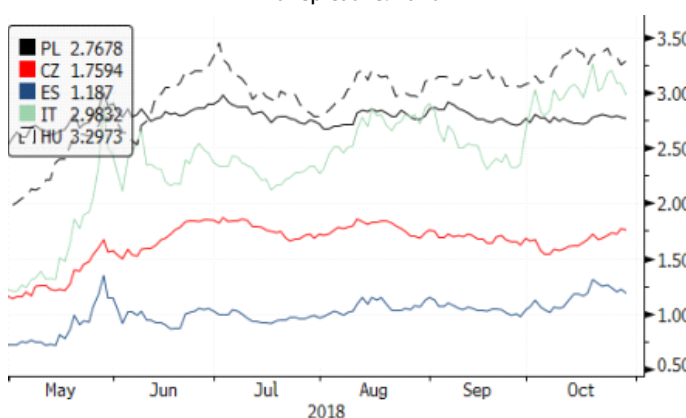
### T-bonds yields



### 3M money market rates



### 10Y spread vs. Bund



## Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (26 October)							
11:30	PL	Bond Auction					
14:30	US	GDP Annualized	3Q	% Q/Q	3.3	3.5	4.2
16:00	US	Michigan index	Oct	pts	99.0	98.6	99.0
MONDAY (29 October)							
13:30	US	Personal Spending	Sep	% m/m	0.4	-	0.3
13:30	US	Personal Income	Sep	% m/m	0.35	-	0.3
13:30	US	PCE Deflator SA	Sep	% m/m	0.1	-	0.1
TUESDAY (30 October)							
11:00	EZ	GDP SA	3Q	% y/y	1.8	-	2.2
11:00	EZ	ESI	Oct	pct.	110.0	-	110.9
14:00	DE	HICP	Oct	% m/m	0.1	-	0.4
15:00	US	Consumer Conference Board	Oct	pts	135.3	-	138.4
WEDNESDAY (31 October)							
08:00	DE	Retail Sales	Sep	% m/m	0.5	-	-0.3
10:00	PL	Flash CPI	Oct	% y/y	1.85	1.9	1.9
11:00	EZ	Flash HICP	Oct	% y/y	2.1	-	2.1
11:00	EZ	Unemployment Rate	Sep	%	8.1	-	8.1
13:15	US	ADP report	Oct	k	190.0	-	229.6
THURSDAY (1 November)							
13:00	CZ	Central Bank Rate Decision		%	1.75	-	1.5
13:30	US	Initial Jobless Claims	week	k	215.0	-	215.0
15:00	US	ISM manufacturing	Oct	pts	59.0	-	59.8
FRIDAY (2 November)							
09:00	PL	Poland Manufacturing PMI	Oct	pts	50.2	49.5	50.5
09:55	DE	Germany Manufacturing PMI	Oct	pts	52.3	-	52.3
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	52.1	-	52.1
13:30	US	Change in Nonfarm Payrolls	Oct	k	190.0	-	134.0
13:30	US	Unemployment Rate	Oct	%	3.7	-	3.7
15:00	US	Durable Goods Orders	Sep	% m/m	-1.5	-	0.8
15:00	US	Factory Orders	Sep	% m/m	0.3	-	2.3

Source: Santander Bank Polska, Bloomberg, Parkiet

\* in case of the revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email [ekonomia@santander.pl](mailto:ekonomia@santander.pl), <http://www.santander.pl>.