

9 January 2019

Eyeopener

ESI strong consumption, weaker services

Stocks gains despite the poor Euro data

Zloty and EURUSD stayed stable

Yields up driven by lower demand for safe assets

Today: MPC decision, in the evening minutes FOMC

Positive information on Sino-US trade talks improved global market moods, and even worse than expected data on German industrial output or euro zone business sentiments failed to undermine the optimism. CEE currencies did not benefit from rising demand for safe assets due to weaker numbers from the Czech Republic and Hungary. Core and euro zone peripheral yields climbed given rising stock markets. The UK Prime Minister confirmed yesterday that the debate on Brexit is to start today and vote on withdrawal agreement will take place on Tuesday. Today's German data on exports confirmed that the biggest economy of the EU is not in the best shape.

The December **registered unemployment** rate rose to 5.9% from 5.7% in November after adding 20.8k jobseekers in monthly terms, according to the Labour Ministry. Rise of unemployment rate in December is a seasonal pattern, but December 2018 saw the highest increase since 2013 and this is another sign that the positive labour market tendencies dry out.

European Commission's **ESI** business climate Survey only partly confirmed the positive picture shown earlier by GUS leading indicators. The main sentiment index fell in December from 109 to 107.8 (100 is a long-term average), and the average for 4Q18 was lower than in the previous quarters. Sentiment in manufacturing remained unchanged vs November and were similar as in 1H18. Export orders recorded one of the higher readings in history. For services it was one of the worst months in 2018, while for construction one of the best (which confirmed our belief that the peak in EU-financed investments is yet to come). The retail trade recorded the highest climate since February, even though consumer confidence deteriorated (to the lowest level since October 2017). Consumers have clearly got scared of looming inflation (probably due to threat of energy costs spike in 2019).

EURUSD dropped on Monday night to 1.144 and yesterday it stayed near this level. The market did not react to poor German data and to improvement of global sentiment. This evening the minutes from the December FOMC meeting gets released. At the meeting the US central bankers raised interest rates and adjusted down their monetary tightening plans for 2019 (two hikes instead of three). Dovish tone of the December FOMC meeting was already fully priced in by the market in late 2018 and we do not expect the document to be released today to cause a lasting reaction of EURUSD. We assume Friday US inflation data will be more important for the exchange rate.

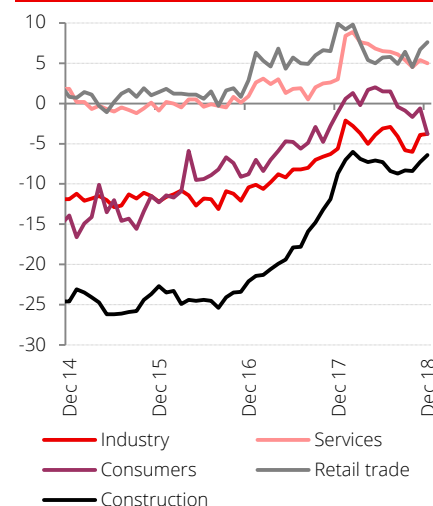
EURPLN rebounded yesterday during the day to 4.306 as other CEE currencies also weakened, but at the end of the day it returned to 4.30. USDPLN rose slightly to 3.765 from 3.75. EURPLN remains in the middle range 4.26-4.34. The decline of volatility makes as cautious in expecting appreciation of the zloty in the short term.

In case of the other **CEE currencies**, the ruble outperformed its peers thanks to further rise of the oil price. The forint and koruna depreciated due to poor November industrial output numbers.

On the **domestic interest rate market** 5Y and 10Y bond yields rose 2-3bp while the front end remained stable. Polish debt underperformed slightly core and euro zone peripheral bonds. Today we expect domestic yields to remain under the upside pressure, although weaker than yesterday. Yesterday, the Ministry of Finance said that on Thursday's auction it will offer OK0521, PS0424, WZ0524, WS0428, WZ0528 bonds for PLN3-6bn.

Today the **MPC** will announce decision about the interest rates, no change is broadly expected. The Council's meeting will most likely be held once again in dovish tone. The law aimed at freezing electricity prices seems a good reason for the MPC to turn away from the November projection (which assumed high path of energy prices, and yet it has not really affected the MPC stance) and to express satisfaction with the stability of monetary policy. What is more, the flash print of December CPI shows the internal inflationary pressure (due to GDP growth running above potential and tight labour market) is still not manifesting itself in higher core inflation. Therefore, the arguments for monetary tightening in Poland have definitely not grown any stronger since the previous meeting. More attention could be allotted to the central bank's press conference scheduled at 10:00CET when the NBP's HR policy will be covered.

ESI sentiment indicators



Source: European Commission, Santander

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FX market

Today's opening

| | | | |
|--------|--------|---------|--------|
| EURPLN | 4.2973 | CZKPLN | 0.1677 |
| USDPLN | 3.7466 | HUFPLN* | 1.3362 |
| EURUSD | 1.1470 | RUBPLN | 0.0559 |
| CHFPLN | 3.8212 | NOKPLN | 0.4392 |
| GBPPLN | 4.7730 | DKKPLN | 0.5756 |
| USDCNY | 6.8351 | SEKPLN | 0.4205 |

*for 100HUF

Last session in the FX market 08/01/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.295 | 4.307 | 4.296 | 4.297 | 4.3013 |
| USDPLN | 3.741 | 3.768 | 3.746 | 3.751 | 3.7559 |
| EURUSD | 1.142 | 1.149 | 1.147 | 1.145 | - |

Interest rate market 08/01/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1020 (2L) | 1.43 | 0 | 14 gru 18 | OK0521 | 1.625 |
| PS0424 (5L) | 2.29 | 4 | 14 gru 18 | PS0424 | 2.382 |
| WS0428 (10L) | 2.85 | 5 | 14 gru 18 | WS0428 | 2.931 |

IRS on the interbank market**

| Rates on the interbank market | | | | | | |
|-------------------------------|------|--------------|------|--------------|-------|--------------|
| Term | PL | | US | | EZ | |
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.75 | 1 | 2.77 | 2 | -0.22 | 0 |
| 2L | 1.83 | 1 | 2.71 | 5 | -0.15 | 1 |
| 3L | 1.92 | 2 | 2.66 | 6 | -0.04 | 1 |
| 4L | 2.03 | 4 | 2.63 | 5 | 0.09 | 2 |
| 5L | 2.14 | 4 | 2.63 | 4 | 0.22 | 2 |
| 8L | 2.37 | 5 | 2.69 | 4 | 0.60 | 2 |
| 10L | 2.49 | 5 | 2.74 | 3 | 0.82 | 2 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.58 | 1 |
| T/N | 1.58 | 1 |
| 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 | 1.72 | 0 |
| 3x6 | 1.72 | 0 |
| 6x9 | 1.73 | 0 |
| 9x12 | 1.75 | 1 |
| 3x9 | 1.79 | 0 |
| 6x12 | 1.80 | 0 |

Measures of fiscal risk

| Country | CDS 5Y USD | 10Y spread* |
|----------|--------------------|--------------------|
| | Level Change (bps) | Level Change (bps) |
| Poland | | 2.55 -2 |
| France | 25 1 | 0.44 -7 |
| Hungary | 116 1 | 2.63 -7 |
| Spain | 65 4 | 1.22 -6 |
| Italy | 221 8 | 2.66 -7 |
| Portugal | 64 0 | 1.53 -6 |
| Ireland | 25 0 | 0.66 -6 |
| Germany | 11 0 | - - |

* 10Y treasury bonds over 10Y Bunds

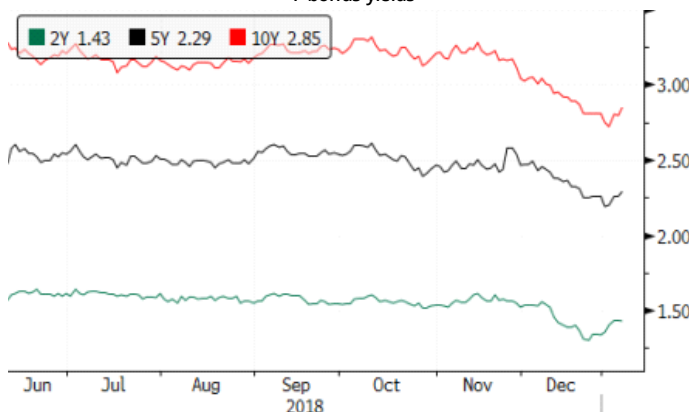
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

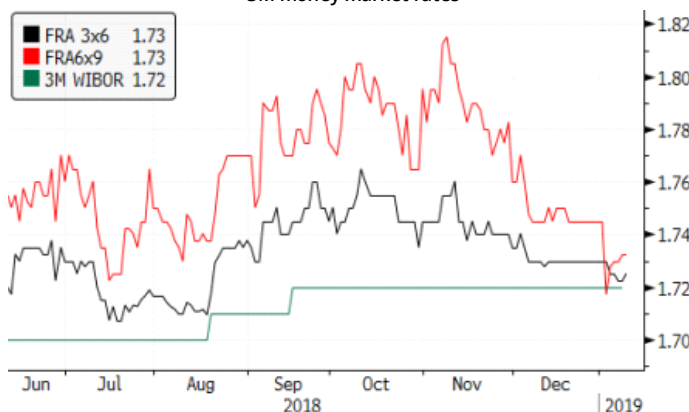
Zloty exchange rate



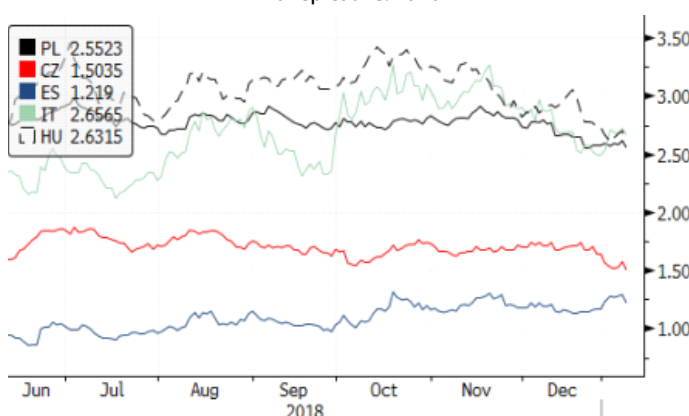
T-bonds yields



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 (4 January) | | | | | | | | |
| 02:45 | CN | Caixin China PMI Services | Dec | pts | 53.0 | | 53.9 | 53.8 |
| 09:55 | DE | Markit Germany Services PMI | Dec | pts | 52.5 | - | 51.8 | 52.5 |
| 10:00 | EZ | Eurozone Services PMI | Dec | pts | 51.4 | - | 51.2 | 51.4 |
| 10:00 | PL | CPI | Dec | % y/y | 1.1 | 1.0 | 1.1 | 1.3 |
| 11:00 | EZ | Flash HICP | Dec | % y/y | 1.7 | - | 1.6 | 2.0 |
| 14:30 | US | Change in Nonfarm Payrolls | Dec | k | 183 | - | 312 | 176 |
| 14:30 | US | Unemployment Rate | Dec | % | 3.7 | - | 3.9 | 3.7 |
| MONDAY (7 January) | | | | | | | | |
| 08:00 | DE | Retail Sales | Nov | % m/m | 0.4 | - | 1.4 | -0.3 |
| 08:00 | DE | Factory Orders | Nov | % m/m | -0.2 | - | -1.0 | 0.3 |
| 11:00 | EZ | Retail Sales | Nov | % m/m | 0.1 | - | 0.6 | 0.3 |
| 16:00 | US | ISM services | Dec | pts | 59.5 | - | 57.6 | 60.7 |
| TUESDAY (8 January) | | | | | | | | |
| 08:00 | DE | Industrial Production SA | Nov | % m/m | 0.5 | - | -1.9 | -0.8 |
| 09:00 | CZ | Industrial Production | Nov | % y/y | 5.0 | - | 4.8 | 6.7 |
| 09:00 | HU | Industrial Production SA | Nov | % y/y | - | - | 3.5 | 3.3 |
| 11:00 | EZ | ESI | Dec | pct. | 108.0 | - | 107.3 | 109.5 |
| WEDNESDAY (9 January) | | | | | | | | |
| | PL | MPC decision | | % | 1.50 | 1.50 | | 1.50 |
| 08:00 | DE | Exports SA | Nov | % m/m | -0.5 | - | -0.4 | 0.9 |
| 11:00 | EZ | Unemployment Rate | Nov | % | 8.1 | - | | 8.1 |
| 20:00 | US | FOMC Meeting Minutes | | | | | | |
| THURSDAY (10 January) | | | | | | | | |
| 09:00 | CZ | CPI | Dec | % y/y | 2.1 | - | | 2.0 |
| 14:30 | US | Initial Jobless Claims | week | k | 220 | - | | 231 |
| FRIDAY (11 January) | | | | | | | | |
| 09:00 | CZ | GDP SA | 3Q | % y/y | 2.4 | - | | 2.4 |
| 14:30 | US | CPI | Dec | % m/m | -0.1 | - | | 0.0 |

Source: Santander Bank Polska, Bloomberg, Parkiet
* in case of the revision the data is updated

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