

19 November 2018

Eyeopener

Volatility up on the Polish market

Yields up despite good budget data
 PLN6bn surplus in Poland state budget after October
 Zloty pressured by news from the UK
 Today Poland labour market data

On Friday, investors in Europe were still focused on the political developments in the UK about Brexit. The end of the week did not improve chances for a compromise, which continued to weigh on the pound. In the USA, market attention switched to a remark by Fed vice-chairman Richard Clarida who said that rates are already close to what Fed sees as a neutral level. He added that some signs of weakening are seen in the global economy. FOMC's Robert Kaplan also spoke cautiously and the dollar weakened on Friday. In Poland, trading was affected by some increase in worries about liquidity of minor banks.

According to "Parkiet" daily newspaper, **utilities have already filed their proposals for 2019 electricity prices** to the regulator (URE). The proposed hikes are 20-40%. We think the regulator will only agree to smaller changes.

Minister of Finance Teresa Czerwińska said that after ten months the central budget is in a PLN6bn surplus vs. PLN+3.2bn after September. We assume that at the end of the year the balance will be cPLN-20bn and the general government deficit may be below 1% GDP (it could be 0.5-0.6%, according to the minister).

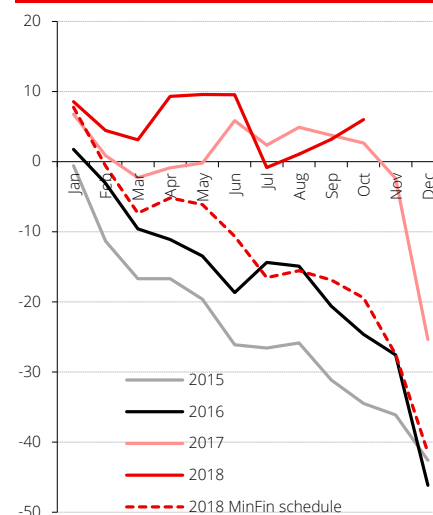
EURUSD continued to move higher, especially in the afternoon after the remarks of FOMC members. As a result, the exchange rate went from 1.133 to 1.142. No important data releases are scheduled for today, so EURUSD may stabilize at an elevated level.

EURPLN was rising rapidly since the beginning of the week and on Friday landed close to 4.315. In our opinion, the zloty was negatively affected by "Brexit drama" (according to the Oxford Economics, Poland would be the third most negatively influenced European country in the case of "hard Brexit") as well as media speculation about the NBP governor resignation. Today in the morning, EURPLN opened close to the last week's peak. The exchange rate holds in the 4.26-4.34 range, and after it reached its lower end in the recent days, now it could trend up.

On Friday morning yields of Polish t-bonds were rising despite the information about solid budget surplus in Jan-Oct and a drop of yields on the core markets. The domestic bonds sell-off was driven by likely correction of bonds positions by domestic banks. As a result, the domestic curve moved up by 7bp (at the peak in the 5-10Y segment) vs. opening level. On a daily basis, the 5-10Y up move was 2-3bp while the short end rose by 1bp. On Monday morning, Bunds and UST yields rise slightly, which may pressure the Polish bonds. However we not see the room for the aggressive sell-off (as we saw last week) and we believe in stabilisation of yields at the upper levels.

Most of the Polish monthly data releases are coming this week. Today we will get October wages and employment data from the corporate sector, tomorrow industrial and construction output. Retail sales data are due on Thursday. The releases may still leave some questions unanswered about what is happening to economic growth and the labour market. Our forecasts for wages and construction production are above the consensus and lower for the rest of the releases. Financial results of enterprises in 3Q will cast light on what is happening in private sector investments and margin levels. Abroad, flash PMI for the euro zone may be quite important. Also in the calendar: on Tuesday the hearing in the European Parliament regarding the rule of law in Poland, on Wednesday the European Commission will release opinions to member states' budget proposals for 2019, including of course the controversial budget of Italy, on Sunday the special EU Summit will take place to finalise the Brexit deal.

Cumulative budget performance (PLN bn)



Source: Ministerstwo Finansów, Santander Bank Polska

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.3145 | CZKPLN | 0.1661 |
| USDPLN | 3.7801 | HUFPLN* | 1.3413 |
| EURUSD | 1.1414 | RUBPLN | 0.0573 |
| CHFPLN | 3.7821 | NOKPLN | 0.4479 |
| GBPPLN | 4.8607 | DKKPLN | 0.5782 |
| USDCNY | 6.9411 | SEKPLN | 0.4196 |

*for 100HUF

Last session in the FX market 16/11/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.285 | 4.319 | 4.286 | 4.315 | 4.295 |
| USDPLN | 3.770 | 3.812 | 3.788 | 3.780 | 3.7876 |
| EURUSD | 1.131 | 1.142 | 1.132 | 1.142 | - |

Interest rate market 16/11/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1020 (2L) | 1.61 | 2 | 26 paź 18 | OK0720 | 1.456 |
| DS1023 (5L) | 2.50 | 4 | 26 paź 18 | PS0424 | 2.604 |
| WS0428 (10L) | 3.28 | 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 | 1.79 | 1 | 2.90 | -1 | -0.24 | 0 |
| 2L | 1.98 | -1 | 3.02 | -2 | -0.13 | 0 |
| 3L | 2.20 | 0 | 3.04 | -2 | 0.02 | 0 |
| 4L | 2.36 | 0 | 3.04 | -2 | 0.18 | 0 |
| 5L | 2.50 | 0 | 3.04 | -2 | 0.33 | 1 |
| 8L | 2.78 | 1 | 3.10 | -1 | 0.73 | 0 |
| 10L | 2.92 | 1 | 3.15 | -1 | 0.94 | 1 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.57 | 3 |
| T/N | 1.58 | 3 |
| 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 | 0 |
| 3x6 | 1.75 | 1 |
| 6x9 | 1.79 | 1 |
| 9x12 | 1.86 | 1 |
| 3x9 | 1.82 | 0 |
| 6x12 | 1.89 | 0 |

Measures of fiscal risk

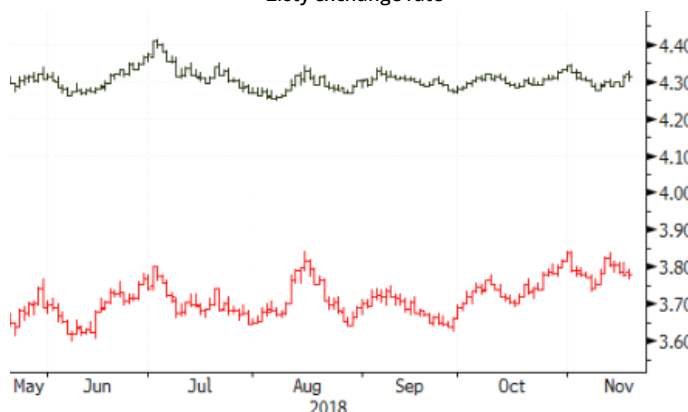
| Measures of financial risk | | | | |
|----------------------------|------------|--------------|-------------|--------------|
| Country | CDS 5Y USD | | 10Y spread* | |
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.90 | 3 |
| France | 25 | 1 | 0.39 | -1 |
| Hungary | 116 | 1 | 3.16 | -6 |
| Spain | 65 | 4 | 1.25 | -1 |
| Italy | 221 | 8 | 3.08 | -4 |
| Portugal | 64 | 0 | 1.59 | -1 |
| Ireland | 25 | 0 | 0.64 | 4 |
| Germany | 11 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

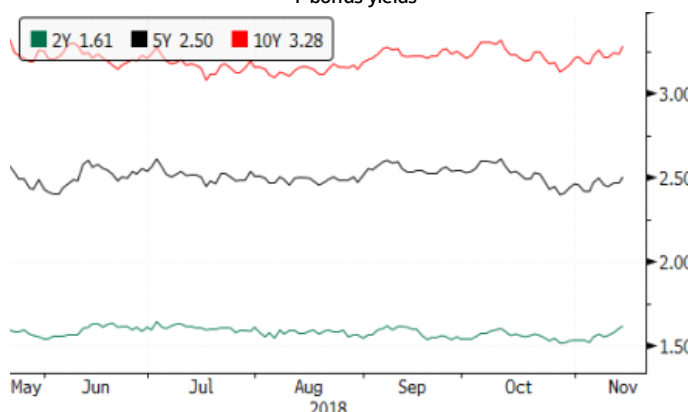
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



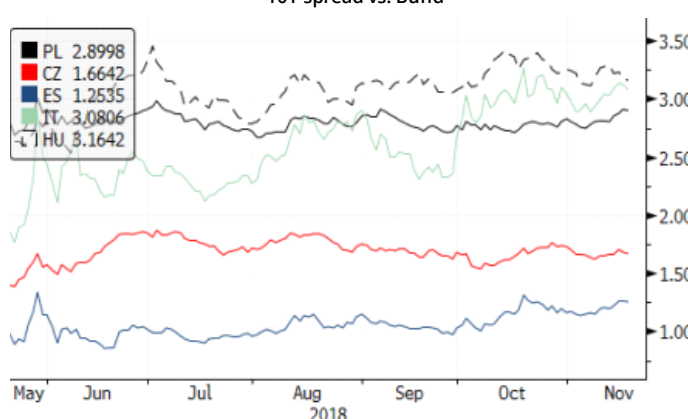
T-bonds yields



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 (16 November) | | | | | | | | |
| 11:00 | EZ | HICP | Oct | % y/y | 2.2 | | 2.2 | 2.2 |
| 15:15 | US | Industrial Production | Oct | % m/m | 0.2 | | 0.1 | 0.3 |
| MONDAY (19 November) | | | | | | | | |
| 10:00 | PL | Employment in corporate sector | Oct | % y/y | 3.2 | 3.11 | - | 3.2 |
| 10:00 | PL | Average Gross Wages | Oct | % y/y | 6.5 | 6.88 | - | 6.7 |
| TUESDAY (20 November) | | | | | | | | |
| 10:00 | PL | Sold Industrial Output | Oct | % y/y | 6.6 | 6.05 | - | 2.8 |
| 10:00 | PL | Construction Output | Oct | % y/y | 21.0 | 24.97 | - | 16.4 |
| 10:00 | PL | PPI | Oct | % y/y | 2.95 | 3.0 | - | 2.9 |
| 14:00 | HU | Central Bank Rate Decision | Nov-18 | % | 0.9 | | - | 0.9 |
| 14:30 | US | Housing Starts | Oct | % m/m | 1.995.0 | | - | -5.3 |
| WEDNESDAY (21 November) | | | | | | | | |
| 14:30 | US | Durable Goods Orders | Oct | % m/m | -1.95 | | - | 0.7 |
| 14:30 | US | Initial Jobless Claims | | k | 213.0 | | - | 216.0 |
| 16:00 | US | Michigan index | Nov | pts | 98.3 | | - | 98.3 |
| 16:00 | US | Existing Home Sales | Oct | % m/m | 0.97 | | - | -3.38 |
| THURSDAY (22 November) | | | | | | | | |
| 10:00 | PL | Retail Sales Real | Oct | % y/y | 5.6 | 5.44 | - | 3.6 |
| FRIDAY (23 November) | | | | | | | | |
| 08:00 | DE | GDP WDA | 3Q | % y/y | 1.1 | | - | 1.1 |
| 09:30 | DE | Germany Manufacturing PMI | Nov | pts | 52.0 | | - | 52.2 |
| 09:30 | DE | Markit Germany Services PMI | Nov | pts | 54.4 | | - | 54.7 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Nov | pts | 51.7 | | - | 52.0 |
| 10:00 | EZ | Eurozone Services PMI | Nov | pts | 53.5 | | - | 53.7 |
| 14:00 | PL | Money Supply M3 | Oct | % y/y | 8.0 | 7.95 | - | 7.9 |

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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