

28 November 2018

Eyeopener

Budget remains in surplus

Worse mood ahead of G20 summit
Large surplus in central budget after October
CEE fx weakened slightly, bonds mostly unchanged
Today US GDP and real estate data, Fed chairman's speech

For the major part of the Tuesday session the situation on the global market was rather calm. The Monday optimism weakened and stock market indices fell, which positively impacted core market and euro zone peripheries bonds. At the end of the Polish session the dollar started to gain, putting pressure on CEE currencies. It seems that concerns about G20 summit scheduled for this weekend has been in the spotlight during the opening of the US session. The dollar strengthened despite ambiguous opinions of FOMC officials. James Bullard, who will become a voting member in 2019, thinks that interest rates in USA are nearly at the neutral level or they have even already reached it. He expects slower economic growth in the next two years which may hamper the further tightening of the monetary policy. Richard Clarida said that gradual interest rate hikes should be continued with a simultaneous monitoring of incoming data, although he also believes that the US interest rates are close to neutral.

In his comment for the Polish Press Agency **Eryk Łon**, considered to be the most dovish Monetary Policy Council member, wrote that interest rates in Poland should remain flat until the end of the existing MPC's term of office (until 2022) and it would be desirable to extend this stabilisation period beyond that date. He also indicated that Poles' propensity to emigrate is at historically lowest level which gives solid foundations for the economic growth in Poland. He also mentioned lower inflationary pressure related to falling crude oil prices and to a fact that NBP is prepared for a scenario of potential economic stagnation abroad.

After October, the **central budget surplus** amounted to PLN6.5bn. October was yet another month when revenues were above the plan and expenses lower than assumed. The biggest deviation on the expenditure side was recorded in subsidy to the social security fund (FUS) that after October amounted only to 63.3% of the plan thanks to the strength of the labour market (compared to 74% in 2017 when labour market was also blooming, and 87% in 2016). In Jan-Oct period, state revenues were 4.9% higher and expenditures 3.6% lower than in the same period of 2017. The next positive surprise in the budget performance prompted us to revise our year-end deficit target to below PLN16bn.

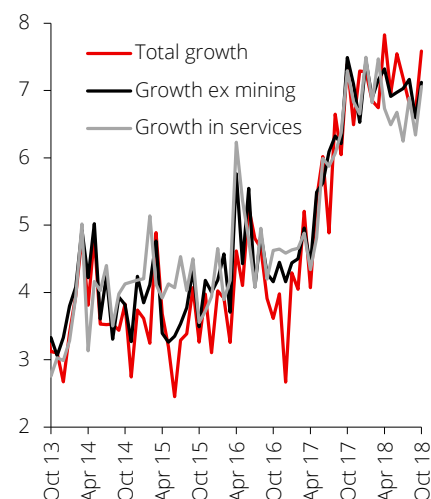
Stats office monthly Statistical Bulletin showed that the October rebound of corporate wages was caused by bonus payments in mining and the number of working days effect. Ex-mining, corporate wages growth was 7.1% y/y, close to the YtD average. Industrial new orders in current prices accelerated from 6.5% y/y to 10.9% and foreign orders from 7.1% y/y to 11.9% (the strongest pace since November 2017). The alternative measure of retail sales (incl. small outlets, but ex car sales) did not show as strong a rebound in October (like the headline stats office data) and instead it fell from 5.2% y/y to 5.1% in SA terms. The wholesale sales accelerated from 7.5% y/y to 15.8% which allows us to expect the consumption to remain strong. Wholesale sales of durables (like household appliances, TVs) surged to +32.6% y/y. The bottom line is that the detailed data suggest that strong economic performance continued at the start of 4Q despite all the weakening of activity reflected in the euro zone data.

Yesterday **EURUSD** was falling for the third day in row, neutralizing over the half of the rebound we had observed in the first half of November. The US data were close to market forecasts, but the FOMC members' remarks were ambiguous and did not affect EURUSD. It seems that this week's USD appreciation was mainly fueled by risk connected to G20 summit (scheduled for this weekend), where presidents of US and China will discuss trade relations.

EURPLN dropped at the beginning of the day slightly below 4.29, but USD appreciation (seen later) pushed the fx pair close to 4.2950 again. USDPLN rose above 3.80. Behaviour of other CEE currencies was similar – after the morning appreciation, came intraday weakness.

Yields of domestic bonds decreased slightly (less than 1bp), following the core markets yields decreases. Ministry of Finance decided to swap Thursday's regular auction to a switch auction.

Wage growth in the corporate sector (% y/y)



Source: GUS, Santander Bank Polska

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FX market

Today's opening

EURPLN	4.2976	CZKPLN	0.1658
USDPLN	3.8079	HUFPLN*	1.3262
EURUSD	1.1286	RUBPLN	0.0569
CHFPLN	3.8088	NOKPLN	0.4428
GBPPLN	4.8556	DKKPLN	0.5758
USDCNY	6.9544	SEKPLN	0.4183

*for 100HUF

Last session in the FX market 27/11/2018

	min	max	open	close	fixing
EURPLN	4.288	4.299	4.297	4.297	4.2919
USDPLN	3.784	3.810	3.790	3.807	3.7948
EURUSD	1.128	1.134	1.134	1.129	-

Interest rate market 27/11/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.56	-1	15 lis 18	OK0521	1.784
PS0424 (5L)	2.58	15	15 lis 18	PS0424	2.626
WS0428 (10L)	3.16	-1	15 lis 18	WS0428	3.226

IRS on the interbank market**

Rates on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.78	0	2.91	0	-0.24	0
2L	1.94	0	3.01	-2	-0.14	0
3L	2.12	-1	3.02	-1	0.00	-1
4L	2.27	-1	3.02	-1	0.15	-1
5L	2.40	0	3.02	-2	0.29	-2
8L	2.66	0	3.07	-2	0.69	-1
10L	2.80	0	3.11	-2	0.90	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.52	-3
T/N	1.52	-3
SW	1.55	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	1.74	0
6x9	1.78	1
9x12	1.83	1
3x9	1.81	0
6x12	1.86	0

Measures of fiscal risk

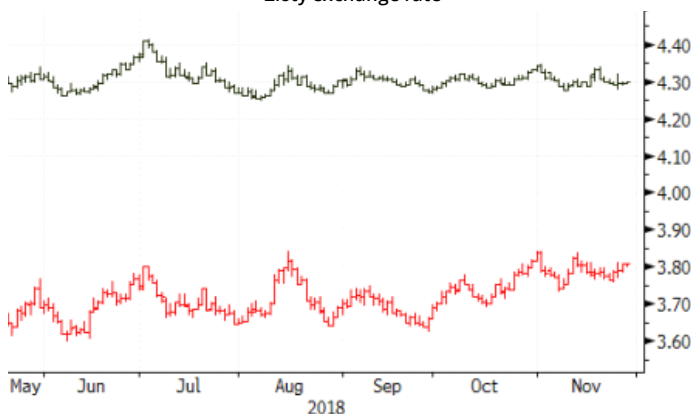
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.82	-1
France	25	1	0.38	0
Hungary	116	1	2.89	0
Spain	65	4	1.22	2
Italy	221	8	2.95	2
Portugal	64	0	1.54	1
Ireland	25	0	0.64	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

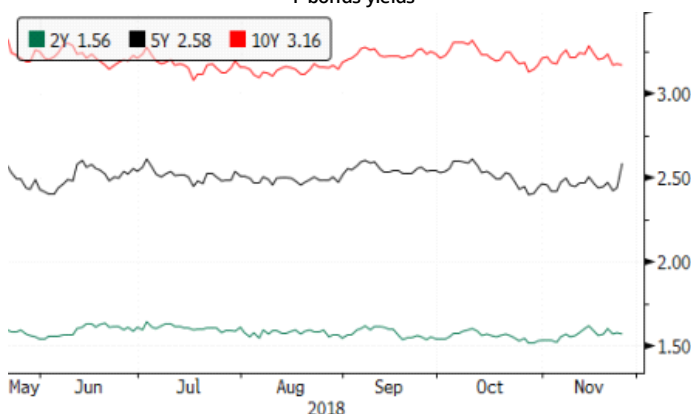
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

Zloty exchange rate



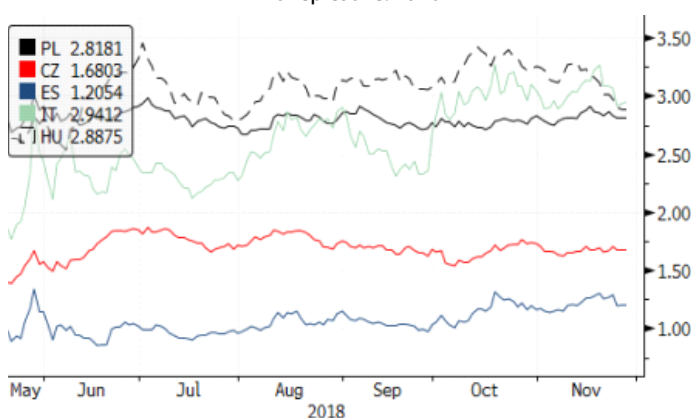
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
CET					MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (23 November)								
08:00	DE	GDP WDA	3Q	% y/y	1.1	-	1.1	1.1
09:30	DE	Flash Germany Manufacturing PMI	Nov	pts	52.2	-	51.6	52.2
09:30	DE	Flash Markit Germany Services PMI	Nov	pts	54.5	-	53.3	54.7
10:00	EZ	Flash Eurozone Manufacturing PMI	Nov	pts	52.0	-	51.5	52.0
10:00	EZ	Flash Eurozone Services PMI	Nov	pts	53.5	-	53.1	53.7
14:00	PL	Money Supply M3	Oct	% y/y	7.8	7.9	8.3	7.9
MONDAY (26 November)								
10:00	DE	IFO Business Climate	Nov	pts	-	-	102.0	102.9
TUESDAY (27 November)								
10:00	PL	Unemployment Rate	Oct	%	-	5.7	5.7	5.7
16:00	US	Consumer Conference Board	Nov	pts	136.2	-	135.7	137.9
WEDNESDAY (28 November)								
14:30	US	GDP Annualized	3Q	% Q/Q	3.5	-		3.5
16:00	US	New Home Sales	Oct	% m/m	4.0	-		-5.5
THURSDAY (29 November)								
11:00	PL	Bond switch auction						
11:00	EZ	ESI	Nov	pct.	-	-		109.8
14:00	DE	HICP	Nov	% m/m	-	-		0.1
14:30	US	Initial Jobless Claims	week	k	215.0	-		216.0
14:30	US	Personal Spending	Oct	% m/m	0.4	-		0.4
14:30	US	Personal Income	Oct	% m/m	0.4	-		0.2
14:30	US	PCE Deflator SA	Oct	% m/m	0.2	-		0.1
16:00	US	Pending Home Sales	Oct	% m/m	1.0	-		0.5
20:00	US	FOMC Meeting Minutes						
FRIDAY (30 November)								
09:00	CZ	GDP SA	3Q	% y/y	-	-		2.3
10:00	PL	Flash CPI	Nov	% y/y	1.5	1.5		1.8
10:00	PL	GDP	3Q	% y/y	5.1	5.1		5.1
11:00	EZ	Flash HICP	Nov	% y/y	-	-		2.2
11:00	EZ	Unemployment Rate	Oct	%	-	-		8.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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