

13 November 2018

Eyeopener

What budget in Italy?

Week starting in weaker moods
 EURPLN slightly up, EURUSD down
 Bonds supported by lower optimism
 Today German ZEW and Italian budget proposal

Friday saw realisation of profits from the recent strengthening of risky assets which resulted in a slight decrease in stock market indices in Europe, putting pressure on CEE currencies. In turn, worse sentiments positively impacted core market bonds and the US dollar which continued to appreciate after late Thursday's FOMC decision. On Monday, market sentiments deterioration was observed as a result of uncertainty about Italy's budget and concerns regarding a possible hard Brexit. Today, Italy is to present a new budget proposal to the EU Commission, however it is quite widely expected that it will not meet the expectations and will be rejected. On Monday, Luis de Guindos, Deputy Governor of ECB, warned that the situation in Italy raises doubts regarding sustainability of its public debt and generates risk for other economies. What's more, the Italian Banca Carige added fuel to the fire, facing problems with equity (they need an equity injection of EUR400mn). The market doubts raises, whether the British Prime Minister Theresa May can enjoy her own party's support as regards Brexit, after the Monday meeting of her cabinet was cancelled according to the media coverage.

EURUSD went down from the beginning of the Friday's session, following the Thursday's decline, and temporarily reached nearly 1.132. At the end of the day, the Euro recovered and EURUSD oscillated around 1.135. Yesterday, EURUSD broke this year's minimum to 1.13 after concerns about the situation in Europe and this morning it stands at 1.125. Today, the data on German ZEW index will be released, however it is unlikely that it will ease tension about the economic growth in the Euro zone, therefore the EURUSD rebound potential is limited.

Friday saw **EURPLN** rebound after six consecutive sessions with drops and temporarily broke 4.29. Declines on stock markets and US dollar appreciation put the zloty under a slight pressure. The Polish currency turned out to be quite resistant to Monday's worsening of sentiments and broke 4.30 temporarily only (today, EURPLN is slightly below 4.30 again). USDPLN went up visibly thanks to EURUSD deterioration and today it is above 3.82.

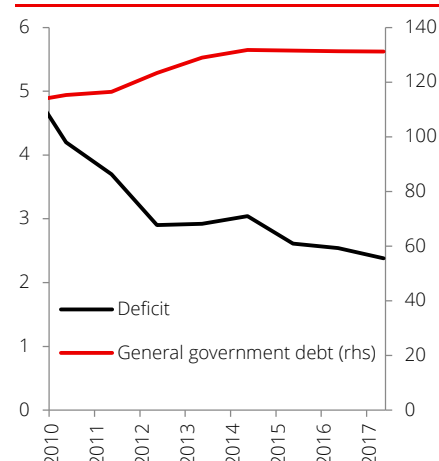
Other CEE currencies also depreciated. The ruble remained under pressure of the stronger dollar and falling oil prices, and as a result USDRUB climbed close to 68 - the highest level since mid-October. On Friday EURCZK rose temporarily and reached the highest point since July (25.96), after the Czech central bank governor said there is no need to rush with more rate hikes and that the central bank can easily wait with increases until 2019 (the first meeting is scheduled for February), after five hikes already implemented this year. The market players expected the next upward move in December.

Yields of Polish t-bonds decreased by 3-4bp in the belly and in the long end of the curve, following Bunds and US Treasuries.

The governmental **draft VAT act** shows relatively low negative budget implications (PLN 590m in 10 years). The purpose of the draft is to change the goods and services classification and simplify the scope of the applied rates. Major changes include 5% VAT to be applied to bread and pastry (currently, three different VAT rates are applied to these goods), goods for children and babies and hygienic products (some of them had 8% VAT applied). VAT for books, including e-books, is to decrease from 23% to 5%. The VAT increase will also hit specialist magazines and fruit juices with lower than 100% juice content. The proposed change in goods and services VAT classification would come into force on 1 April 2019.

There are numerous events in the calendar **this week**. This morning the NBP analysts will present their new Inflation Report and will comment on details of their forecasts, which showed a major rise in CPI path (above target in 2019). Today the Constitutional Tribunal is due to work on the bill abolishing the limit on social security contributions. Wednesday will see the most important domestic release of the week - flash GDP for 3Q18, which will show growth rate below 5% y/y, in our view. Apart from domestic factors, we will get to see information from abroad, including economic activity and inflation data in USA and Europe.

Italian fiscal statistics (% of GDP)



Source: Bloomberg, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2976	CZKPLN	0.1657
USDPLN	3.8211	HUFPLN*	1.3336
EURUSD	1.1247	RUBPLN	0.0565
CHFPLN	3.7841	NOKPLN	0.4492
GBPPLN	4.9221	DKKPLN	0.5761
USDCNY	6.9550	SEKPLN	0.4190

*for 100HUF

Last session in the FX market 12/11/2018

	min	max	open	close	fixing
EURPLN	4.283	4.303	4.292	4.300	4.2962
USDPLN	3.782	3.826	3.783	3.824	3.8163
EURUSD	1.124	1.133	1.133	1.125	-

Interest rate market 12/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.55	-2	26 paź 18	OK0720	1.456
DS1023 (5L)	2.45	-5	26 paź 18	PS0424	2.604
WS0428 (10L)	3.22	-4	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	1.81	0	2.93	-2	-0.24	0
2L	2.03	0	3.11	-2	-0.12	-1
3L	2.25	0	3.14	-2	0.04	-1
4L	2.42	0	3.15	-3	0.20	-1
5L	2.56	0	3.17	-1	0.35	-1
8L	2.83	0	3.20	-1	0.75	-1
10L	2.99	0	3.24	-1	0.96	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.55	-4
T/N	1.55	-4
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	1.72	0
3x6	1.76	0
6x9	1.81	0
9x12	1.87	0
3x9	1.84	0
6x12	1.93	0

Measures of fiscal risk

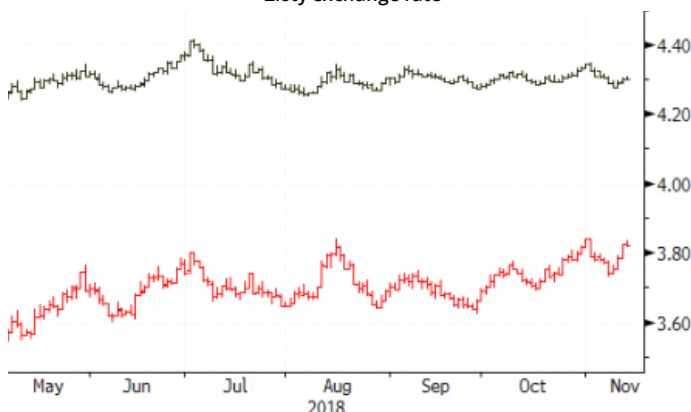
Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.83 -3
France	25 1	0.38 0
Hungary	116 1	3.27 0
Spain	65 4	1.21 1
Italy	221 8	3.06 2
Portugal	64 0	1.55 1
Ireland	25 0	0.58 0
Germany	11 0	- -

* 10Y treasury bonds over 10Y Bunds

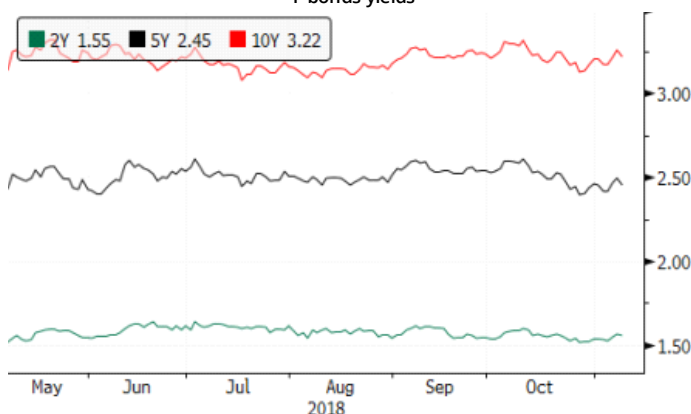
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

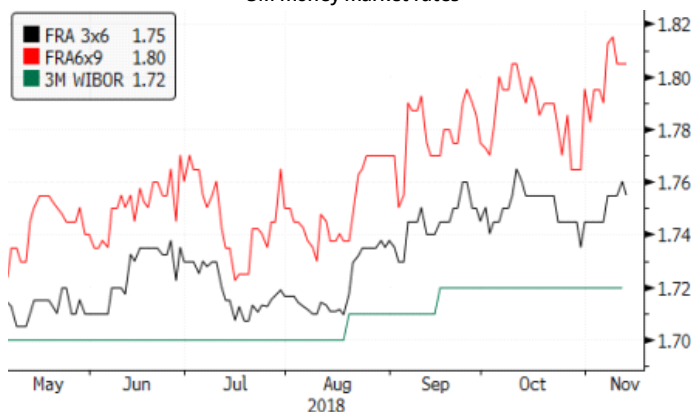
Zloty exchange rate



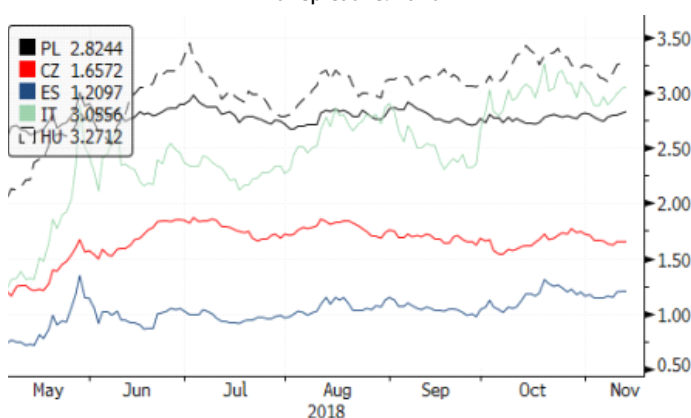
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME					FORECAST		ACTUAL	LAST
CET	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (9 November)								
09:00	CZ	CPI	Oct	% y/y	2.3		2.2	2.3
16:00	US	Michigan index	Nov	pts	98.0		98.3	98.6
TUESDAY (13 November)								
08:00	DE	HICP	Oct	% m/m	0.1	-	0.1	0.1
11:00	DE	ZEW Survey Current Situation	Nov	pts	65.0	-		70.1
14:00	PL	Current Account Balance	Sep	€mn	-325	-19		-549
14:00	PL	Trade Balance	Sep	€mn	-63	-236		-329
14:00	PL	Exports	Sep	€mn	18 182	18 125		17 195
14:00	PL	Imports	Sep	€mn	18 278	18 361		17 524
WEDNESDAY (14 November)								
08:00	DE	GDP WDA	3Q	% y/y	1.3	-		2.0
09:00	CZ	GDP SA	3Q	% y/y	2.6	-		2.4
09:00	HU	GDP	3Q	% y/y	4.4	-		4.8
10:00	PL	CPI	Oct	% y/y	-	1.7		1.7
10:00	PL	Flash GDP	3Q	% y/y	4.7	4.5		5.1
11:00	EZ	GDP SA	3Q	% y/y	1.7	-		1.7
11:00	EZ	Industrial Production SA	Sep	% m/m	-0.2	-		1.0
14:30	US	CPI	Oct	% m/m	0.3	-		0.1
THURSDAY (15 November)								
14:00	PL	CPI Core	Oct	% y/y	0.9	0.9		0.8
14:30	US	Initial Jobless Claims	week	k	214.0	-		214.0
14:30	US	Retail Sales Advance	Oct	% m/m	0.5	-		0.1
14:30	US	Index Philly Fed	Nov		20.95	-		22.2
FRIDAY (16 November)								
11:00	EZ	HICP	Oct	% y/y	2.2	-		2.2
15:15	US	Industrial Production	Oct	% m/m	0.2	-		0.3

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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