

22 November 2018

Eyeopener

Consumers still in good moods

Next US data suggest less rate hikes

Poland consumer sentiment and corporate earnings still solid

Zloty recovers, bonds stabilize

Today Poland retail sales data

The Wednesday US data raised concerns on possible further interest rate hikes in USA in the existing pace which resulted in the US dollar weakening. In Poland, data on consumer sentiment and companies' earnings was published. In both cases, the releases surprised slightly to the upside. Zloty gained, while bonds remained flat.

In Q3, **revenues and costs of Polish enterprises** rose 8.3% and 8.2% y/y, respectively, while the latter item used to grow faster in the previous two quarters. Profit before tax and net profit turned out to be higher by 9.5% and 11.1% vs the previous year after two quarters of weakening performance in y/y terms. Margins calculated based on operating revenues was 5% vs 5.4% in Q2 – the same level as in 3Q17 and 2016. Average margins in Q1 and Q2 2018 were lower comparing to corresponding periods in the last two years. In Q3, labour costs went up by 9% y/y, which is not a significant increase vs 8.9%-11.2% recorded at the beginning of 2017 (9.9% on average). The share of costs of materials in total costs significantly fell, while the share of insurance costs grew to the highest level for more than 5 years (+17.8% y/y). Energy costs represented 2.3% of total costs in Q3. Slight improvement in revenues-to-costs ratio and the average margin restored to last year's level suggest that the pressure on own prices increase should not rise. Nevertheless, we expect that 2019 will see a rapid growth in energy costs, compressing margins.

In November, **consumer sentiment** remained very positive. The indicator of current assessment fell to the lowest level this year but it is still near its historical peak. Leading indicator rose to its highest since June, which means it went against a downside trend drawn by 2H18 releases. Importantly, expectations about future economic situation are now the lowest this year and consumers suddenly were less interested in making major purchases. At the same time, the index of attitude towards saving set a new record high. The consumer confidence data suggest that demand remained strong in 4Q and we can still assume that private consumption maintained a c5% y/y pace of growth.

MPC's Jerzy Żyżyński thinks the outlook for Polish inflation (shown in the November NBP projection, with a hump in 2019 due to expected energy price hikes) support a prolongation of the period of stable interest rates. In his view, raising rates in response to inflation pickup coming from energy and fuel prices would be ineffective and would harm the economy. Jerzy Żyżyński is a highly dovish MPC member, which is confirmed in this interview with Bloomberg.

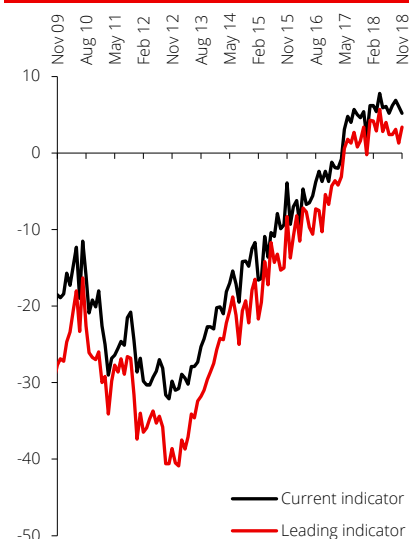
EURUSD rose slightly after the Tuesday decline amid profit taking after the European Commission informed it will seek to launch excessive deficit procedure vs. Italy. The dollar was under selling pressure after weak US data, which triggered comments that Fed could pause monetary tightening after a rate hike in December. As a result, EURUSD rebounded from 1.137 to 1.142. Today there will be no important data releases for the exchange rate, so it can stabilize close to 1.14, waiting for tomorrow's euro zone data.

EURPLN has been declining on Wednesday, benefiting from the strengthening euro, a rebound in European equity markets and a general improvement of sentiment towards emerging markets. As a result, the exchange rate came from 4.311 to 4.302. Today, we expect to see a continuation of zloty strengthening, helped by the release of domestic data (acceleration of the retail sales growth).

Yields of domestic bonds have been rising during the day, only to return to the morning levels in the afternoon. The IRS curve behaved in a similar way. The domestic debt has not been affected by slight increases of yields in the core markets. Today we expect to see a return of slight downward pressure on yields after a series of weak US data released on Wednesday.

Today the retail sales data will be released. We expect to see the reading at 5.4% y/y, slightly below market consensus.

Consumer confidence



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 | 4.2990 | CZKPLN | 0.1653 |
| USDPLN | 3.7717 | HUFPLN* | 1.3362 |
| EURUSD | 1.1398 | RUBPLN | 0.0575 |
| CHFPLN | 3.7931 | NOKPLN | 0.4423 |
| GBPPLN | 4.8199 | DKKPLN | 0.5761 |
| USDCNY | 6.9312 | SEKPLN | 0.4172 |

*for 100HUF

Last session in the FX market 21/11/2018

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.297 | 4.315 | 4.306 | 4.301 | 4.307 |
| USDPLN | 3.762 | 3.797 | 3.785 | 3.774 | 3.7829 |
| EURUSD | 1.136 | 1.143 | 1.138 | 1.140 | - |

Interest rate market 21/11/2018

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1020 (2L) | 1.56 | 0 | 26 paź 18 | OK0720 | 1.456 |
| DS1023 (5L) | 2.44 | 0 | 26 paź 18 | PS0424 | 2.604 |
| WS0428 (10L) | 3.20 | 0 | 26 paź 18 | WS0428 | 3.179 |

IRS on the interbank market**

| Term | PL | | US | | EZ | |
|------|------|--------------|------|--------------|-------|--------------|
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.78 | 0 | 2.90 | 2 | -0.24 | 0 |
| 2L | 1.95 | -2 | 3.01 | 2 | -0.13 | 0 |
| 3L | 2.15 | -1 | 3.03 | 3 | 0.01 | 0 |
| 4L | 2.31 | 0 | 3.04 | 3 | 0.17 | 0 |
| 5L | 2.44 | 0 | 3.04 | 3 | 0.31 | 0 |
| 8L | 2.71 | -2 | 3.09 | 2 | 0.71 | 0 |
| 10L | 2.85 | -1 | 3.14 | 2 | 0.92 | 0 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.47 | -3 |
| T/N | 1.49 | -2 |
| SW | 1.54 | -1 |
| 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 | 0 |
| 6x9 | 1.78 | -1 |
| 9x12 | 1.84 | -1 |
| 3x9 | 1.82 | 0 |
| 6x12 | 1.87 | 0 |

Measures of fiscal risk

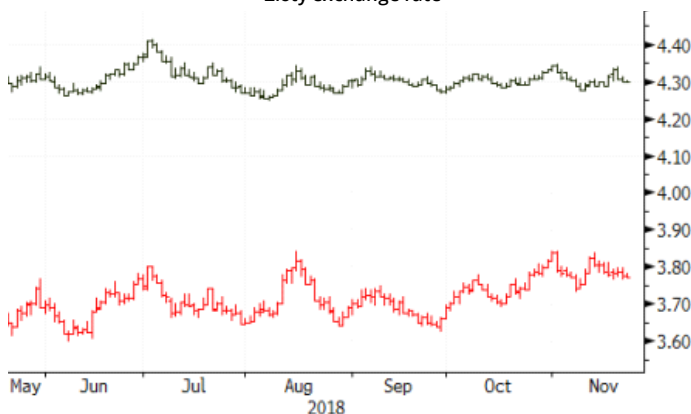
| Country | CDS 5Y USD | 10Y spread* |
|----------|--------------------|--------------------|
| | Level Change (bps) | Level Change (bps) |
| Poland | | 2.84 1 |
| France | 25 | 1 0.39 0 |
| Hungary | 116 | 1 3.01 0 |
| Spain | 65 | 4 1.26 1 |
| Italy | 221 | 8 3.13 3 |
| Portugal | 64 | 0 1.59 1 |
| Ireland | 25 | 0 0.63 0 |
| Germany | 11 | 0 - - |

* 10Y treasury bonds over 10Y Bunds

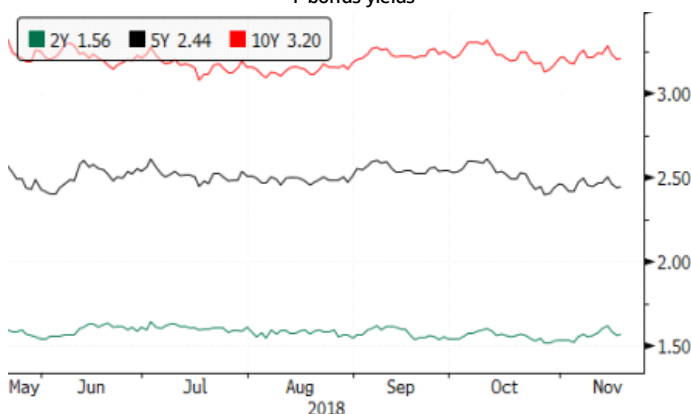
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



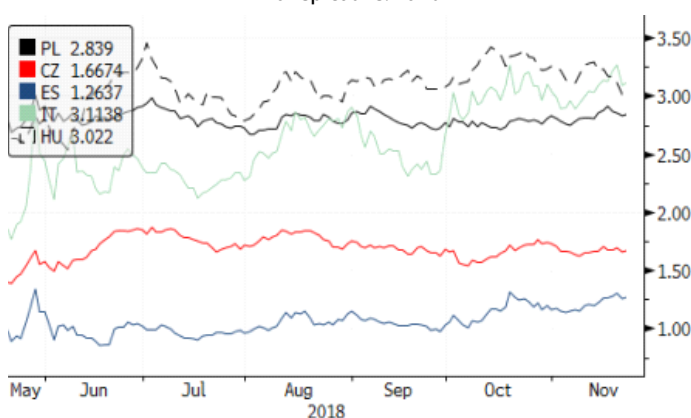
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL | LAST |
|-------------------------|---------|--------------------------------|--------|----------|-----------|--------|--------|
| | | | | MARKET | SANTANDER | VALUE | VALUE* |
| FRIDAY (16 November) | | | | | | | |
| 11:00 | EZ | HICP | Oct | % y/y | 2.2 | - | 2.2 |
| 15:15 | US | Industrial Production | Oct | % m/m | 0.2 | - | 0.1 |
| MONDAY (19 November) | | | | | | | |
| 10:00 | PL | Employment in corporate sector | Oct | % y/y | 3.2 | 3.2 | 3.2 |
| 10:00 | PL | Average Gross Wages | Oct | % y/y | 6.5 | 6.9 | 7.6 |
| TUESDAY (20 November) | | | | | | | |
| 10:00 | PL | Sold Industrial Output | Oct | % y/y | 6.6 | 6.0 | 7.4 |
| 10:00 | PL | Construction Output | Oct | % y/y | 21.0 | 25 | 22.4 |
| 10:00 | PL | PPI | Oct | % y/y | 3.0 | 3.0 | 3.2 |
| 14:00 | HU | Central Bank Rate Decision | | % | 0.9 | - | 0.9 |
| 14:30 | US | Housing Starts | Oct | % m/m | 1.8 | - | 1.5 |
| WEDNESDAY (21 November) | | | | | | | |
| 14:30 | US | Durable Goods Orders | Oct | % m/m | -2.6 | - | -4.4 |
| 14:30 | US | Initial Jobless Claims | week | k | 215 | - | 224 |
| 16:00 | US | Michigan index | Nov | pts | 98.3 | - | 97.5 |
| 16:00 | US | Existing Home Sales | Oct | % m/m | 1.0 | - | 1.4 |
| THURSDAY (22 November) | | | | | | | |
| 10:00 | PL | Retail Sales Real | Oct | % y/y | 5.6 | 5.4 | 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

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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>.