

31 October 2018

# Eyeopener

## Polish and European ESI decreases further

CEE currencies stable awaiting important core markets data

Polish yields up again

ESI confirmed slower growth in Poland

Today: Polish October flash CPI, abroad US ADP report

On Tuesday there were no important changes on the market. German inflation came slightly higher than expected and US consumer sentiment was slightly better than forecasts, but the readings had little influence on trading. Euro zone ESI indicator decreased. The euro was stable vs. the dollar, CEE currencies also did not move much. In case of European bonds we mostly saw yields going up. Released today in the morning, retail sales from Germany and manufacturing PMI from China (drop to 50.2 – the lowest level since July 2016) surprised negatively.

**Poland's ESI indicators** for construction and industrial sectors slightly decreased in October. A bigger decline was recorded in the services sector (eighth drop in a row), in retail trade and among consumers (third drop in a row). The downward trend continues for the current and expected industrial production indexes since Q1 this year. Assessment of new orders was similar to that in September and clearly lower than the previous readings, yet better than in 2017. Survey for the services sector and the retail sector also confirmed lowering of the current and expected demand. The data show that this sector counts on the temporary nature of the recent slowdown in sales. The demand for work in the services sector clearly increased – to the highest level in nearly 10 years, so did the expected price change index, thus reaching the highest level since early 2012. Consumer inflation expectations continued to grow in October. For the sixth consecutive quarter, industrial enterprises pointed to insufficient production capacities vis a vis the current pipeline. On the other hand, the assessment of the production period guaranteed by the current portfolio of orders fell to the lowest level since the end of 2009. Also, the expectations about the future scale of exports and perceived competitive position on the domestic and foreign markets clearly weakened.

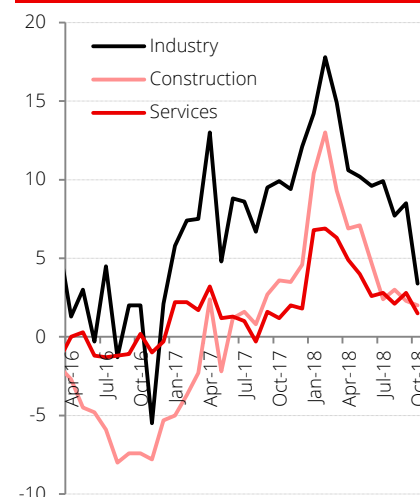
**In a report about Poland the IMF** pointed to the necessity for additional fiscal consolidation. According to the Fund Poland should decrease the structural deficit to 1% of GDP and maintain it at this level. This would create the fiscal space for the costs of ageing, the likely reduction of EU transfers and for potential fiscal expansion in case of a negative shock..

**EURUSD** was hovering around 1.135 showing only mild reaction to the German and US macro data. The exchange rate stabilized after the two weeks of a decline and is waiting for an impulse. Today the US ADP report and euro zone flash HICP will be released that could push the exchange rate out of the range determined by the Friday's low (1.133) and peak (1.142).

**EURPLN** stabilized around 4.325 after a sharp rise on Monday holding below the October peak at c4.33. USDPLN stayed near 3.805. The other CEE currencies did not move much either. We still expect EURPLN not to rise above 4.34 in the coming weeks.

**Polish bond yields** rose by another 2-3bp on the belly and long end of the curve amid weakening of the South European countries debt. Polish bond curve is now the most flatter since late August in the 2-10Y segment. Today important data will be released abroad that might influence core bonds and thus trigger some changes on the Polish market. We still think yields in Poland should not fall in the coming days and we may see some correction of the recent strengthening.

ESI indices – evolution of activity over the past three months



Source: European Commission, 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	4.3322	CZKPLN	0.1672
USDPLN	3.8159	HUFPLN*	1.3329
EURUSD	1.1350	RUBPLN	0.0582
CHFPLN	3.7969	NOKPLN	0.4541
GBPPLN	4.8544	DKKPLN	0.5805
USDCNY	6.9692	SEKPLN	0.4164

\*for 100HUF

### Last session in the FX market 30/10/2018

	min	max	open	close	fixing
EURPLN	4.322	4.334	4.325	4.332	4.3258
USDPLN	3.796	3.819	3.797	3.817	3.8062
EURUSD	1.135	1.140	1.139	1.135	-

## Interest rate market 30/10/2018

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

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.53	1	26 paź 18	OK0720	1.456
DS1023 (5L)	2.44	3	26 paź 18	PS0424	2.604
WS0428 (10L)	3.17	3	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	0	-0.24	0
2L	2.01	1	3.04	0	-0.12	0
3L	2.21	2	3.07	0	0.03	0
4L	2.37	3	3.08	0	0.19	0
5L	2.49	3	3.09	0	0.35	1
8L	2.75	3	3.14	0	0.74	0
10L	2.89	3	3.18	1	0.94	-1

## WIBOR rates

Term	%	Change (bps)
O/N	1.61	69
T/N	1.57	8
SW	1.56	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	0
6x9	1.77	0
9x12	1.83	0
3x9	1.82	0
6x12	1.87	0

## Measures of fiscal risk

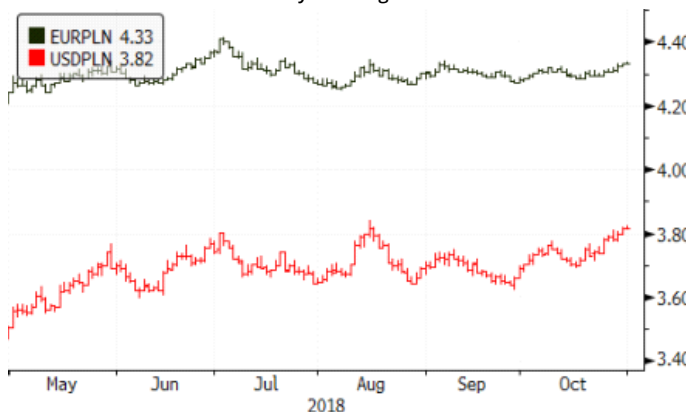
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.78 1
France	25 1	0.37 0
Hungary	116 1	3.20 -3
Spain	65 4	1.19 -1
Italy	221 8	3.05 -6
Portugal	64 0	1.50 -2
Ireland	25 0	0.54 -3
Germany	11 0	- -

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

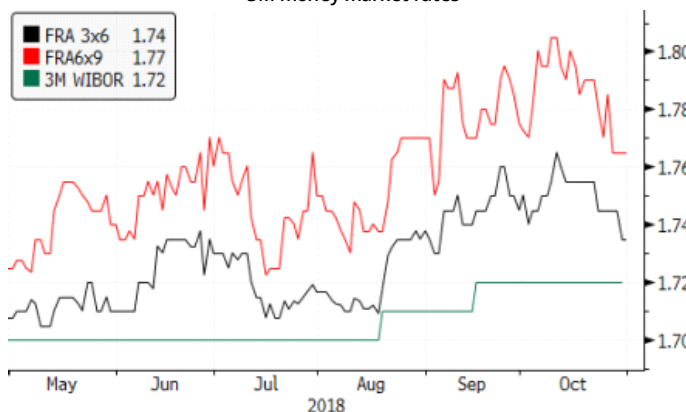
## Zloty exchange rate



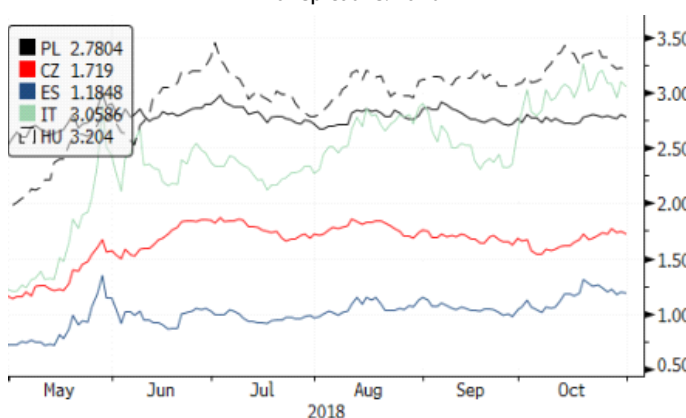
## T-bonds yields



## 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	-	1.7
11:00	EZ	ESI	Oct	pct.	110.0	-	109.8
14:00	DE	HICP	Oct	% m/m	0.1	-	0.4
15:00	US	Consumer Conference Board	Oct	pts	136.0	-	137.9
WEDNESDAY (31 October)							
08:00	DE	Retail Sales	Sep	% m/m	0.5	-	0.1
10:00	PL	Flash CPI	Oct	% y/y	1.8	1.9	1.9
11:00	EZ	Flash HICP	Oct	% y/y	2.2	-	2.1
11:00	EZ	Unemployment Rate	Sep	%	8.1	-	8.1
13:15	US	ADP report	Oct	k	187	-	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	-	215
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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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, http://www.santander.pl.