

Eyeopener

Lower growth forecasts for Europe

ECB lowered GDP forecasts and upped inflation forecasts
 Zloty weaker, dollar stronger
 Bonds strengthening in Poland and abroad
 Today flash PMIs in Europe, Polish inflation and balance of payments

The ECB again revised the economic growth projections for eurozone downwards (although inflation projection was raised slightly), suggesting the markets that normalisation of the monetary policy may be delayed. Łukasz Hardt from the Monetary Policy Council confirmed that the "wait and see" policy was still the best solution for NBP. Domestic and foreign bonds fell, fuelled by slightly dovish message and ECB projections. It supported dollar appreciation vs euro, however that situation did not positively impact zloty. Since the very morning moods on global stock exchanges were negatively impacted by worse-than-expected data from China, as well as information about significantly deteriorated projections for the German economy by Bundesbank.

The **ECB showed its new economic forecasts** with another downward revision of economic growth in 2018-21 (by 0.1pp on average). Headline inflation forecast was upped (by 0.1pp on average), but core inflation reduced slightly. At the same time, the ECB maintained its willingness to end the QE programme this year. The conference was interpreted as slightly dovish. Today in the morning the Bundesbank lowered its forecast for Germany quite significantly, both as regards the GDP growth and inflation in 2019.

MPC member Łukasz Hardt thinks that the optimal strategy for Polish monetary policy is still 'wait and see' and proposing rate hikes with inflation being so low is unreasonable. To him, an argument for rate hikes would be a clear rise of inflation expectations. He would prefer to act too late rather than too early, as in his view the response of real economy should currently be quicker than in the past. Eugeniusz Gatnar stressed that the current level of interest rates is the lowest one can think of. In his view there is also no point using QE in Poland in case of a crisis, and he doubts it would even be possible to launch such measures. In our view, no matter what the impact of energy prices will be on CPI, the MPC will not be eager to raise rates before very late 2019.

After Wednesday rise, **EURUSD** was going down on Thursday afternoon. The downward momentum was facilitated by the ECB conference and presentation of new economic forecasts. The dollar strengthening was not even halted by information suggesting a progress in the Sino-US trade negotiations (maybe because they were ambiguous). As a result, EURUSD slid to 1.1360 from 1.1380 with a temporary move to 1.330. Today we are expecting the rate to stabilise amid neutral effect of flash European PMIs.

EURPLN started to rise on Thursday afternoon reaching 4.298 vs 4.293 at the opening and today in the morning the exchange rate is above 4.30 amid stronger dollar. The ECB dovish tone did not stop the zloty depreciation. Today we expect the Polish currency to stabilise.

In case of the **other CEE currencies**, EURHUF rose to 323.5 from 323 amid market postponing the rate hike in Hungary after a downside surprise in the CPI reading. EURCZK stayed in the downtrend moving to 25.82 from 25.85 thanks to the next comments from the Czech central bank – this time, deputy governor Marek Mora said he expects further strong wages growth). USDRUB remained fairly stable hovering around 66.3.

On the **domestic interest rate market** yields continued to decline (though at the smaller scale than on Wednesday) moving 2-4bp down, mainly on the front end of the curve. IRS rates shifted 2bp up. Core markets and more dovish message from the ECB were main factors generating a down pressure on yields. Today we expect bonds to stabilize amid no big surprises from economic data releases.

Today's **CPI data** should be neutral, unless they show a major revision of the flash estimate. **Balance of payments** data have the potential to surprise to the upside, although the market impact should be limited.

December ECB projections and assumptions

ECB projection	2019	2020	2021
Real GDP	1.7 (-0.1)	1.7	1.5
Priv. consumption	1.7	1.6	1.4
Investments	3.3 (0.1)	2.6 (-0.3)	2.1
Exports incl. intra-EZ trade	3.5 (-0.3)	3.8 (0.2)	3.4
Imports incl. intra-EZ trade	4.2 (-0.3)	4.2 (0.3)	3.6
HICP inflation	1.6 (-0.1)	1.7	1.8
Core inflation	1.4 (-0.1)	1.6 (-0.2)	1.8
Assumptions			
World real GDP	3.5 (-0.2)	3.6 (-0.1)	3.6
Global trade	3.5 (-0.4)	3.6 (-0.2)	3.6
Foreign demand	3.1 (-0.5)	3.5 (-0.1)	3.4

In parentheses: changes vs the September projection;
 2021 shown for the first time

Source: ECB, Santander Bank Polska

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FX market

Today's opening			
EURPLN	4.3055	CZKPLN	0.1669
USDPLN	3.7918	HUFPLN*	1.3297
EURUSD	1.1355	RUBPLN	0.0571
CHFPLN	3.8150	NOKPLN	0.4418
GBPPLN	4.7888	DKKPLN	0.5767
USDCNY	6.8945	SEKPLN	0.4176

*for 100HUF

Last session in the FX market 13/12/2018

	min	max	open	close	fixing
EURPLN	4.288	4.298	4.292	4.297	4.2937
USDPLN	3.765	3.789	3.772	3.783	3.7739
EURUSD	1.133	1.139	1.138	1.136	-

Interest rate market 13/12/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.42	-3	29 lis 18	OK0521	1.721
PS0424 (5L)	2.38	0	29 lis 18	PS0424	2.545
WS0428 (10L)	2.95	1	29 lis 18	WS0428	3.132

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.75	0	2.88	0	-0.22	0
2L	1.86	0	2.90	0	-0.14	0
3L	1.98	1	2.88	-1	-0.01	-1
4L	2.11	0	2.87	-1	0.14	-1
5L	2.22	0	2.86	-1	0.28	-1
8L	2.46	-1	2.91	0	0.66	-2
10L	2.59	-1	2.95	0	0.88	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.50	1
T/N	1.51	2
SW	1.54	0
2W	1.58	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	1.72	0
3x6	1.73	0
6x9	1.75	0
9x12	1.78	1
3x9	1.80	0
6x12	1.81	0

Measures of fiscal risk

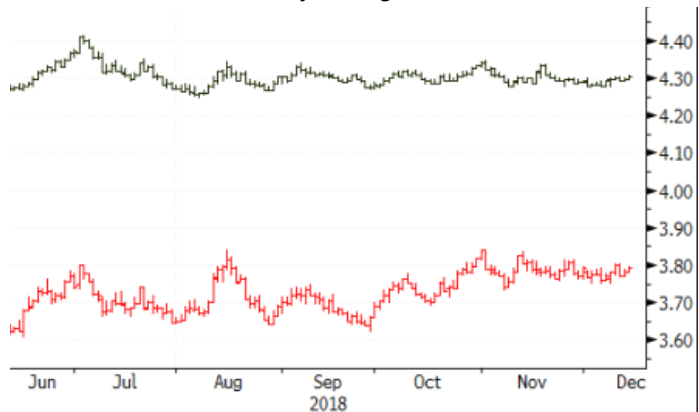
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.68	2
France	25	1	0.45	0
Hungary	116	1	2.94	1
Spain	65	4	1.15	1
Italy	221	8	2.69	2
Portugal	64	0	1.40	1
Ireland	25	0	0.68	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

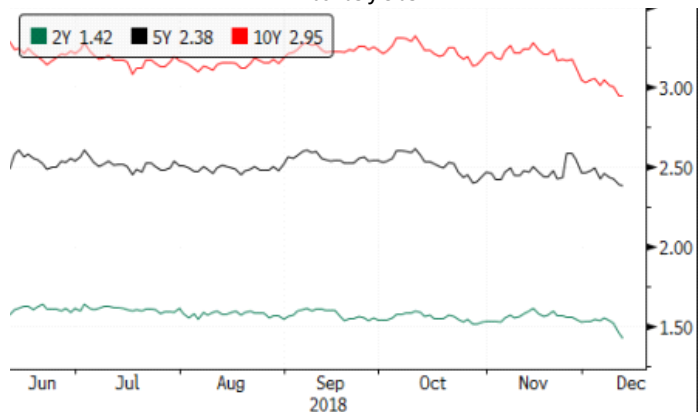
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

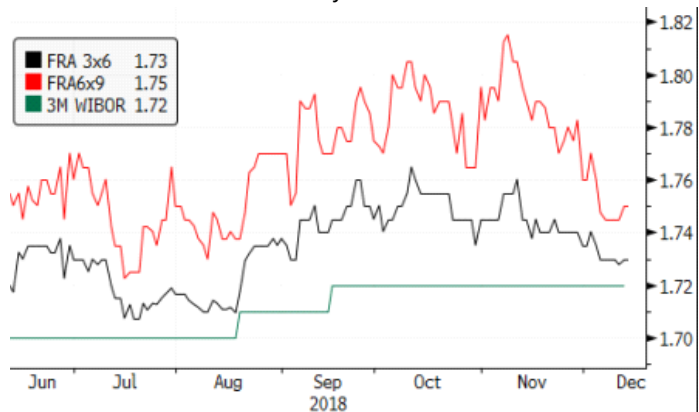
Zloty exchange rate



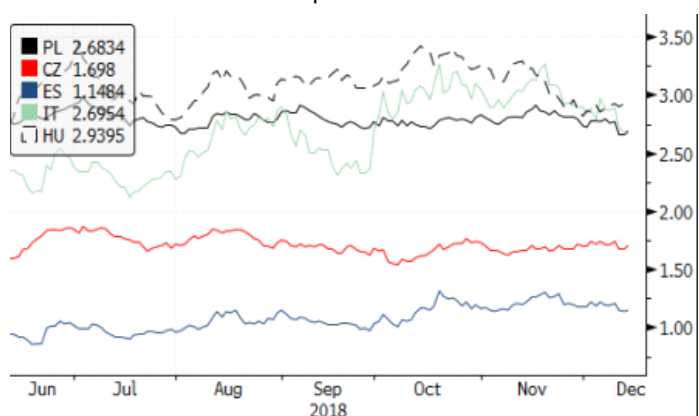
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
FRIDAY (7 December)								
08:00	DE	Industrial Production SA	Oct	% m/m	0.3	-	-0.5	0.2
09:00	CZ	Industrial Production	Oct	% y/y	5.4	-	6.7	-0.9
11:00	EZ	GDP SA	3Q	% y/y	1.7	-	1.6	1.7
14:30	US	Change in Nonfarm Payrolls	Nov	k	198	-	155	250
14:30	US	Unemployment Rate	Nov	%	3.7	-	3.7	3.7
16:00	US	Michigan index	Dec	pts	-	-	97.5	97.5
MONDAY (10 December)								
08:00	DE	Exports SA	Oct	% m/m	0.4	-	0.7	-0.4
09:00	CZ	CPI	Nov	% y/y	2.0	-	2.0	2.2
TUESDAY (11 December)								
09:00	HU	CPI	Nov	% y/y	-	-	3.1	3.8
11:00	DE	ZEW Survey Current Situation	Dec	pts	55	-	45.3	58.2
WEDNESDAY (12 December)								
11:00	EZ	Industrial Production SA	Oct	% m/m	-	-	0.2	-0.6
14:30	US	CPI	Nov	% m/m	0.0	-	0.0	0.3
THURSDAY (13 December)								
08:00	DE	HICP	Nov	% m/m	0.1	-	0.1	0.1
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Initial Jobless Claims	week	k	226	-	206	233
FRIDAY (14 December)								
09:30	DE	Germany Manufacturing PMI	Dec	pts	52.0	-		51.8
09:30	DE	Markit Germany Services PMI	Dec	pts	53.5	-		53.3
09:30	EZ	Eurozone Manufacturing PMI	Dec	pts	52.0	-		51.8
09:30	EZ	Eurozone Services PMI	Dec	pts	53.5	-		53.4
10:00	PL	CPI	Nov	% y/y	-	1.2		1.2
14:00	PL	Current Account Balance	Oct	€mn	-471	-559		-547
14:00	PL	Trade Balance	Oct	€mn	-	-334		-449
14:00	PL	Exports	Oct	€mn	18 723	19 530		17 683
14:00	PL	Imports	Oct	€mn	-	19 864		18 132
14:30	US	Retail Sales Advance	Nov	% m/m	0.2	-		0.8
15:15	US	Industrial Production	Nov	% m/m	-	-		0.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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