

24 January 2019

Eyeopener

Consumer confidence rebound in January

Calm session ahead of today's ECB decision and flash PMIs
MPC members' remarks do not change policy prospects
Złoty slightly weaker despite improved global mood
Today, ECB decision and European flash PMIs

Yesterday the financial markets were rather calm, market players waited for today's ECB meeting. Yields of bonds stayed roughly stable, while the stock indices were rising gradually, driven by good quarterly earnings reports of US companies. CEE currencies did not rise amid the positive mood on the stocks markets, owing to the dovish signals generated by local central banks.

The latest GUS **consumer sentiment** survey found a clear rebound in January. This confirms that the surprising decline in December was caused by the government's poor communication regarding the electricity price increase in 2019. The rebound of consumer confidence is important news, given the poor performance of December retail sales, as in our view it indicates that we are not facing a lasting decline of consumer demand. The major purchases index returned to historically-high levels, and the savings index set a new record. Only households' expectations about their financial and economic situation have not fully offset the December drop and were much lower in January 2019 than the average for January-November 2018. Consumer sentiment data are consistent with our expectations that the peak of the cycle is behind us and a gentle slowdown in private consumption is coming.

We would note some interesting comments from **MPC members** over the last couple days. Ultra-dovish Eryk Lon did not surprise, saying that the lower inflation outlook increases the room for interest rate cuts, in case they were necessary. Meanwhile, Eugeniusz Gatnar and Jerzy Osiatynski were quoted as saying that interest rate stability until 2022 is not very likely, and that a hike in 2019 cannot be ruled out. However, both Gatnar and Osiatynski were very conditional when commenting on the possibility of a rate hike in 2019 and pointed to several factors against such a scenario (including a lower inflation forecast, below the target throughout the year, and likely a delay in policy normalization by the ECB). Both also pointed to households' inflation expectations as important for their decision. Gatnar, who is among the most hawkish MPC members, admitted that he would not support policy tightening before CPI breaches the target, adding that it is better to be late with a rate hike than too early. Summing up, we do not think the recent comments from MPC members change anything in the monetary policy outlook. Our view is that interest rates will remain unchanged this year. Any market speculation for rate hikes in Poland would require a large positive surprise, either from economic activity data or inflation numbers, which does not seem very likely in the near term, in our view.

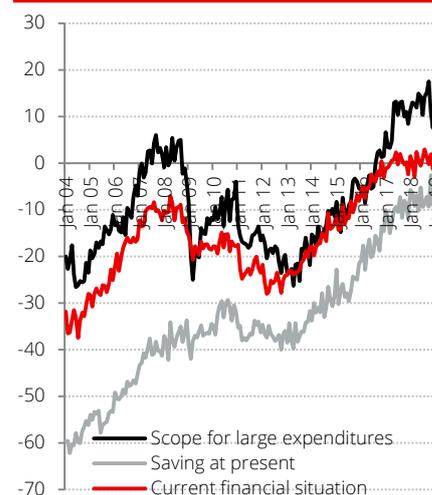
Poland **M3 money supply** rose 9.2% y/y in December. Loans pace of growth corrected for the FX effect was the highest for six years (6.8% y/y), both business and households loans accelerated. Consumer loans still rose more than 9% y/y and mortgages expanded at the fastest pace for nearly three years. Deposits corrected for the FX effect rose 8.1% y/y with household deposits rising 9% y/y and corporate deposits 3.4% y/y. Continued revival of loans growth and robust growth of deposits should work against the economic slowdown in 2019 but shall not prevent weakening of consumption, particularly in 2H19.

Yesterday **EURUSD** remained relatively stable, oscillating around 1.136 given no important data and waiting for today's EBC press conference. We expect that after the recent weak European data the bank's rhetoric will be finally made more dovish which, in turn, may negatively impact the euro.

Yesterday **EURPLN** went up from 4.285 to 4.29, despite gradual improvement of global moods and stable EURUSD. As regards CEE currencies, EURCZK grew fueled by dovish comment made by one of Czech central bank members. Today, the reaction of EURUSD on EBC rhetoric will be the key issue for EURPLN.

On the **domestic debt market** bond yields and IRS rates landed near the Tuesday closing levels, despite some extra volatility intraday owing to the MPC members comments. On the core markets the volatility was rather low, but today ECB press conference may be an important trigger for the fixed income market.

Consumer confidence indicators



Source: GUS, Santander

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FX market

Today's opening			
EURPLN	4.2936	CZKPLN	0.1670
USDPLN	3.7754	HUFPLN*	1.3498
EURUSD	1.1373	RUBPLN	0.0572
CHFPLN	3.7961	NOKPLN	0.4403
GBPPLN	4.9278	DKKPLN	0.5751
USDCNY	6.7925	SEKPLN	0.4181

*for 100HUF

Last session in the FX market 23/01/2019

	min	max	open	close	fixing
EURPLN	4.284	4.294	4.284	4.292	4.2867
USDPLN	3.766	3.779	3.768	3.767	3.7747
EURUSD	1.135	1.139	1.137	1.139	-

Interest rate market 23/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.37	-1	10 sty 19	OK0521	1.547
PS0424 (5L)	2.20	-1	10 sty 19	PS0424	2.251
WS0428 (10L)	2.83	-2	10 sty 19	WS0428	2.821

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.73	0	2.78	0	-0.22	0
2L	1.80	0	2.74	0	-0.16	0
3L	1.88	0	2.68	0	-0.06	0
4L	1.99	1	2.66	0	0.06	-1
5L	2.10	1	2.67	0	0.18	-1
8L	2.34	1	2.73	0	0.55	-2
10L	2.48	2	2.78	0	0.76	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.21	-30
T/N	1.29	-22
SW	1.52	-1
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	1.71	0
6x9	1.71	0
9x12	1.72	0
3x9	1.78	-1
6x12	1.76	-1

Measures of fiscal risk

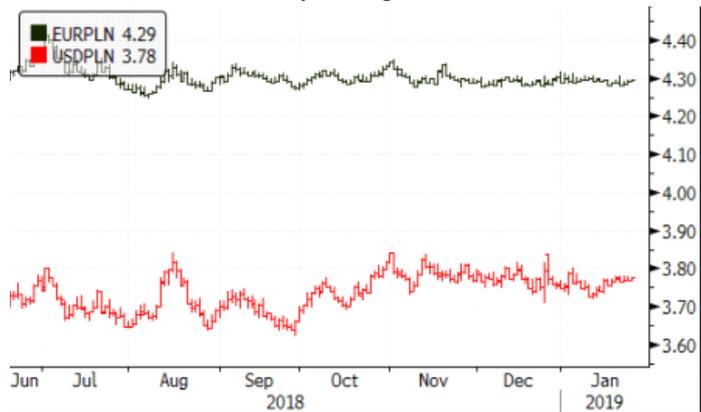
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.61	-1
France	25	1	0.41	-1
Hungary	116	1	2.69	0
Spain	65	4	1.09	1
Italy	221	8	2.52	0
Portugal	64	0	1.49	0
Ireland	25	0	0.74	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

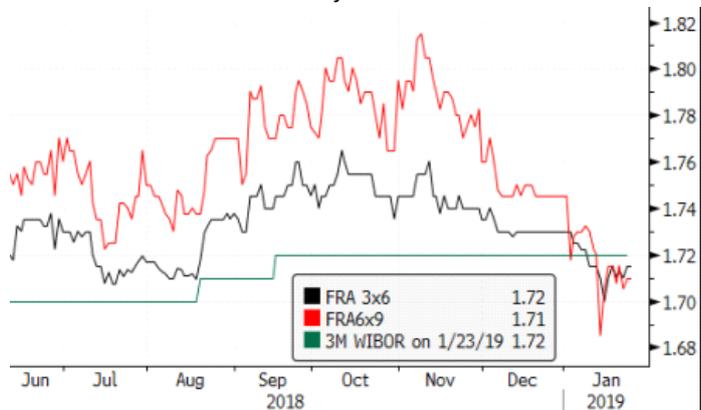
Zloty exchange rate



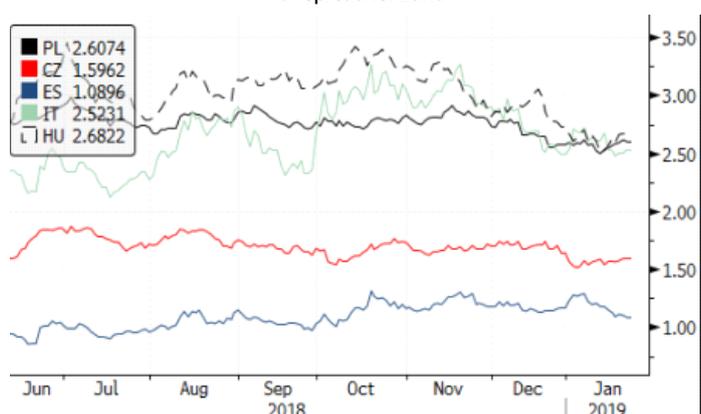
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*		
				MARKET	SANTANDER				
FRIDAY (18 January)									
10:00	PL	Employment in corporate sector	Dec	% y/y	2.8	2.8	2.8	3.0	
10:00	PL	Sold Industrial Output	Dec	% y/y	5.0	5.0	2.8	4.7	
10:00	PL	Construction Output	Dec	% y/y	15.1	15.6	12.2	17.1	
10:00	PL	PPI	Dec	% y/y	2.5	2.6	2.2	2.7	
10:00	PL	Average Gross Wages	Dec	% y/y	7.3	7.0	6.1	7.7	
15:15	US	Industrial Production	Dec	% m/m	0.2	-	0.3	0.61	
16:00	US	Michigan index	Jan	pts	96.8	-	90.7	98.3	
MONDAY (21 January)									
No important events									
TUESDAY (22 January)									
10:00	PL	Retail Sales Real	Dec	% y/y	7.0	7.3	4.7	6.9	
11:00	DE	ZEW Survey Current Situation	Jan	pts	42.8	-	27.6	45.3	
16:00	US	Existing Home Sales	Dec	% m/m	-0.9	-	-6.4	2.1	
WEDNESDAY (23 January)									
14:00	PL	Money Supply M3	Dec	% y/y	8.6	8.9	9.2	8.8	
THURSDAY (24 January)									
09:30	DE	Flash Germany Manufacturing PMI	Jan	pts	51.5	-		51.5	
09:30	DE	Flash Markit Germany Services PMI	Jan	pts	52.1	-		51.8	
10:00	EZ	Flash Eurozone Manufacturing PMI	Jan	pts	51.4	-		51.4	
10:00	EZ	Flash Eurozone Services PMI	Jan	pts	51.5	-		51.2	
10:00	PL	Unemployment Rate	Dec	%	5.8	5.9		5.7	
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-		0.0	
14:30	US	Initial Jobless Claims	week	k	218	-		216	
FRIDAY (25 January)									
	PL	Central Budget Cumul.	Dec	mn PLN	-	-		11 060.1	
10:00	DE	IFO Business Climate	Jan	pts	100.9	-		101.0	
11:30	PL	Bond Auction	PLN4-8bn						

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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