

15 November 2018

Eyeopener

Five quarters of 5-percent growth

Brexit negotiators reached a deal
 Polish GDP rose by 5.1% y/y in 3Q
 Zloty stable vs. the euro and stronger vs. the dollar
 Bond yields rose
 Today Polish core CPI, plenty of US data

Wednesday session saw no major changes on the stock and FI markets, while the FX market was affected by the released data. Expectations about revised Italian budget proposal were negative for the euro in the first phase of the session. In the afternoon the European Commission informed that the new proposal includes important changes and the opinion will be released on 21 November. The slightly lower core CPI in the USA undermined the dollar versus the euro. Fed's Jerome Powell said that the recent stock market volatility is one of many factors affecting the Fed decision, and that the market reaction to tighter monetary policy is not as nervous as the Fed expected. Thus, Powell saw no reasons to ease his stance, and the Fed is likely to raise rates in December. Yesterday in the evening the draft withdrawal agreement on Brexit was announced. The document was supported collectively by the May's government, but it may be more tricky to gather support in the parliament. The pound was volatile during the night, but currently EURGBP is back at the levels seen before the release of the news.

GDP growth surprised to the upside in 3Q18 and showed 5.1% y/y as compared to average expectations at 4.6% and highest market forecast at 4.9% y/y. The GDP growth remained above 5% for the fifth time in a row and this is the best streak since 2006-2008 economic boom. We expect that in the next quarters Polish GDP will decelerate, mainly owing to weakening trend in international trade. However 2018 full-year growth of GDP may start from a five.

The final CPI reading for October was 1.8% y/y versus flash reading of 1.7% and September reading at 1.9%. Core inflation might have moved from 0.8% to 0.9%. A more visible rise of CPI and core inflation should come with the start of 2019. Today's data support the scenario of stable interest rates in Poland. We wrote more on this issue in our [Economic Comment](#).

MPC member Eryk Łon said in PAP interview released yesterday that interest rates in Poland could remain stable amid the risk of global economic slowdown. In his view, main rates could remain unchanged even until 2022. For Łon, the PMI drop below 50 pts would be an important argument to consider interest rate cuts.

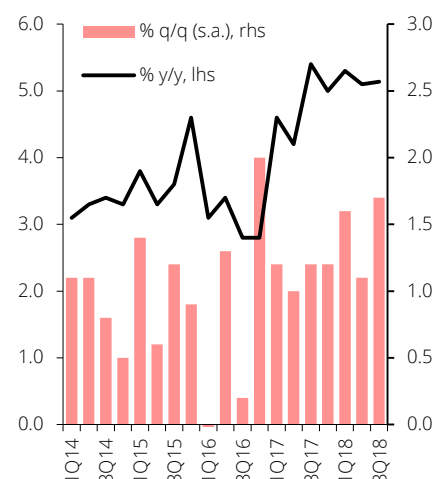
The Constitutional Court decided that the bill cancelling **the limit of social security payments (30 times the average wage) is unconstitutional**. The regulation – if implemented – would improve the public finance's cashflow by c.PLN5.4bn in 2019 (at the same time boosting the long-term liabilities of the public sector). However, the 2019 budget draft did not assume the regulation will take place. The implementation of the law would also imply additional burden for households' budgets and companies' financial results (which have been under pressure anyway), so its rejection is a good news for the economy.

EURUSD fell to 1.126 in the first hours of trading amid news about the Italian budget but at the end of the day the exchange rate was back above 1.13 thanks to the US inflation. Yesterday, the market reacted to the US releases and today in the afternoon we will see more numbers from the world's biggest economy. EURUSD rose second day in a row and this might continue should the US figures be below consensus.

Yesterday **EURPLN** was hovering around 4.29, while USDPLN decreased temporarily to 3.785 from 3.815. The market did not react significantly to the releases of Polish data which deviated from forecasts. We still expect that in the near future the EURPLN will fluctuate close to 4.29.

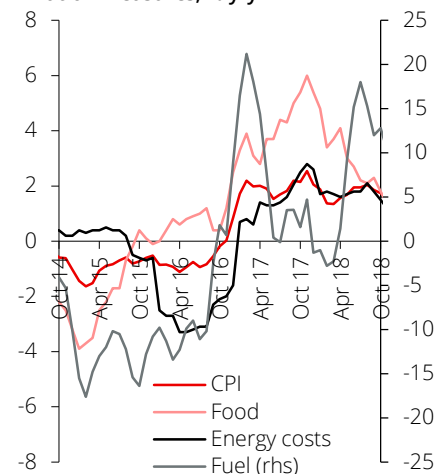
Yesterday **yields of Polish t-bonds** rose by 1-3bp under the weakening of debt of Southern Europe. Polish debt performed worse than Bunds or US Treasuries. IRS rates still decreased, which led to a further rise of asset swap spreads. However they still are below the local highs from October and November. A switch auction is scheduled for today.

GDP growth



Source: Stats Office, Santander Bank Polska

Inflation measures, % y/y



Source: Stats Office, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: skarb.santander.pl
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Konrad Soszyński +48 22 534 18 86
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.2937	CZKPLN	0.1650
USDPLN	3.7876	HUFPLN*	1.3321
EURUSD	1.1336	RUBPLN	0.0569
CHFPLN	3.7675	NOKPLN	0.4465
GBPPLN	4.9209	DKKPLN	0.5754
USDCNY	6.9350	SEKPLN	0.4182

*for 100HUF

Last session in the FX market 14/11/2018

	min	max	open	close	fixing
EURPLN	4.288	4.300	4.290	4.299	4.2954
USDPLN	3.782	3.815	3.803	3.807	3.8114
EURUSD	1.125	1.135	1.128	1.129	-

Interest rate market 14/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.58	2	26 paź 18	OK0720	1.456
DS1023 (5L)	2.47	2	26 paź 18	PS0424	2.604
WS0428 (10L)	3.24	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	-1	2.91	-1	-0.24	0
2L	2.00	-1	3.05	-4	-0.12	0
3L	2.21	-1	3.08	-4	0.03	-1
4L	2.38	-2	3.08	-4	0.19	-1
5L	2.52	-1	3.09	-4	0.34	-1
8L	2.78	-1	3.14	-4	0.74	-1
10L	2.93	-1	3.18	-4	0.96	0

WIBOR rates

Term	%	Change (bps)
O/N	1.52	-2
T/N	1.53	-1
SW	1.56	0
2W	1.59	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	1.74	-1
6x9	1.79	0
9x12	1.86	-1
3x9	1.82	0
6x12	1.89	-1

Measures of fiscal risk

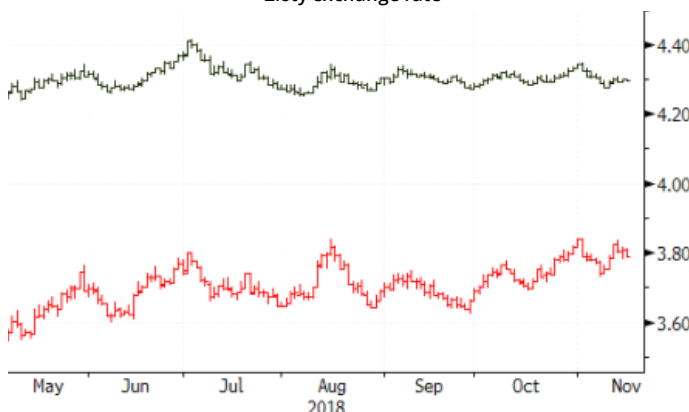
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.85	4
France	25	1	0.38	1
Hungary	116	1	3.22	-7
Spain	65	4	1.22	3
Italy	221	8	3.09	6
Portugal	64	0	1.56	3
Ireland	25	0	0.58	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

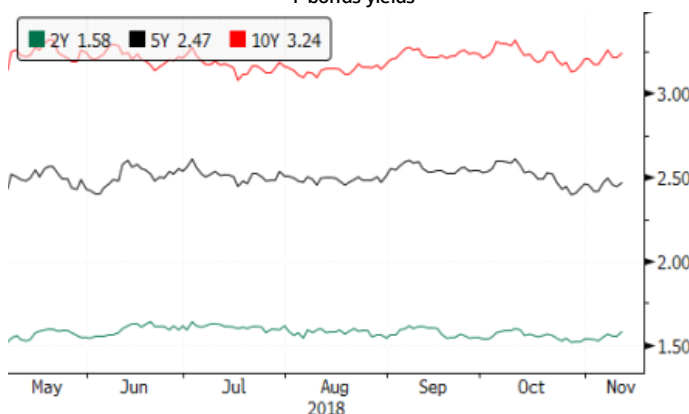
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

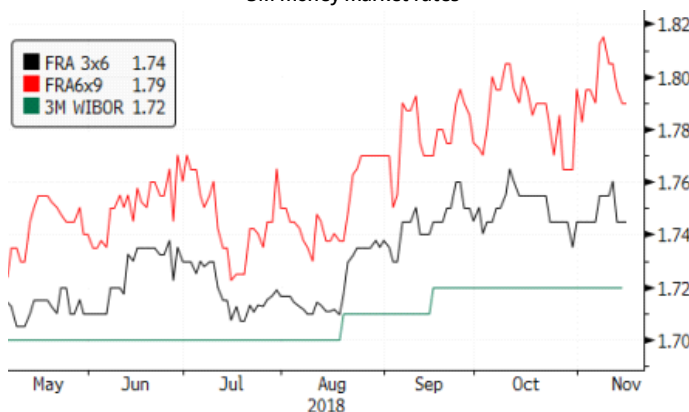
Zloty exchange rate



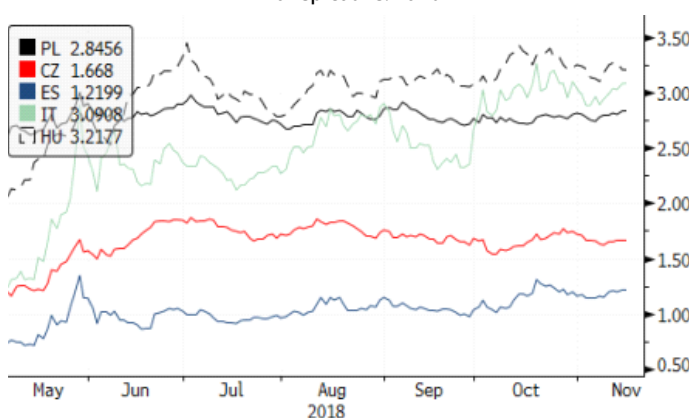
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic Calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD		MARKET	SANTANDER	VALUE	VALUE*
CET								
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	-	2.3	2.4
09:00	HU	GDP	3Q	% y/y	4.4	-	4.8	4.9
10:00	PL	CPI	Oct	% y/y	1.7	1.7	1.8	1.9
10:00	PL	Flash GDP	3Q	% y/y	4.6	4.5	5.1	5.1
11:00	EZ	GDP SA	3Q	% y/y	1.7	-	1.7	1.7
11:00	EZ	Industrial Production SA	Sep	% m/m	-0.4	-	-0.3	1.0
14:30	US	CPI	Oct	% m/m	0.3	-	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	213	-		214.0
14:30	US	Retail Sales Advance	Oct	% m/m	0.5	-		0.1
14:30	US	Index Philly Fed	Nov		20.0	-		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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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.