

6 November 2018

Eyeopener

US mid-term elections today

Polish bond yields lower, following core markets
 Zloty and other CEE currencies stable, ruble slightly weaker
 Mixed results of NBP credit survey
 Today services PMIs in Europe, US mid-term elections

On Monday, the markets were dominated by the issue of the U.S. resuming sanctions on Iran, which drove the EURUSD down. Trading wasn't affected neither by weak Chinese PMI services released in the morning nor by the afternoon U.S. ISM services readings. In the afternoon, the currencies rebounded in response to the information about planned exemptions from U.S. sanctions. Today, there are the mid-term elections in the U.S. The polls showed high probability that the Republicans would lose the control over the House of Representatives, which would limit the scale of fiscal expansion and (perhaps) rate hikes by the Fed. In our opinion, the market would be much more surprised by a decisive win of the Republicans, which would probably strengthen the dollar and the Treasuries.

According to **NBP's senior loan officer survey**, in 3Q credit policy became tighter (in net terms, i.e. more banks tightened than eased policy), especially for SMEs and mortgage loans. Further tightening is planned for 4Q. In 3Q banks felt some improvement of credit demand from enterprises and further rise of demand for mortgage loans, albeit less pronounced than in 1H18. Banks in general do not expect demand to change much in 4Q, with the exception of mortgage loans, where a large deterioration is to come. Indicator of demand for financing of investment projects was positive but relatively low, as in 2Q, which suggests investment activity of enterprises remained modest. Enterprises showed more interest in financing of stocks and in obtaining more of working capital. A positive note in the survey is greater demand of consumers when it comes to financing of durable goods purchases. A negative note is the frequent indications by banks that the risk linked to overall economic situation made them tighten mortgage loans criteria. The index describing the risk reached a similar level as in 3Q07, when the economy went into slowdown.

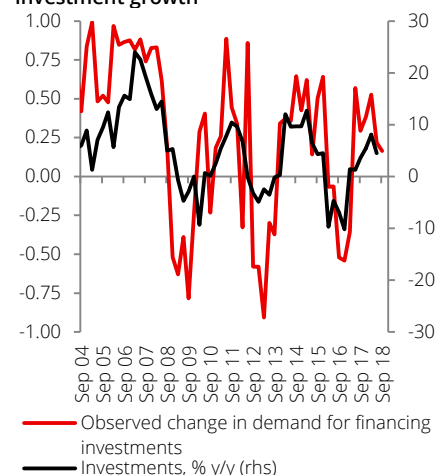
EURUSD was going down on Monday until early afternoon, hitting 1.1370. In the afternoon the exchange rate rebounded and climbed to the Friday's close at 1.1400. Morning falls were due to the US sanctions on Iran. Further in the day the rate was recovering thanks to more detailed information on these measures (e.g. exemptions). Today in the morning we are expecting EURUSD to go down in reaction to PMI for services for the euro zone (we are expecting the index to go down). In the afternoon, the rate will be affected mainly by news about the U.S. mid-term elections.

EURPLN was following the EURUSD market yesterday. New data as well as information on results of second ballot of local government elections did not affect the zloty. Thus, EURPLN was moving between 4.3060 and 4.3150, and USDPLN between 3.7800 and 3.7950, but both rates returned to the opening level at the end of the session. Today we are expecting the zloty to stay stable.

Other CEE currencies were performing in line with the zloty and were losing against the euro and the dollar given negative reaction to sanctions against Iran. Low oil prices delivered a negative impulse for the ruble, pushing USDRUB to 66.40 (the highest level since mid-October). EURHUF went up and was hovering between 321.70 and 322.60, and the Hungarian currency did not benefit from the better-than-expected PMI for manufacturing. The Czech koruna was outperforming the forint slightly, with EURCZK in 25.80-25.85 range.

Yesterday **yields of Polish bonds** decreased (recovering after the post-auction sale). As a consequence the domestic yield curve moved down by 3-4 bp. The IRS curve was going down also, however in the smaller scale. The Polish yield curve was moving in the same direction as core markets but the move was deeper. Today we expect the POLGBs prices to continue rising, however at the smaller scale than we saw on Monday. Expected upward move in bond prices may be supported by limited supply on the November auctions (likely the last auctions this year) as well as anticipated lower euro zone PMI-services reading.

Signals from senior loan officers' survey vs investment growth



Source: NBP, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3046	CZKPLN	0.1668
USDPLN	3.7712	HUFPLN*	1.3372
EURUSD	1.1415	RUBPLN	0.0571
CHFPLN	3.7571	NOKPLN	0.4517
GBPPLN	4.9267	DKKPLN	0.5770
USDCNY	6.9185	SEKPLN	0.4167

*for 100HUF

Last session in the FX market 05/11/2018

	min	max	open	close	fixing
EURPLN	4.301	4.325	4.324	4.306	4.3144
USDPLN	3.771	3.798	3.789	3.779	3.7907
EURUSD	1.135	1.141	1.140	1.140	-

Interest rate market 05/11/2018

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)	2.42	-3	26 paź 18	PS0424	2.604
WS0428 (10L)	3.18	-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	1.79	0	2.92	0	-0.24	0
2L	2.02	0	3.10	0	-0.13	-2
3L	2.23	-2	3.15	0	0.03	-1
4L	2.39	-2	3.16	0	0.20	-1
5L	2.52	-2	3.16	0	0.36	-1
8L	2.79	-2	3.21	0	0.76	-2
10L	2.93	-2	3.26	0	0.97	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.59	-2
SW	1.56	-1
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	0
9x12	1.88	0
3x9	1.83	0
6x12	1.90	0

Measures of fiscal risk

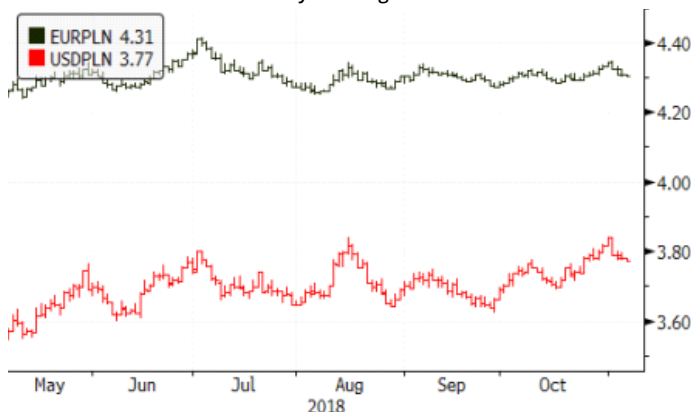
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.75 -4
France	25 1	0.36 0
Hungary	116 1	3.13 -9
Spain	65 4	1.13 -1
Italy	221 8	2.89 -1
Portugal	64 0	1.45 0
Ireland	25 0	0.57 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

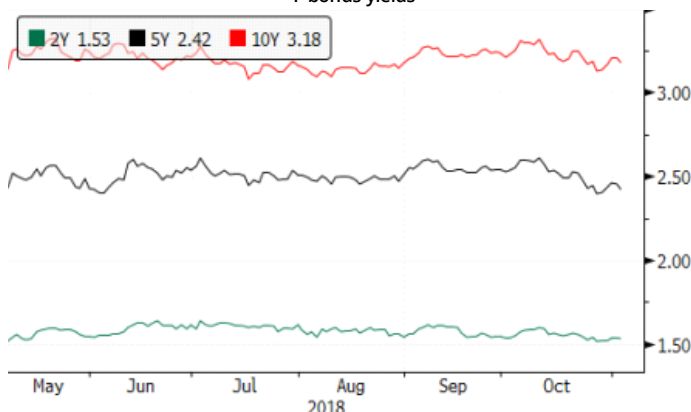
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



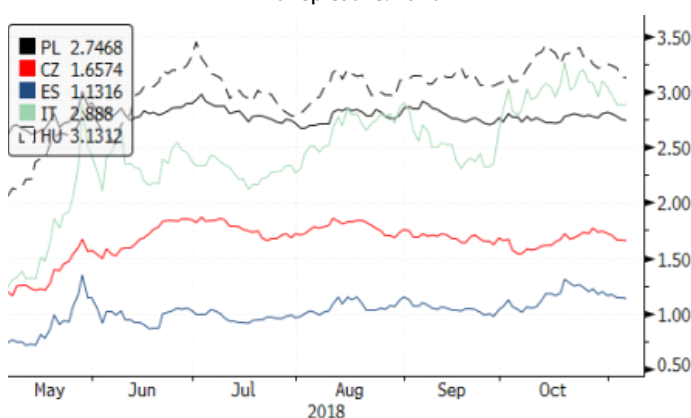
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (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	-	60.3	61.6
TUESDAY (6 November)								
08:00	DE	Factory Orders	Sep	% m/m	-0.5	-	0.3	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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