

7 November 2018

Eyeopener

Democrats won the House of Representatives

Democrats win majority in the House, while Republicans kept majority in the Senate

Zloty and euro stronger, dollar weaker

Yields down under impact of US election

Today MPC conference

On Tuesday, PMI for services and PPI from the eurozone, as well as data on industrial orders from Germany was released. All figures surprised to the upside. In Europe we saw continuation of Italy vs. EU Commission battle for deficit (Valdis Dombrovskis suggested that Italy may be penalised with sanctions if it does not amend the budget). Meanwhile in the USA, we could follow the mid-term elections to both houses of the congress. As a result, EURUSD went up slightly, while the zloty and other CEE currencies were stable. Domestic and CEE bonds yields fell, despite increases observed on core markets and depreciation of bonds in the southern Europe countries. In Poland, new car registration data was released indicating a slight rebound on the market. This morning we saw slightly better than expected data on industrial production in Germany.

According to the partial **election results in the USA**, the Democrats will have a majority of seats in the House of Representatives, while the Republicans maintained the majority in the US Senate in line with expectations. The victory of the Democrats in the House of Representative means that it will be more difficult for the President Donald Trump to pursue his programme. What is more, he may be investigated by respective commissions. For the market it triggers a risk of less expansive fiscal policy and slower rates growth in the USA which resulted in slight depreciation of the US dollar and stock markets, while bond prices went up.

Minister of labour Elżbieta Rafalska informed that in October **the registered unemployment rate** was 5.7%, the same as in the previous month. This is in line with our forecast. No more details were given at this time.

EURUSD rose on Tuesday, reacting with a depreciation of the dollar during the US elections. The European data released during the day (PMI, new orders in German industry) did not influence the FX rate in spite of being higher than expected. As a result EURUSD went from 1.14 in the morning to 1.141 in the afternoon, getting up to 1.144 on the way. This morning the exchange rate is slightly below 1.147 and the dollar may keep losing on US election results.

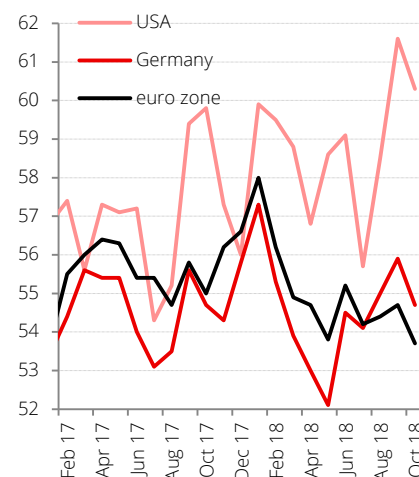
On Tuesday, **EURPLN** followed the Monday's pattern as it rose at the opening and returned to the opening level at the end of the day. Still, Tuesday's closing (4.306) was below where the exchange rate closed the Monday's session. Today in the morning, EURPLN is testing 4.30 and we expect the zloty appreciation to continue.

Among the **other CEE currencies**, the koruna lost, while the ruble and forint remained stable. EURCZK rose to 25.86 from 25.80 amid weaker-than-expected Czech September industrial output. USDRUB eased at in the morning and returned to 66.1 in the second part of the day. Morning ruble appreciation was triggered by above-consensus Russian services PMI while lower than expected October CPI made the currency give up its earlier gains. EURHUF held in a tight range around 322.

Yesterday decreases of **yields of Polish T-bonds** continued with bonds of other CEE countries following the same pattern. These trends were not disturbed by increases of yields in the core markets as in the South Europe. Over the day domestic curve slid by 1-2bp (the same scale as IRS curve). Today we expect the yields decreases to continue in a reaction to US elections.

Today's MPC meeting is unlikely to change the rhetoric despite the NBP projection update (including higher energy and commodity prices). We think the majority of MPC members is likely to favour keeping rates stable, underlining the risks to the GDP growth and pointing to the fact that the growth of inflation will be driven by factors beyond the influence of the monetary policy (energy). MPC hawk Eugeniusz Gatnar assumes the update might provide arguments for a rate hike in 1Q19, but we still expect it not earlier than in 4Q19.

PMI indices for the services sector



Source: IHS Markit, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.3032	CZKPLN	0.1664
USDPLN	3.7557	HUFPLN*	1.3371
EURUSD	1.1457	RUBPLN	0.0568
CHFPLN	3.7559	NOKPLN	0.4503
GBPPLN	4.9318	DKKPLN	0.5769
USDCNY	6.9291	SEKPLN	0.4163

*for 100HUF

Last session in the FX market 06/11/2018

	min	max	open	close	fixing
EURPLN	4.302	4.313	4.306	4.304	4.3115
USDPLN	3.766	3.786	3.779	3.771	3.7802
EURUSD	1.139	1.144	1.140	1.141	-

Interest rate market 06/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.52	-1	26 paź 18	OK0720	1.456
DS1023 (5L)	2.42	0	26 paź 18	PS0424	2.604
WS0428 (10L)	3.17	-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	1.79	0	2.93	1	-0.24	0
2L	2.00	-2	3.12	1	-0.12	0
3L	2.21	-2	3.16	2	0.04	1
4L	2.38	-2	3.18	2	0.21	1
5L	2.50	-2	3.18	2	0.36	1
8L	2.76	-2	3.23	2	0.76	1
10L	2.91	-3	3.28	1	0.98	0

WIBOR rates

Term	%	Change (bps)
O/N	1.57	-2
T/N	1.57	-2
SW	1.56	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	1.74	0
6x9	1.79	0
9x12	1.86	-1
3x9	1.82	-1
6x12	1.89	-1

Measures of fiscal risk

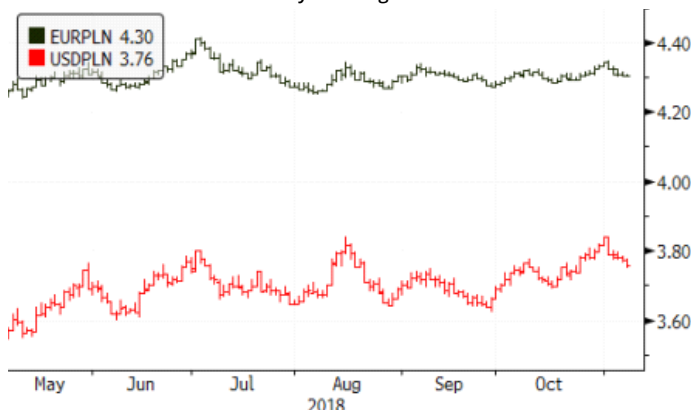
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.75 1
France	25	1 0.37 0
Hungary	116	1 3.14 1
Spain	65	4 1.15 0
Italy	221	8 2.95 -1
Portugal	64	0 1.47 0
Ireland	25	0 0.57 0
Germany	11	0 - -

* 10Y treasury bonds over 10Y Bunds

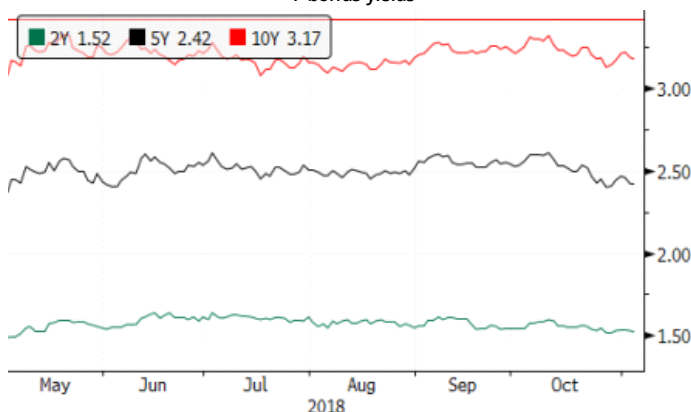
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



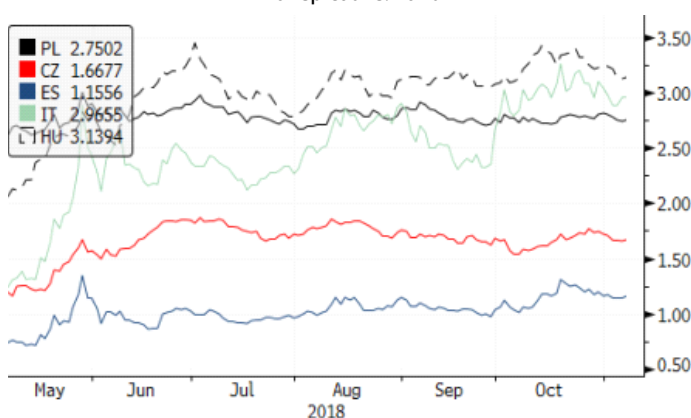
T-bonds yields



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	-0.2	-	-0.9	1.9
09:55	DE	Markit Germany Services PMI	Oct	pts	53.6	-	54.7	53.6
10:00	EZ	Eurozone Services PMI	Oct	pts	53.3	-	53.7	53.3
WEDNESDAY (7 November)								
	PL	MPC decision		%	1.50	1.50		1.50
08:00	DE	Industrial Production SA	Sep	% m/m	0.0	-	0.2	0.1
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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