

30 October 2018

Eyeopener

Zloty weakened amid stocks rebound

CEE currencies weaker despite higher stock prices

Yields up amid increase of risk appetite

Japan's rating agency revised Poland rating outlook up

Today: European data and US consumer confidence

As S&P did not lower Italy's rating on Friday evening, the global market sentiment was quite good at the new week opening. Stock indices kept growing, which was bad for bonds from the core markets. The media news first and then Angela Merkel's confirmation that she will not run to be re-elected the head of the CDU did not have a clear and lasting impact on the quotations. The US data were slightly better than expected and they matched the trends witnessed since the early morning. CEE currencies did not benefit from the higher risk appetite and depreciated yesterday. Since Friday's closing, most currencies from emerging markets have appreciated against the euro and weakened against the dollar, even despite the favorable outcomes of the second round of the presidential elections in Brazil, as said outcomes were perceived by investors. This morning, the market has been affected by information about the resumption of negotiations on tariffs between China and the US, which had a positive impact on stock markets.

Dziennik Gazeta Prawna managed to access the Ministry of Finance estimates whereby this year's **public sector deficit** could fall to 0.4% GDP from 1.4% (which was already a lower figure than the results achieved during the boom dated 2006-2007). However, the process of planning the next year's budget has not been finished yet and the electoral calendar puts pressure on higher spending.

NBP governor Adam Glapiński argued in a publication „Polski Kompas 2018” for joining macroprudential and microprudential supervision under NBP. He said ECB is now the micro-level watchdog and such solution in Poland is supported by the recent rise of the share of the state in the banking sector. At the same time NBP head stressed that if such structure is applied, there will need to be a clear distinction between the regulatory measures and monetary policy tools.

Today Constitutional Court will decide on the removal of the limit to social security contributions from next year.

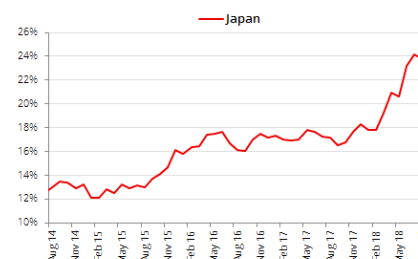
Japanese rating agency Rating and Investment Information R&I kept Poland at A-, but raised its rating outlook from negative to stable. It was motivated by improving fiscal situation and solid results of the economy. A risk factor for the agency is the reaction of the budget to potential economic slowdown. The agency does not consider the Poland-EU spat on rule-of-law, including the case against Poland in the European Court of Justice, as a sufficient argument to review the rating. Japan is currently the largest investor in PLN-denominated bonds.

EURUSD was hovering just below the Friday's peak at c1.142 reached after the S&P decision not to downgrade Italy. Today we will see the US consumer confidence index. Taking a broader look, EURUSD is still near this year's bottom at 1.13 reached in August. Today at the opening EURUSD is close to 1.136 vs 1.139 at the Monday opening) after an information that USA and China resumed trade negotiations.

EURPLN was on the rise since the beginning of the day and reached its fresh October peak at c4.325 at the end of the day. The zloty depreciated also vs the dollar – USDPLN rose to 3.80 from 3.775. EURPLN broke the resistance at 4.32 and this opens door for a further rise towards 4.34 but for now we do not expect the upside move to continue above that level. Today in the morning EURPLN opened at c4.33 amid stronger dollar.

Polish bond yields rose 1-2bp amid weakening on the core debt markets where prices fell amid higher demand for the risky assets. Domestic bonds lost less than Bunds or Treasuries. After a significant narrowing of the asset swap spreads in the recent weeks, Monday was a next day of a correction. Yesterday we wrote that some profit taking is likely after the recent bond rally and we sustain that view.

Japan's share in Polish PLN debt



Source: NBP, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3291	CZKPLN	0.1673
USDPLN	3.8060	HUFPLN*	1.3333
EURUSD	1.1374	RUBPLN	0.0579
CHFPLN	3.7964	NOKPLN	0.4544
GBPPLN	4.8639	DKKPLN	0.5802
USDCNY	6.9605	SEKPLN	0.4165

*for 100HUF

Last session in the FX market 29/10/2018

	min	max	open	close	fixing
EURPLN	4.303	4.330	4.312	4.325	4.3164
USDPLN	3.773	3.806	3.781	3.797	3.793
EURUSD	1.136	1.142	1.141	1.139	-

Interest rate market 29/10/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.52	0	26 paź 18	OK0720	1.456
DS1023 (5L)	2.41	0	26 paź 18	PS0424	2.604
WS0428 (10L)	3.14	0	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	0	2.88	1	-0.24	0
2L	1.99	1	3.04	1	-0.12	0
3L	2.18	1	3.08	2	0.03	1
4L	2.33	1	3.09	2	0.19	0
5L	2.46	1	3.09	2	0.35	1
8L	2.72	0	3.13	2	0.74	1
10L	2.86	0	3.17	2	0.95	1

WIBOR rates

Term	%	Change (bps)
O/N	0.92	-53
T/N	1.49	0
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	0
9x12	1.83	0
3x9	1.82	0
6x12	1.87	0

Measures of fiscal risk

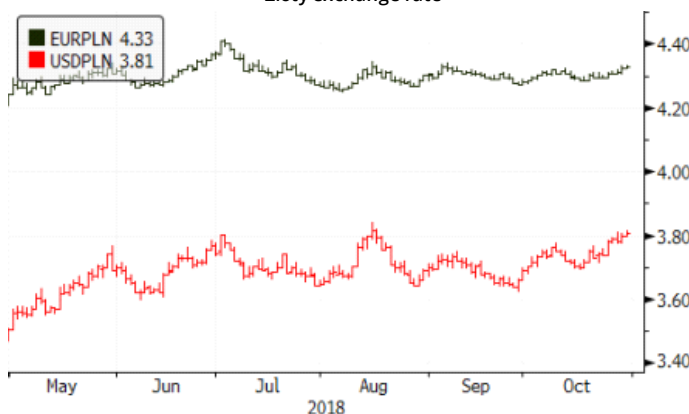
Measures of risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.75	-1
France	25	1	0.36	0
Hungary	116	1	3.21	-1
Spain	65	4	1.15	-1
Italy	221	8	2.94	-2
Portugal	64	0	1.48	-1
Ireland	25	0	0.56	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

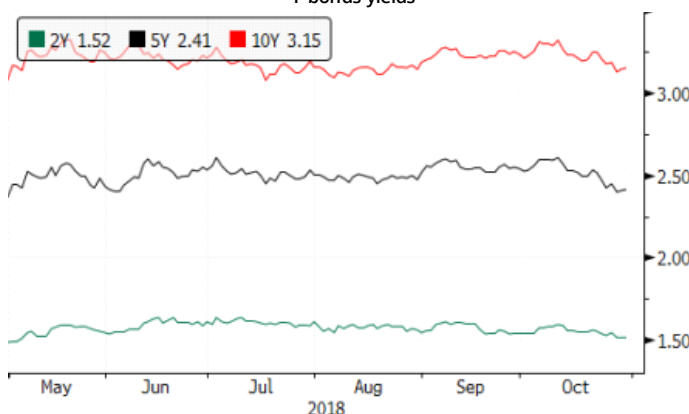
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



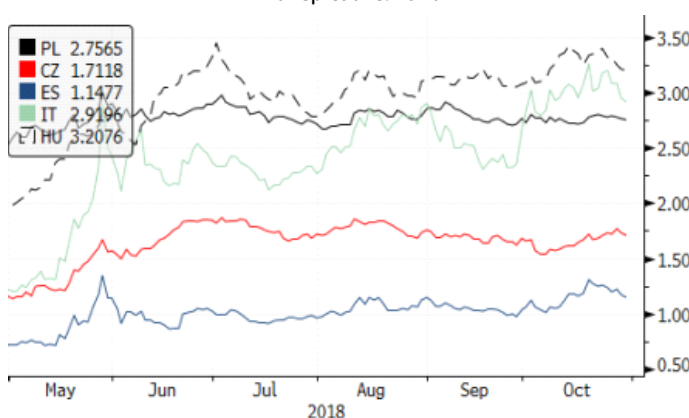
T-bonds yields



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	-	0.4
13:30	US	Personal Income	Sep	% m/m	0.35	-	0.4
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	136.0	-	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

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