9 November 2018

Eyeopener

Zloty stronger despite dollar appreciation

EC more optimistic about Polish economy
Fed still on course to hike rates in December
Zloty strengthened sixth session in a row
Yields higher in anticipation of FOMC decision
Today, Michigan sentiment indicator

The Thursday data on German foreign trade in September showed a decline in trade turnover (more visible in terms of exports). Meanwhile, in Hungary the inflation data surprised to the upside. In Europe, we have been still facing a European Commission-Italy conflict which negatively impacted the Italian debt. The EC released the autumn projections showing higher growth in Poland and Hungary and lower in the eurozone. In the USA, FOMC did not change interest rates, upholding positive economy assessment and confirmed it intends to further hike the rates, while drawing attention to weakening investments. Debt markets saw yields increases in the USA (while waiting for FOMC's decision) and declines in Germany. The euro depreciated (also while waiting for Fed's decision) and crude oil prices dropped. In Poland, bond yields rose again and zloty continued to appreciate.

The European Commission raised Poland's GDP forecast for 2018 from 4.3% to 4.8%, kept 2019 at 3.7% and showed 3.3% for 2020. At the same time growth forecasts for the euro zone, but also Czechia and Romania were cut, and the Hungarian one went up, among others. The new HICP inflation forecast for Poland has a peak in 3Q19 at 2.8% y/y and stays at a similar level until the end of the horizon (2019 average is 2.6%, 2020 – 2.7%). The EC adjusted down its forecasts of Polish general government deficit from 1.4% to 0.9% of GDP in 2019 and added a forecast of 1.0% for 2020, under the assumption of no policy changes. The very good fiscal result is expected to hold thanks to favourable labour market developments which will provide strong inflow of revenues and social contributions. The commission adjusted the structural deficit much less than its headline measure – from 2.2% GDP to 2.0% of GDP for the years 2018-2019, and added a forecast for 2020 at 1.8%, despite the recent assessment of IMF that 2018 structural deficit could be reduced to c1.3%. According to the EC the main risks surrounding the macro scenario regard investments.

On Thursday, **EURUSD** was trimming its increases recorded in the first half of the week The dollar was supported by expectations about the FOMC, worse data on German exports and falls on European stock markets. The evening FOMC statement, maintaining the pledge to hike rates and positive economic picture, additionally underpinned the dollar. As a result, in the evening EURUSD slid to 1.1380 from 1.1450, and this morning it was at 1.1340. We are expecting the dollar to give away some of its gains today as a result of profit-taking.

EURPLN went down throughout Thursday. The zloty appreciated despite unfavourable situation on stock markets in Europe and US dollar appreciation. On a daily chart, EURPLN fell from 4.2940 in the morning to 4.2770 in the afternoon. It was the sixth consecutive session with zloty appreciating. We haven't observed such a long and uninterrupted appreciation of the Polish currency since April. Today, we expect EURPLN moving down further towards 4.2600.

On the CEE market, EURHUF fell to 321.00 from 321.40 thanks to better-than-expected inflation, which fuelled market hopes for sooner interest rate hikes (2Y IRS jumped by 11bps after the release). In case of EURCZK, we saw oscillation around 25.88 with no major trend. The ruble weakened due to falling oil prices and comments of Alexander Morozov, head of Russian central bank's research department, who said that the September hike was a one-off. As a result, USDRUB climbed to 66.90 from 66.20, reaching the highest level since mid-October.

Yields of Polish t-bonds stayed stable for the better part of the day, after the increases on Wednesday afternoon. Only in the afternoon there was a further increase of domestic yields, following the US Treasuries, ahead of the FOMC decision. As a consequence domestic curve was moved up by next 3bp in the 5-10Y segment. Today we expect partial correction of yesterday's yields upward move.

Forecasts of general government budget deficit, % of GDP

	EC	IMF	S&P	MF
Headline deficit:				
2018	0.9	0.3	0.9	2.1
2019	0.9	-	1.5	1.5
Structural deficit:				
2018	2.0	1.25	-	2.8
2019	2.0	-	-	2.3

Source: Finance Ministry, European Commission , International Monetary Fund , S&P

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FX market

Today's opening			
EURPLN	4.2845	CZKPLN	0.1655
USDPLN	3.7769	HUFPLN*	1.3330
EURUSD	1.1344	RUBPLN	0.0565
CHFPLN	3.7480	NOKPLN	0.4489
GBPPLN	4.9185	DKKPLN	0.5744
USDCNY	6.9464	SEKPLN	0.4174

*for 100HUF

Last session in the FX market 08/11/2018

	min	max	open	close	fixing
EURPLN	4.276	4.297	4.288	4.278	4.2951
USDPLN	3.739	3.766	3.740	3.755	3.7599
EURUSD	1.139	1.147	1.146	1.139	-

Interest rate market 08/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.57	2	26 paź 18	OK0720	1.456
DS1023 (5L)	2.49	3	26 paź 18	PS0424	2.604
WS0428 (10L)	3.26	4	26 paź 18	WS0428	3.179

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.81	0	2.96	2	-0.24	0
2L	2.05	2	3.14	2	-0.10	2
3L	2.27	3	3.19	3	0.05	0
4L	2.45	4	3.20	3	0.22	1
5L	2.58	4	3.21	3	0.38	0
8L	2.83	5	3.25	3	0.78	1
10L	2.98	5	3.28	3	1.00	1

WIBOR rates

Term	%	Change (bps)
O/N	1.58	1
T/N	1.58	1
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	1.76	1
6x9	1.82	0
9x12	1.89	0
3x9	1.84	1
6x12	1.93	1

Measures of fiscal risk

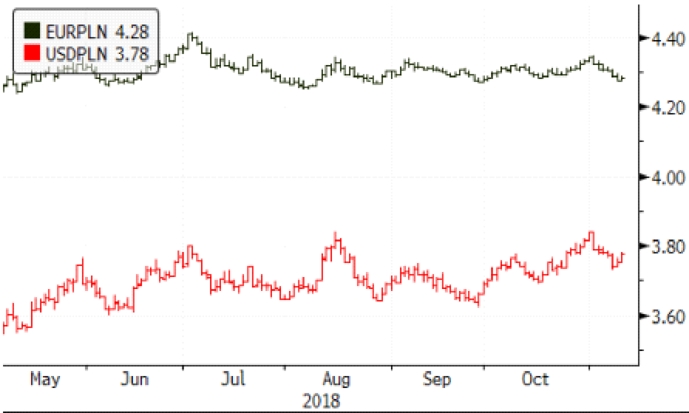
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.82	6
France	25	1	0.37	1
Hungary	116	1	3.20	1
Spain	65	4	1.16	1
Italy	221	8	2.97	3
Portugal	64	0	1.50	2
Ireland	25	0	0.56	1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

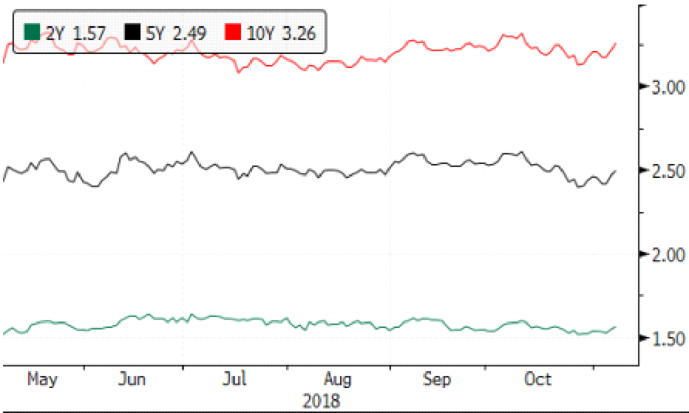
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

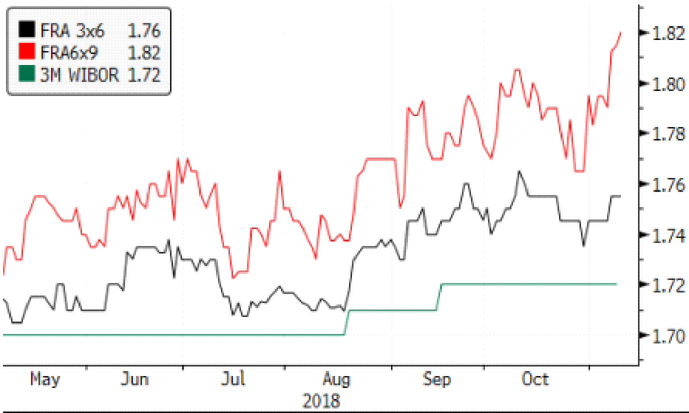
Zloty exchange rate



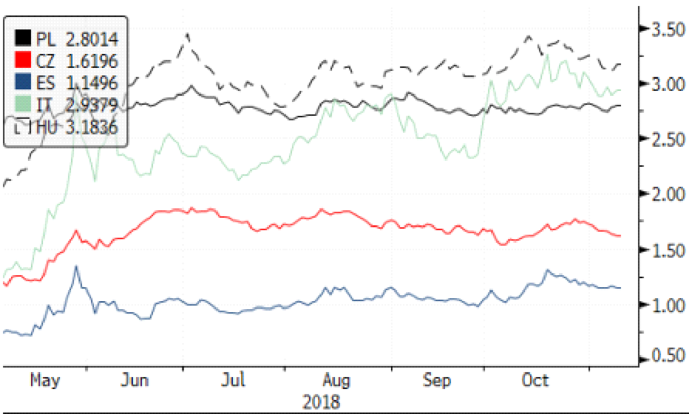
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL	LAST VALUE*
			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	**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	-	0.0	-0.2
			THURSDAY (8 November)					
08:00	DE	Exports SA	Sep	% m/m	0.4	-	-0,8	-0.1
09:00	HU	CPI	Oct	% y/y	3.7	-	3.8	3.6
14:30	US	Initial Jobless Claims	week	k	214	-	214	214
20:00	US	FOMC decision		%	2.25	-	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*

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.