

5 November 2018

Eyeopener

Waning optimism in manufacturing

Higher-risk assets gained at the end of last week, today Asian stock markets fell again; US data better than expected

Zloty, forint and koruna stronger against euro

Polish bonds stable despite weakening core markets

Today US ISM services index

Positive market sentiment persisted since the beginning of the Friday's session thanks to hopes for improving USA-China relations. Stock indices went up, while German and US bonds were under pressure and emerging market currencies appreciated. October saw a significant rebound in the number of new nonfarm payrolls in USA. In September, figures were very weak, however it mostly resulted from the hurricane impact. The Friday's figures at +250k revert back to the average from the previous months and they positively impacted the US dollar only to a certain extent. In October, the final German and euro zone manufacturing PMIs were slightly below their flash estimates, however they did not impact the market. PMI for China published today in the morning was visibly weaker than projected and, together with falling hopes for USA-China trade agreement, contributed to higher risk aversion.

The **PMI index for Polish manufacturing** fell to 50.4 pts from 50.5 pts, vs. market consensus at 50.2 pts and our forecast slightly below the 50-pt neutral mark. Still, in our view it is hard to be happy about the result. The reading is still near four-year lows and continues to point to slower growth going forward. The details showed that foreign orders fell yet again (five declines already registered this year, the one in October being the sharpest in six years), as did backlogs of work. Output expectations were adjusted downward (fifth successive decline of the indicator, to the lowest level since January 2013). For the first time since mid-2013, the employment component of the PMI slipped below the neutral level – in our view, it is beginning to look as if it is not just the supply side of the labor market that is restraining employment growth, but the demand side is softening too. At the same time, the output prices index eased somewhat despite input prices remaining at historically high levels. The preliminary estimate for 3Q GDP will be out in mid-November. We think growth has already fallen from the c5% y/y level (to 4.5%), and the October PMI suggests its descent will continue in 4Q. A sensitive issue is what is happening with new orders from abroad. The gloomy message from recent PMI reports is not in line with what alternative business surveys show. We believe the slowdown in Poland will be less sharp than the PMI implies.

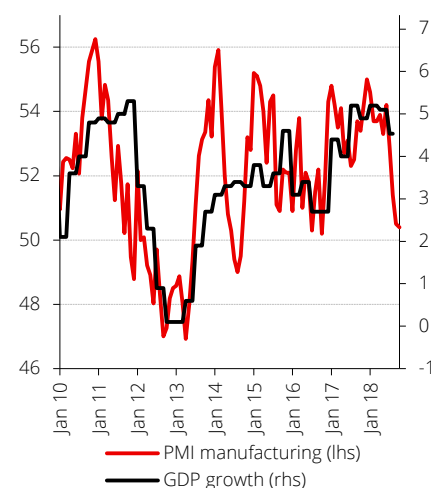
In the first part of the day, **EURUSD** increased up to ca. 1.145, however it dropped to nearly 1.142 at the end of the Polish session due to strong US data. EURUSD has been falling since the mid-September and the rise seen in the second half of the last week is even smaller than the early-October upward correction. Therefore, we see a risk that the rate may test this year's minimum at ca. 1.13 before it will go up.

EURPLN declined during the Friday session to almost 4.31 thanks to supportive global mood, but the strengthening of the zloty was much smaller than on Thursday. USDPLN moved around 3.78. On Thursday EURPLN tested the 4.34 resistance level, but strong demand for risk assets did not allow it to stay above the level for longer. We think that in the following days the global markets will remain optimistic (although possibly not as optimistic as in the second half of last week). This should allow the zloty to regain some more of the recent losses. EURPLN's downside potential may be constrained by the possible test by EURUSD of this year's low.

Among the **other CEE currencies**, the ruble underperformed as it lost vs the dollar after the strong US data and amid slight drop of the oil price. The forint and koruna gained vs the euro benefiting from the high demand for the risky assets persisting on the global market.

Polish bond yields remained fairly stable at the end of the week despite a weakening observed for the part of the day on the German market and whole session in the US. In our view, core bond yields might rise somewhat in the days to come which could weigh on the domestic debt. However, limited bond supply at auctions should limit the room for higher yields in Poland.

PMI vs. economic growth



Source: GUS, IHS Markit, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3112	CZKPLN	0.1670
USDPLN	3.7874	HUFPLN*	1.3383
EURUSD	1.1383	RUBPLN	0.0573
CHFPLN	3.7715	NOKPLN	0.4525
GBPPLN	4.9288	DKKPLN	0.5780
USDCNY	6.9228	SEKPLN	0.4179

*for 100HUF

Last session in the FX market 02/11/2018

	min	max	open	close	fixing
EURPLN	4.304	4.331	4.323	4.309	4.3244
USDPLN	3.771	3.800	3.789	3.783	3.7804
EURUSD	1.137	1.146	1.141	1.139	-

Interest rate market 02/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.54	0	26 paź 18	OK0720	1.456
DS1023 (5L)	2.45	-1	26 paź 18	PS0424	2.604
WS0428 (10L)	3.21	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	1.80	1	2.93	2	-0.24	0
2L	2.02	0	3.10	3	-0.11	1
3L	2.24	2	3.14	4	0.04	0
4L	2.41	1	3.16	4	0.21	0
5L	2.55	2	3.17	4	0.37	1
8L	2.81	2	3.22	5	0.77	2
10L	2.95	2	3.26	5	0.98	2

WIBOR rates

Term	%	Change (bps)
O/N	1.60	0
T/N	1.61	1
SW	1.57	0
2W	1.60	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	1.75	0
6x9	1.80	1
9x12	1.88	2
3x9	1.83	0
6x12	1.90	2

Measures of fiscal risk

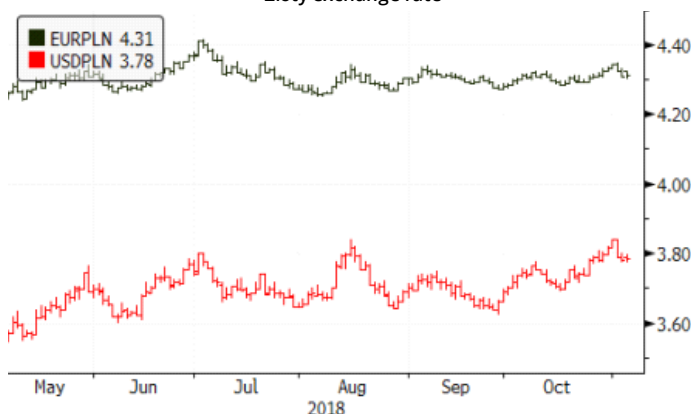
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.79 1
France	25 1	0.35 0
Hungary	116 1	3.23 1
Spain	65 4	1.14 0
Italy	221 8	2.88 -1
Portugal	64 0	1.45 0
Ireland	25 0	0.57 3
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

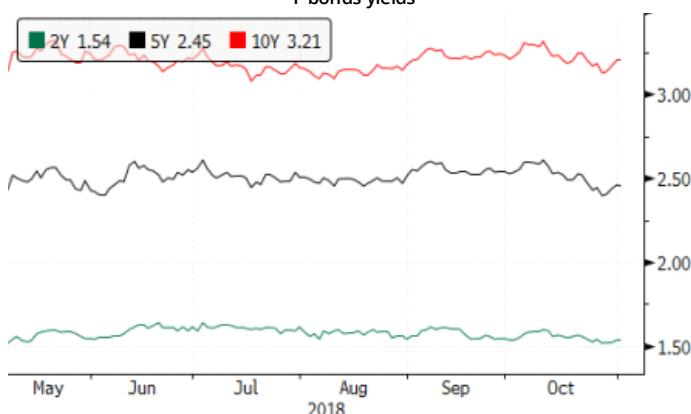
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

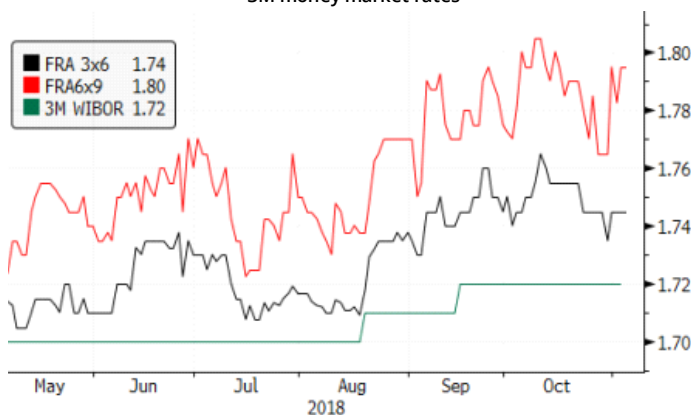
Zloty exchange rate



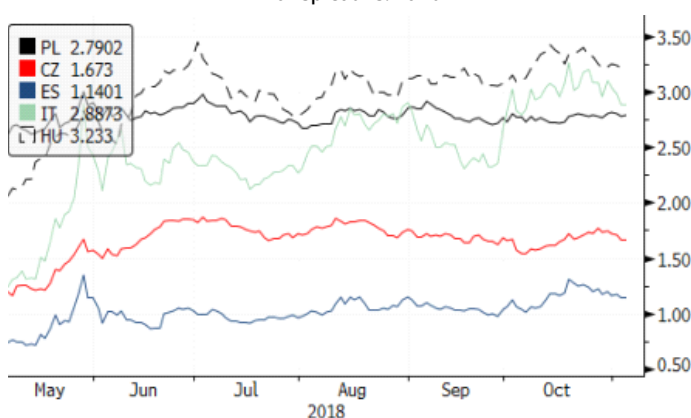
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (2 November)								
09:00	PL	Poland Manufacturing PMI	Oct	pts	50.2	49.9	50.4	50.5
09:55	DE	Germany Manufacturing PMI	Oct	pts	52.3	-	52.2	52.3
10:00	EZ	Eurozone Manufacturing PMI	Oct	pts	52.1	-	52.0	52.1
13:30	US	Change in Nonfarm Payrolls	Oct	k	190	-	250	118
13:30	US	Unemployment Rate	Oct	%	3.7	-	3.7	3.7
15:00	US	Durable Goods Orders	Sep	% m/m	-1.5	-	0.7	0.8
15:00	US	Factory Orders	Sep	% m/m	0.3	-	0.7	2.6
MONDAY (5 November)								
02:45	CN	Caixin China PMI Services	Oct	pts	52.8	-	50,8	53.1
16:00	US	ISM services	Oct	pts	59.4	-		61.6
TUESDAY (6 November)								
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-		2.0
09:00	CZ	Industrial Production	Sep	% y/y	-	-		1.9
09:55	DE	Markit Germany Services PMI	Oct	pts	53.6	-		53.6
10:00	EZ	Eurozone Services PMI	Oct	pts	53.3	-		53.3
WEDNESDAY (7 November)								
	PL	MPC decision		%	1.50	1.50		1.50
08:00	DE	Industrial Production SA	Sep	% m/m	-0.3	-		-0.3
11:00	EZ	Retail Sales	Sep	% m/m	0.1	-		-0.2
THURSDAY (8 November)								
08:00	DE	Exports SA	Sep	% m/m	0.3	-		-0.1
09:00	HU	CPI	Oct	% y/y	3.7	-		3.6
14:30	US	Initial Jobless Claims	week	k	-	-		214
20:00	US	FOMC decision		%	2.25	-		2.25
FRIDAY (9 November)								
09:00	CZ	CPI	Oct	% y/y	2.4	-		2.3
16:00	US	Flash Michigan index	Nov	pts	97.9	-		99.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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