

16 November 2018

Eyeopener

Brexit's fate is still uncertain

British politics unsettles markets
Zloty and other CEE fx stable despite risk aversion
Polish yield curve flattened, strong switch auction result
Today data from euro zone and the USA

On Thursday the market was focused on the UK, where PM May presented the draft withdrawal agreement just one day earlier. Throughout the day, important members of the UK government were resigning, including the main Brexit negotiator Dominic Raab. Additionally the DUP party, whose support is necessary to pass the bill in the parliament, announced it will not back such conditions. Last events in the United Kingdom increases the risk of a 'hard Brexit'. The pound has lost visibly, stock markets went down. The dollar gained versus the euro, even prior to ambiguous US data.

The **NBP opinion on fiscal budget 2019** suggests that it will be possible to reach public finance deficit below 1% of GDP in 2018 (in line with our baseline forecast) and its further decline in 2019 (thus net borrowing needs may be lower than PLN46bn outlined in the budget draft).

MPC member **Jerzy Kropiwnicki** said in Bloomberg interview that the NBP is working on the non-conventional tools to address higher inflation if the MPC would like to refrain from raising borrowing costs. He thinks that in 2019 it will be impossible to avoid the impact of high wholesale energy prices on consumers and at the same time the outflow of Ukrainian workers to Germany may take place, which would increase wage pressure in Poland. According to the member, inflation next year will reach 3.5% on average, not 3.2% as the NBP projection suggests. In the September survey among analysts Kropiwnicki was seen as the fourth most dovish member of the MPC, so it seems noteworthy that he is considering non-standard tightening of the monetary policy, against Adam Glapiński's communication that the new inflation forecasts do not change the central bank's wait-and-see approach. **Adam Glapiński** said yesterday that there is absolutely no need for a non-standard monetary easing in Poland.

MPC's Łukasz Hardt said it is pointless to cut interest rates from their current level. If economy needed further stimulus, then the coordinated action of the fiscal and monetary policy should be taken (like making the T-bills tax exempt if the central bank decided to issue longer-term bills). He added that currently he is strongly against taking any non-standard measures. In his view, there are 50-50 chances for a rate hike in 2019 and CPI rise above the 2.5% target could trigger an internal discussion.

We think that for a rate hike, the MPC would need inflation rising in line with the path presented in the recent NBP projection (that in our view was a precautionary forecast with deliberately too aggressive assumption of energy prices – as perceived by Hardt) and next projections showing that the CPI rise above 2.5% will not be a temporary phenomenon.

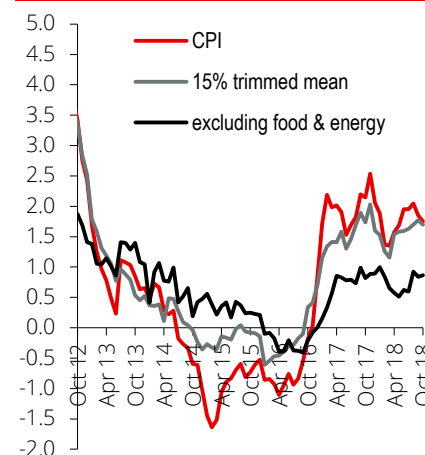
In October, **core inflation** ex food and energy prices rose to 0.9% y/y from 0.8% y/y. As regards other measures, one remained unchanged and two others fell slightly. It is possible that core inflation will fail to return to the January level (1%) this year. However, it should rebound markedly in 2019 due to rising cost pressure (wages and energy prices) amid relatively strong domestic demand.

EURUSD fell at the start of the day to 1.1280, but at the end of the day rebounded above 1.13. The US data did not triggered important changes on the market. Despite the worries about "hard Brexit" and rise of risk aversion, yesterday EURUSD stayed relatively stable, which means that there is little room for further decreases.

EURPLN hovered around 4.29, despite the deterioration of mood on the global market. Zloty gained significantly vs. the pound – GBPPLN fall to c 4.84 from 4.93.

Polish yield curve flattened. While the belly and long end of the curve moved down slightly, the short end stayed under pressure.

CPI and core inflation, % y/y



Source: Stats Office, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2889	CZKPLN	0.1649
USDPLN	3.7781	HUFPLN*	1.3320
EURUSD	1.1352	RUBPLN	0.0572
CHFPLN	3.7560	NOKPLN	0.4464
GBPPLN	4.8368	DKKPLN	0.5748
USDCNY	6.9443	SEKPLN	0.4177

*for 100HUF

Last session in the FX market 15/11/2018

	min	max	open	close	fixing
EURPLN	4.286	4.299	4.299	4.286	4.297
USDPLN	3.779	3.813	3.807	3.788	3.8074
EURUSD	1.127	1.135	1.129	1.132	-

Interest rate market 15/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.60	2	26 paź 18	OK0720	1.456
DS1023 (5L)	2.47	-1	26 paź 18	PS0424	2.604
WS0428 (10L)	3.24	-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	1.78	-1	2.91	-1	-0.24	0
2L	1.99	-1	3.03	-2	-0.13	0
3L	2.19	-2	3.06	-3	0.02	-1
4L	2.36	-2	3.06	-3	0.17	-2
5L	2.50	-2	3.06	-3	0.32	-2
8L	2.77	-1	3.11	-2	0.72	-2
10L	2.91	-2	3.15	-2	0.93	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.54	2
T/N	1.55	2
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	1.73	1
3x6	1.74	0
6x9	1.78	-1
9x12	1.85	-1
3x9	1.82	0
6x12	1.89	0

Measures of fiscal risk

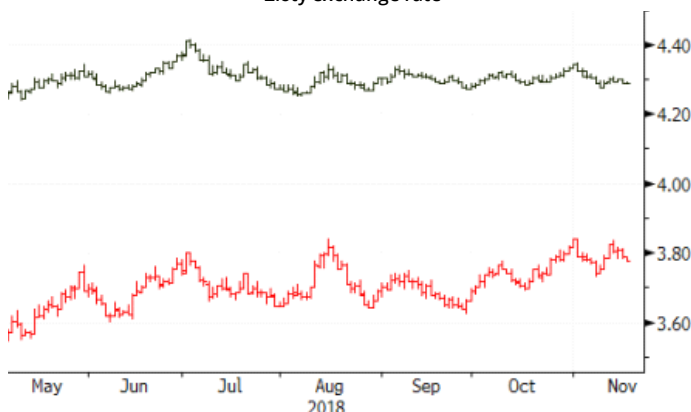
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.87	-1
France	25	1	0.39	0
Hungary	116	1	3.22	-1
Spain	65	4	1.26	-1
Italy	221	8	3.12	-1
Portugal	64	0	1.60	0
Ireland	25	0	0.61	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

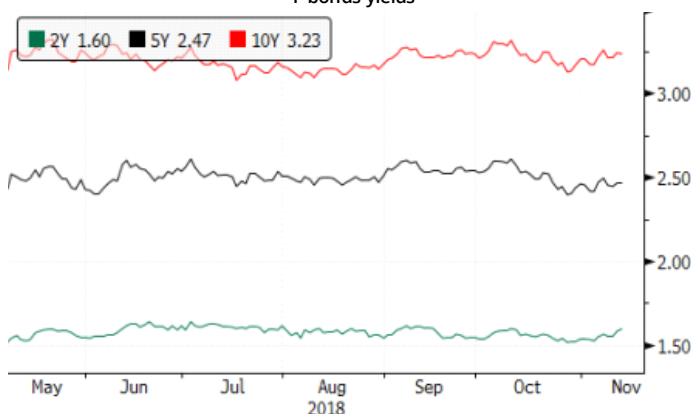
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



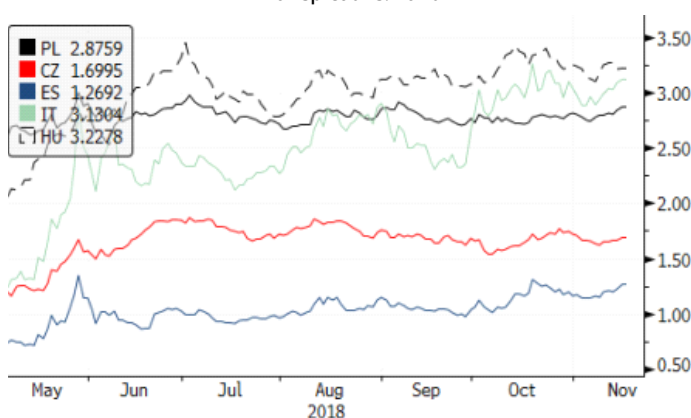
T-bonds yields



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	0.9	0.8
14:30	US	Initial Jobless Claims	week	k	213	-	216	214
14:30	US	Retail Sales Advance	Oct	% m/m	0.5	-	0.8	-0.1
14:30	US	Index Philly Fed	Nov		20.0	-	12.9	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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