

23 November 2018

# Eyeopener

## An attempt to raise rates

Risk aversion while US market was closed  
MPC voted on a motion to raise rates in November  
Retail sales – another strong reading from Polish economy  
Złoty stable, bonds lost after the release of MPC minutes  
Today flash PMIs from euro zone

Thursday did not bring any significant movements on FX market due to the absence of US investors in relation to the Thanksgiving Day. Slightly higher changes than earlier this week were reported in relation to the pound which was gaining after the news that the UK and the EU reached a final agreement on Brexit conditions and the Sunday summit will take place as scheduled. Złoty remained stable while bonds were losing due to a surprising information about a motion to raise interest rates submitted during the recent Monetary Policy Council meeting. The European Commission positively reacted to the amendment to the Polish Supreme Court law which relaxes the rule of law conflict and mitigates the risk of a fine.

According to the **minutes from the November MPC meeting**, there was a failed motion to raise rates. The reason for this was the upside revision of the CPI forecasts, for 2019 in particular, in the central bank projections that showed higher risk of inflation staying above the target in the longer run. The November NBP inflation projection update showed a quick move above the 2.5% target already in early 2019 and no return below this level in the whole horizon (until the end of 2020). The hawkish minority also suggested that what should be watched now is whether the energy impulse to CPI pushes inflation up for longer than currently expected (the November projection had no second round effects included). However, in general, minutes did not suggest any change of the consensus view of the members. In the opinion of the majority rates should still be kept stable. We think rates could go up in late 2019 at the earliest.

In October, Poland real **retail sales** growth surged from 3.6% y/y to 7.8% vs market consensus at 5.8%. This is yet another publication for October – after output and wages – that surprised positively after the disappointing September. The headline figure beat expectations partly thanks to revival of auto sales. Outlook for sales seems positive – November's reading of business sentiment in retail sector was the highest since February while a sub-index showed that sales are expected to hold high in the months to come. All sectoral business sentiment indexes showed a significant and broad-based rise, advancing above the readings seen in the previous two months – the ones that had suggested the economy was already slowing down.

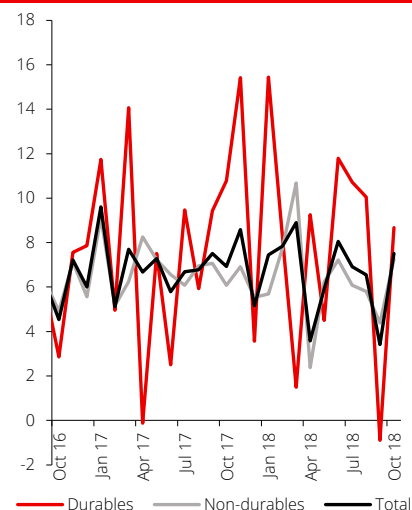
According to the stat office data, in 1-3Q18 **investments of companies** employing 50+ persons rose 12.4% y/y in real terms. That means that in 3Q only, investments accelerated to 15.7% y/y from 13.2% y/y, with construction of buildings increasing c23.5% y/y (vs 18.7% previously) and purchases of machinery by 16% (vs 17%). Summing these data with local governments investments, in 3Q total investments might have grown at above 10% rate. We should mention, however, that in 2Q the investments of big companies and local governments were also very robust but the total headline disappointed as the SMEs underperformed. Flash 3Q GDP release beat expectations and we think that investments might have been the source of this surprise. Detailed data will be released at the end of the month.

**EURUSD** went up slightly, as on Wednesday, reaching 1.143 during the day. Changes were non-significant due to absence of US investors and lack of new important data releases. Today we will get to know preliminary November PMI for the euro zone (German index is already out, undershooting expectations once again). Industrial indices have been falling regularly from the beginning of the year, contributing to euro depreciation against the dollar. The today's figures may decide how EURUSD will close the weekend.

Yesterday **EURPLN and USDPLN** oscillated slightly above the Wednesday's lows. Złoty remained resilient to significant falls on European stock markets, furthermore our currency was stabilised by the marginal increase of EURUSD. The MPC minutes was mostly ignored by the fx market. EURPLN stayed in the middle of the range observed since August. Today the złoty may be dependent on EURUSD reaction to the European data releases.

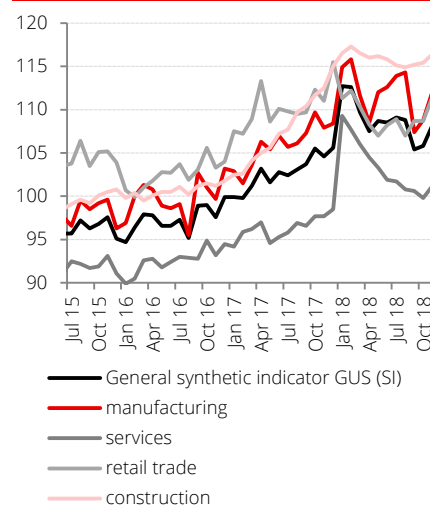
On Thursday **yields of Polish t-bonds** rose in a reaction to the surprising information that MPC voted on a motion to hike rates in November. The yield curve was shifted up by c2bp – mostly the belly and the short end of the curve. Performance of Polish bonds was relatively poor compared to the European peers. We believe that the influence of the information about the rate hike attempt on the Polish bond market will likely be short lived. Today we expect that Polish bond market will be following European core bonds.

Retail sales in main categories (% y/y)



Source: Stats Office, Santander Bank Polska

Sectoral business sentiment indicators



Source: Stats Office, Santander Bank Polska

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## FX market

### Today's opening

EURPLN	4.2896	CZKPLN	0.1650
USDPLN	3.7588	HUFPLN*	1.3360
EURUSD	1.1412	RUBPLN	0.0573
CHFPLN	3.7816	NOKPLN	0.4405
GBPPLN	4.8350	DKKPLN	0.5748
USDCNY	6.9416	SEKPLN	0.4161

\*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	4.3064
USDPLN	3.762	3.797	3.785	3.774	3.7764
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)	2.43	-1	26 paź 18	PS0424	2.604
WS0428 (10L)	3.20	-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	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

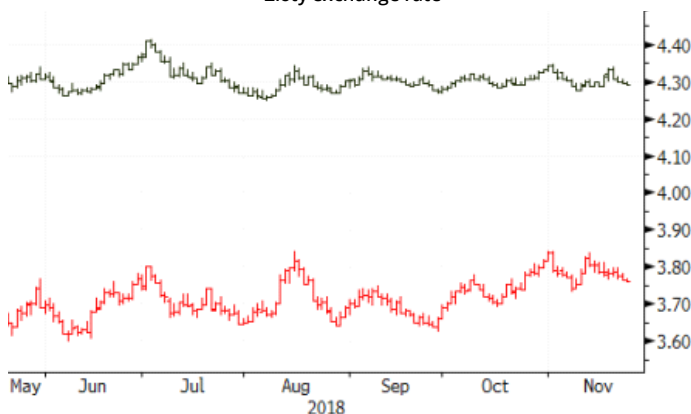
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.84	1
France	25	1	0.40	1
Hungary	116	1	3.02	1
Spain	65	4	1.27	1
Italy	221	8	3.15	6
Portugal	64	0	1.60	2
Ireland	25	0	0.64	1
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

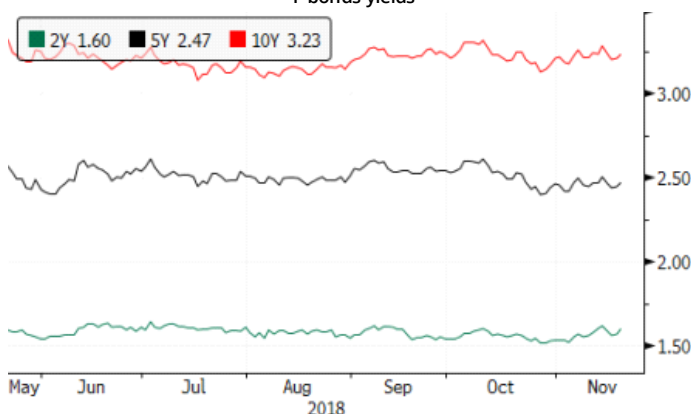
\*\*Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

## Zloty exchange rate



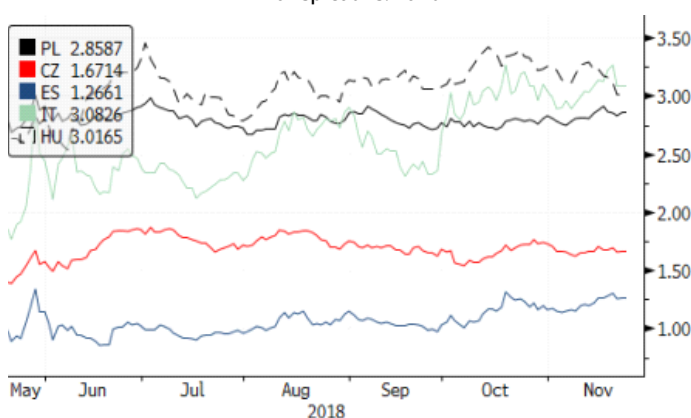
## T-bonds yields



## 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	7.8
FRIDAY (23 November)							
08:00	DE	GDP WDA	3Q	% y/y	1.1	-	1.1
09:30	DE	Flash Germany Manufacturing PMI	Nov	pts	52.2	-	51.6
09:30	DE	Flash Markit Germany Services PMI	Nov	pts	54.5	-	53.3
10:00	EZ	Flash Eurozone Manufacturing PMI	Nov	pts	52.0	-	52.0
10:00	EZ	Flash Eurozone Services PMI	Nov	pts	53.6	-	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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