

14 November 2018

# Eyeopener

## Poland's GDP below 5%?

Market calmer after nervous Monday  
Zloty stable, euro trimmed losses to dollar  
Polish bonds with no major changes  
Today Polish GDP and inflation, US inflation in the afternoon

After the Monday's sharp price volatility, Tuesday saw more relaxed market moods. The euro recovered some losses vs the US dollar, most of CEE currencies remained stable, while bonds on core markets strengthened. The optimistic moods were supported by Larry Kudlow, economic advisor of D. Trump, who said that the USA was still negotiating trade issues with China, as well as by media reports that UK came into an agreement with the EU as regards the Irish border. Yesterday, crude oil prices dropped by ca. 5% as a result of information about higher extraction in the USA and Saudi Arabia, as well as lower demand projections in 2019. In November, the German ZEW current situation index has reached the lowest level since September 2016. The index showing change of expectations went slightly up, however it is still near the lowest level since mid-2012. In turn, today's German GDP from Q3 surprised to the downside, mainly due to weaker foreign trade results. Moreover, Italy provided the European Commission with unchanged draft budget with 2.4% deficit. Both of these factors may negatively impact the European assets.

**September current account** showed a deficit at €0.5bn. The negative surprise came mainly from disappointing exports, which advanced by mere 0.3% y/y. Imports rose by 5.4% y/y, i.e. spread between growth rates of these two categories was the highest this year. It seems that exports are being undermined by negative tendencies in global trade. We are expecting this trend to hold, so the current account deficit is likely to widen from 0.4% of GDP in 3Q18 towards 1.0% of GDP in 2019. We are expecting net exports to contribute negatively to GDP growth in 2H18.

In Q3, **average wages in the national economy** increased by 7.6% YoY, reaching the highest dynamics for a decade. We haven't known the pace of employment growth yet, however it seems that Q3 saw continuation of the 2-digit wage bill growth rate, supporting high dynamics of the private consumption. Interestingly, the data on the Polish economy does not confirm signals from enterprise sector that indicate a wage pressure slowdown (the term "national economy" covers more entities than enterprise sector). The development of situation on the labour market will be very interesting in terms of the inflation and monetary policy outlooks.

**November NBP inflation** shows a significantly higher path of CPI, due to assumptions about energy prices. However, core inflation did not change – meaning that there is no sign of second round effects in the projection. CPI path is sloping down in 2020, but core CPI is trending higher through the whole projection period (both path cross at c2.7% in 4Q20). NBP governor suggested at the post-MPC decision press conference that the energy assumptions were deliberately set quite high to have a 'conservative' assessment of where CPI could move due to the impulse from energy prices. However, the report shows an asymmetric upside risk to CPI. Apart from that the projection is slightly less upbeat about investments and wage growth, but more positive on export outlook.

**EURUSD** rebounded from the new this year's low at nearly 1.12 to 1.127. The euro recovered slightly vs the dollar despite poor data from Germany and uncertainty related to the Italian budget. Last week, we mentioned that EURUSD could test 1.13 and now we think the single currency might continue to gain. In the short term, the Italian budget would be key.

**EURPLN** eased to nearly 4.29 from c4.30. Down correction was recorded also in the case of USDPLN (to 3.81 from above 3.83). We assume EURPLN might hold near the lower end of the 4.26-4.34 range observed since August.

Yields of **Polish T-bonds** didn't change much yesterday. Bond stabilisation was supported by lack of important changes on the German market. IRS rates increased. Ministry of Finance announced switch auction details, Ministry will offer OK0521, PS0424, WZ0524, WS0428, WZ0528 in exchange for OK0419 and PS0719. According to data, Polish banks were major holders of OK0419 and PS0719 (c50% of the outstanding amount at the end of September).

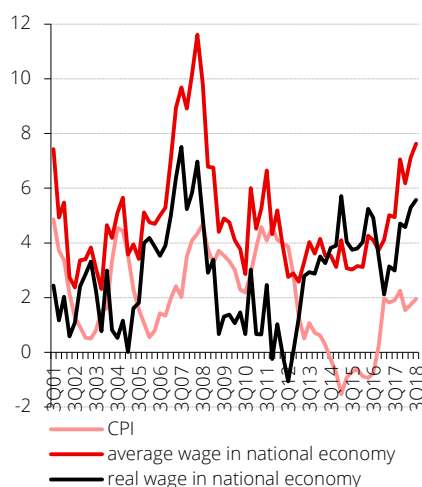
Today at 10:00 CET **flash data on 3Q18 GDP** are due for release. We are expecting the economic growth to show 4.5% after four quarters of around 5% growth in a row. We have to wait until end of month to see details, and in our view consumption remained the main driver of GDP growth, with investment posting moderate growth and net exports contributing negatively. We expect **final CPI** to confirm the flash release, which showed a surprising fall to 1.7% y/y in October.

Poland's foreign trade volumes, % y/y



Source: GUS, Santander Bank Polska

CPI and wages, % y/y



Source: GUS, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2947	CZKPLN	0.1655
USDPLN	3.8025	HUFPLN*	1.3292
EURUSD	1.1294	RUBPLN	0.0559
CHFPLN	3.7755	NOKPLN	0.4479
GBPPLN	4.9420	DKKPLN	0.5756
USDCNY	6.9485	SEKPLN	0.4200

\*for 100HUF

### Last session in the FX market 13/11/2018

	min	max	open	close	fixing
EURPLN	4.288	4.306	4.300	4.290	4.2994
USDPLN	3.798	3.838	3.824	3.803	3.8268
EURUSD	1.122	1.129	1.125	1.128	-

## Interest rate market 13/11/2018

### T-bonds on the interbank market\*\*

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.56	1	26 paź 18	OK0720	1.456
DS1023 (5L)	2.45	0	26 paź 18	PS0424	2.604
WS0428 (10L)	3.21	0	26 paź 18	WS0428	3.179

### IRS on the interbank market\*\*

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.79	-1	2.93	0	-0.24	0
2L	2.01	-2	3.09	-2	-0.12	0
3L	2.22	-2	3.12	-2	0.04	0
4L	2.40	-3	3.13	-2	0.20	0
5L	2.53	-3	3.13	-4	0.35	0
8L	2.79	-4	3.17	-3	0.75	0
10L	2.94	-4	3.21	-3	0.96	0

## WIBOR rates

Term	%	Change (bps)
O/N	1.54	-1
T/N	1.54	-1
SW	1.56	0
2W	1.59	-1
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	1.75	-1
6x9	1.80	-1
9x12	1.87	-1
3x9	1.82	-2
6x12	1.90	-3

## Measures of fiscal risk

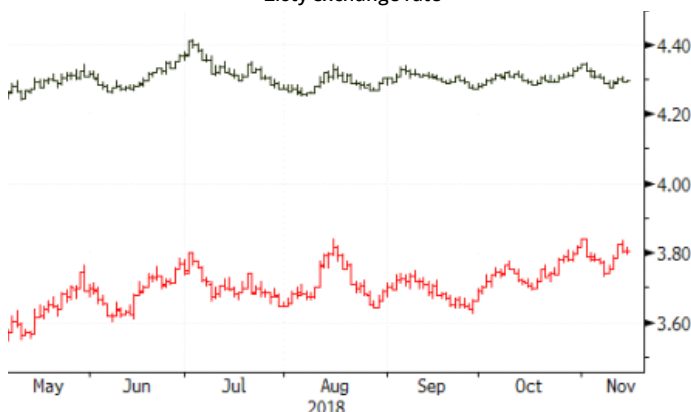
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.82	2
France	25	1	0.38	0
Hungary	116	1	3.30	2
Spain	65	4	1.22	2
Italy	221	8	3.12	9
Portugal	64	0	1.56	2
Ireland	25	0	0.58	0
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

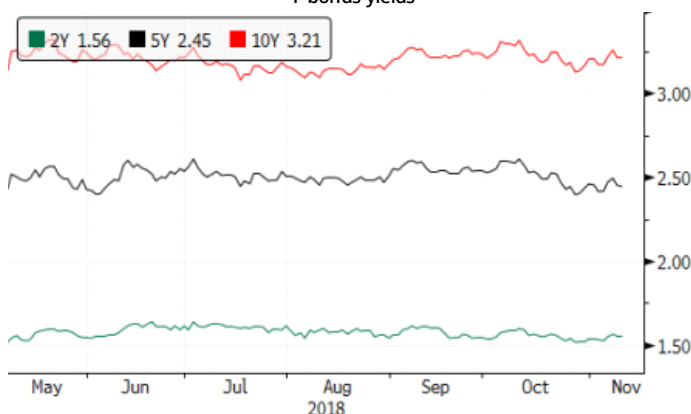
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

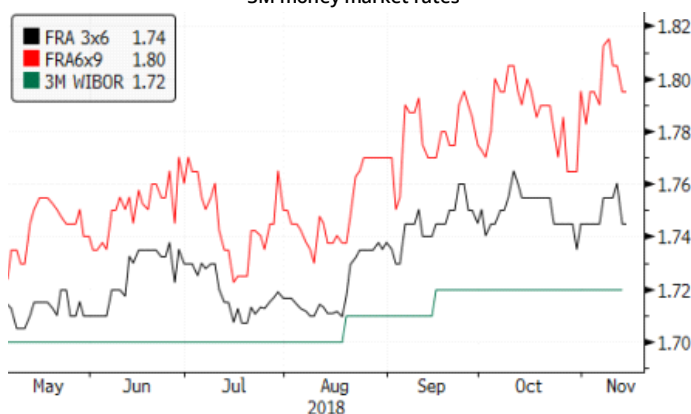
## Zloty exchange rate



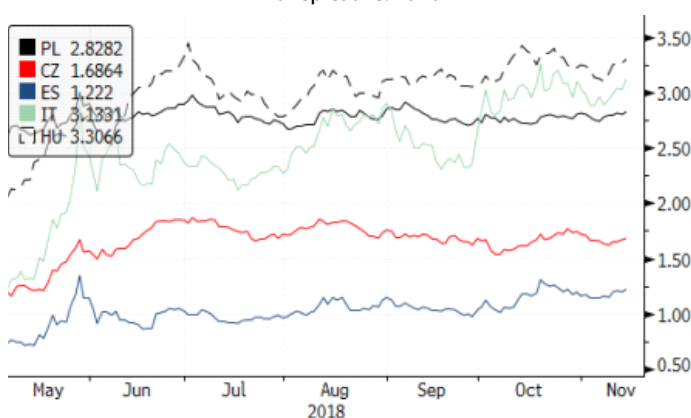
## T-bonds yields



## 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	-	58.2	70.1
14:00	PL	Current Account Balance	Sep	€mn	-325	-19	-547	-582
14:00	PL	Trade Balance	Sep	€mn	-63	-236	-449	-376
14:00	PL	Exports	Sep	€mn	18 182	18 125	17 683	17 165
14:00	PL	Imports	Sep	€mn	18 278	18 361	18 132	17 541
WEDNESDAY (14 November)								
08:00	DE	GDP WDA	3Q	% y/y	1.2	-	1.1	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		1.7
10:00	PL	Flash GDP	3Q	% y/y	4.6	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	-0.4	-		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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