

2 November 2018

Eyeopener

Optimism floods markets

Sharp rebound in stock prices at the turn of the month
 Polish CPI below forecasts, state budget with surplus again
 CEE currencies driven by the US data
 Today: US monthly jobs report, Polish PMI stayed low

Wednesday saw further appreciation of the US dollar and weakening of bonds on core markets as a result of, among others, better-than-expected data from the US labour market (ADP report). The US stock market started to rebound rapidly on Wednesday and moods on global markets improved greatly at the end of the month after a phone conversation between presidents of the USA and China which according to Bloomberg is to lead to a trade agreement still this month. Coupled with the surprisingly weak ISM report for the American industry (with a decline in new orders to the lowest level in 1.5 years and lower employment index), it led to the visible US dollar depreciation and allowed the emerging markets currencies to rebound after a series of recent declines.

According to the Ministry of Finance, **in September the central budget** recorded a surplus of PLN3.2bn vs. our expectation of PLN2.3bn. Revenues in September alone were PLN29.4bn (103% of the plan for the month) and were 4% higher than a year ago. PIT and CIT revenues rose at a double-digit pace (11% and 18% y/y, respectively), while VAT revenues rose by c5% y/y. Expenditures were PLN27.3bn (91% of the plan for the month) and were 3.8% lower than a year ago. In September alone, revenues were higher than expenditures by PLN2.1bn; this was the second-best result for the month of September in the past 20 years. We expect that 2018 will end with a deficit of cPLN20bn and that the 2018 general government deficit will be close to a record-low 1% of GDP (with risk skewed to the downside).

According to the flash release, **CPI unexpectedly fell in October** to 1.7% y/y from 1.9% with food prices being the main source of the surprise. Although we see a number of reasons for food prices to grow (the drought effect impacting fruits and vegetables and higher price of food of pork meat) but for now the opposite factors seem to dominate (like oversupply of fruits). Energy and fuels rose as expected. The core inflation probably rose from 0.8% y/y to 0.9%. In our view, CPI could stay at or slightly below the October level for the rest of 2018, but early next year it could climb toward the 2.5% target.

EURUSD fell on Wednesday nearing 1.13 (this year's bottom from August) thanks to the US data. However, the next set of US releases (ISM) and hopes for improvement of the US-China relations triggered a rebound and today EURUSD is above 1.14. Today, the US monthly nonfarm payrolls are due and we do not expect this figure to disturb the EURUSD rise.

EURPLN neared 4.34 on Wednesday and USDPLN rebounded above 3.83 from 3.81 amid stronger dollar vs the euro and despite rising stock indexes. Sharp mood improvement at the turn of the month boosted the zloty and EURPLN is close to 4.315 today in the morning.

The Czech central bank hiked rates by 25bp on Wednesday and signaled more tightening may come in 2019 as the expected interest rates path was revised up.

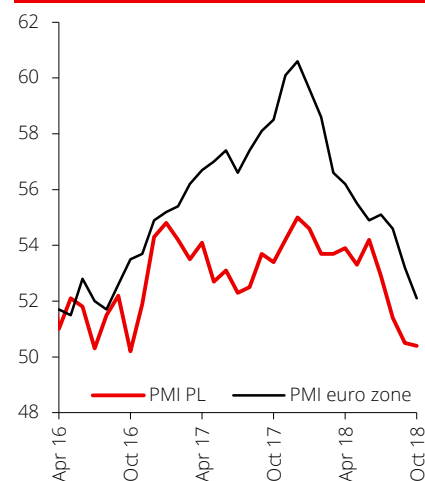
Polish bond yields rose on Wednesday amid solid US data that generated an upside pressure on core bonds. This pressure is still in place today in the morning.

The Ministry of Finance announced that it will run a standard and switch auction in November. Deputy finance minister Piotr Nowak said that this year's borrowing needs are covered in 93% and 2019 needs in 6% according to the budget performance assumed in the 2019 budget bill.

According to the Ministry of Finance, **in September foreign investors** bought Polish PLN marketable bonds for nearly PLN2.1bn. This was the first month of bond buying since March (in March-August, nonresidents sold Polish debt for nearly PLN15bn in nominal terms). Within this group, the biggest monthly purchases were recorded for omnibus accounts (+PLN1.3bn), others (+PLN950mn) and public institutions (+PLN800mn). In case of the Polish entities, insurance companies bought bonds for PLN830mn and banks by PLN800mn.

PMI index for Polish manufacturing fell to 50.4pt vs market consensus at 50.2pt but still points to slower growth. The details showed that foreign orders and new workplaces are falling (the latter for the first time since mid-2013) and output expectations are being adjusted down.

Manufacturing PMIs



Source: IHS Markit, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3191	CZKPLN	0.1672
USDPLN	3.7774	HUFPLN*	1.3402
EURUSD	1.1434	RUBPLN	0.0576
CHFPLN	3.7732	NOKPLN	0.4543
GBPPLN	4.9211	DKKPLN	0.5790
USDCNY	6.8893	SEKPLN	0.4197

*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	4.3313
USDPLN	3.796	3.819	3.797	3.817	3.8203
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	0	26 paź 18	OK0720	1.456
DS1023 (5L)	2.44	1	26 paź 18	PS0424	2.604
WS0428 (10L)	3.18	1	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

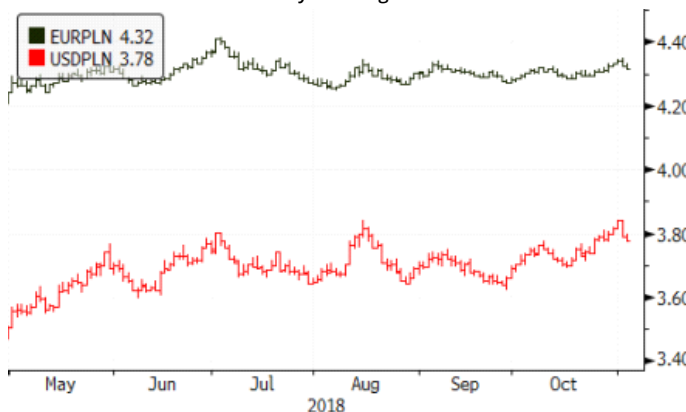
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.79 -1
France	25 1	0.37 -1
Hungary	116 1	3.21 -2
Spain	65 4	1.18 -2
Italy	221 8	3.02 -8
Portugal	64 0	1.49 -2
Ireland	25 0	0.56 -1
Germany	11 0	- -

* 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



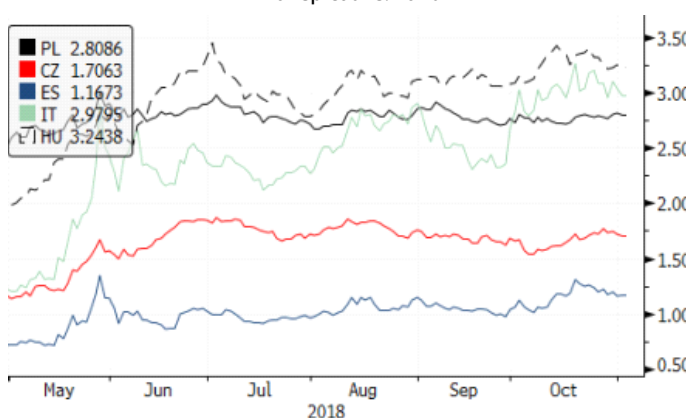
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE*
				MARKET	SANTANDER		
FRIDAY (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	-	0.5
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	-	137.9
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	-	2.2
11:00	EZ	Unemployment Rate	Sep	%	8.1	-	8.1
13:15	US	ADP report	Oct	k	187	-	227
THURSDAY (1 November)							
13:00	CZ	Central Bank Rate Decision		%	1.75	-	1.75
13:30	US	Initial Jobless Claims	week	k	212	-	214
15:00	US	ISM manufacturing	Oct	pts	59.0	-	57.7
FRIDAY (2 November)							
09:00	PL	Poland Manufacturing PMI	Oct	pts	50.2	49.9	50.4
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	-	134
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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