25 January 2019

Eyeopener

ECB sees risks for growth

ECB points to risks for European economy
Higher market volatility, but still no breakthrough
Bonds benefited from ECB rhetoric
Today, bond auction in Poland, German Ifo index

Thursday session saw higher volatility than the previous trading days, owing to the flash PMIs for the euro zone released in the morning and the afternoon ECB press conference. The data from Europe did not have a one-sided negative message, as in the previous months, but the decline of German industrial indicator below 50 pts for the first time since November 2014 and disappointing readings for the euro zone put downside pressure on the euro and strengthened bonds. These market tendencies were supported in the afternoon by dovish tone of the ECB press conference, where Mario Draghi admitted that the recent data were weaker than expected and that there is a risk of weaker economic growth in the short term. **According to ECB**, the list of risk factors for the economy includes among others: geopolitics, protectionism, situation on emerging markets and the market volatility. The central bank has not changed its monetary policy stance and still believes rates should stay unchanged until at least the summer of 2019, or longer if needed. Mario Draghi suggested that the time to change the monetary policy outlook could come with the release of the next update of ECB's economic forecasts (these will be available at the next meeting in March). In the evening, the US Senate rejected two bills that might have ended the government shutdown, so the issue remains unresolved.

Yesterday, GUS released December **Statistical Bulletin**, which offered a partial answer to the question about weakness of corporate wages in the final month of last year. The clearly lower-than-expected wage growth had a broad base. We were right that the large contribution of mining to the previous two releases meant that in December this item would decrease. Still, this explained only 0.3pp of the 1.6pp deceleration of y/y wage growth. In our view, the reading was influenced by factors not linked to business climate (timing of holidays in encouraged consumers to go on extended leave in late December) and the next release should show a rebound.

Data released by the stat office about **total new orders in Polish manufacturing** showed a rebound by 16.6% y/y in December (the highest annual change since March 2017) amid still poor growth of exports orders (+1.4% y/y in November and 2.5% y/y in December). Robust domestic demand helps to keep economic activity at a high level but fading growth in the euro zone (confirmed by the yesterday's flash PMIs, among others) might result in slower GDP growth in Poland in the quarters to come.

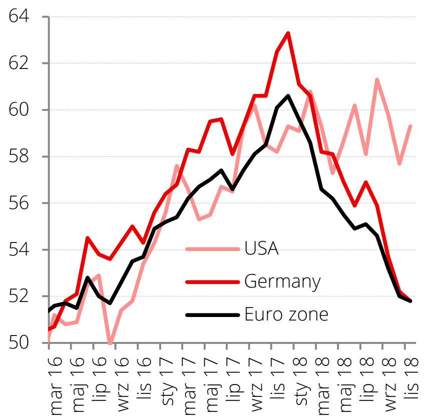
Yesterday, **EURUSD** fluctuated more than in the previous days. Euro was under the pressure of the poor European data and dovish rhetoric of ECB. Initially EURUSD fell to 1.13, then rebounded to almost 1.1370, to fall below 1.13 after the close of the European session. Today euro may still be under the pressure, if the Ifo index brings further disappointment.

EURPLN was also hovering a bit more yesterday than in the previous days. The first hours of trading saw exchange rate increasing to 4.296, but later on the zloty was trimming losses despite significant decline of EURUSD. In a broader context, there were no major changes in EURPLN and so far the weekly range of fluctuations is the lowest since June 1997, according to Thomson Reuters data.

In case of the **other CEE currencies**, some bigger volatility was recorded for EURHUF (that jumped temporarily above 319 from slightly below 318) and USDRUB (that fell below 66, its lowest since November).

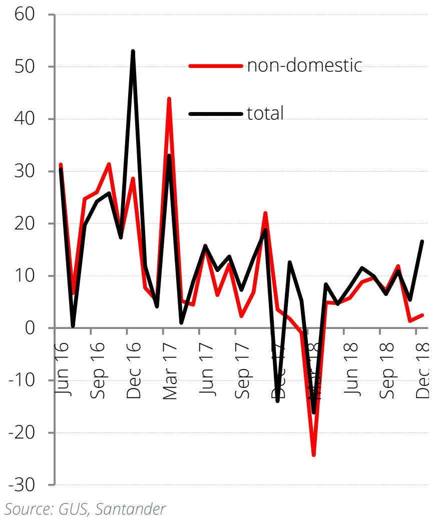
On the **domestic interest rate market** IRS and bond yields fell by no more than 2-3bp in response to strengthening on the core and peripheral debt markets triggered by the dovish rhetoric of the ECB. Today the Ministry of Finance will hold a bond auction at which it will offer OK0521, PS0424, WZ0524, WS0428, WZ0528 bonds for PLN5-8bn. We think the demand/supply ratio will exceed 2.0 and the amount of bonds sold will be at the upper end of the planned range.

Manufacturing activity indexes



Source: Markit, ISM, Santander

Value of new orders in Polish industry, %y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: skarb.santander.pl
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Grzegorz Ogonek +48 22 534 19 23
Konrad Soszyński +48 22 534 18 86
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.2884	CZKPLN	0.1666
USDPLN	3.7872	HUFPLN*	1.3466
EURUSD	1.1323	RUBPLN	0.0574
CHFPLN	3.8039	NOKPLN	0.4422
GBPPLN	4.9651	DKKPLN	0.5744
USDCNY	6.7636	SEKPLN	0.4176

*for 100HUF

Last session in the FX market 24/01/2019

	min	max	open	close	fixing
EURPLN	4.285	4.297	4.292	4.293	4.2942
USDPLN	3.766	3.801	3.767	3.799	3.7844
EURUSD	1.130	1.139	1.139	1.130	-

Interest rate market 24/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1020 (2L)	1.36	-1	10 sty 19	OK0521	1.547
PS0424 (5L)	2.19	-1	10 sty 19	PS0424	2.251
WS0428 (10L)	2.81	-2	10 sty 19	WS0428	2.821

IRS on the interbank market**

Term	PL %	PL Change (bps)	US %	US Change (bps)	EZ %	EZ Change (bps)
1L	1.73	0	2.77	-1	-0.22	0
2L	1.78	-1	2.71	-3	-0.16	-1
3L	1.86	-2	2.65	-4	-0.07	-2
4L	1.97	-1	2.62	-4	0.04	-2
5L	2.08	-2	2.62	-5	0.15	-3
8L	2.31	-3	2.68	-5	0.52	-3
10L	2.45	-3	2.73	-5	0.72	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.14	-7
T/N	1.45	16
SW	1.52	0
2W	1.57	-1
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	1.71	0
3x6	1.71	0
6x9	1.71	0
9x12	1.71	0
3x9	1.77	0
6x12	1.76	0

Measures of fiscal risk

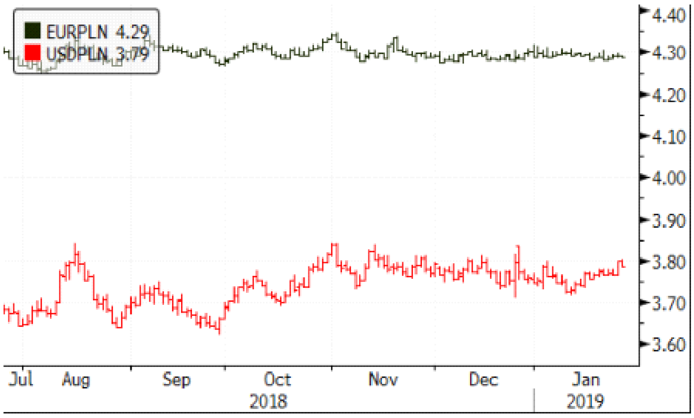
Country	CDS 5Y USD Level	CDS 5Y USD Change (bps)	10Y spread* Level	10Y spread* Change (bps)
Poland			2.63	-2
France	25	1	0.41	0
Hungary	116	1	2.65	-1
Spain	65	4	1.05	-1
Italy	221	8	2.46	-2
Portugal	64	0	1.46	-1
Ireland	25	0	0.73	0
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

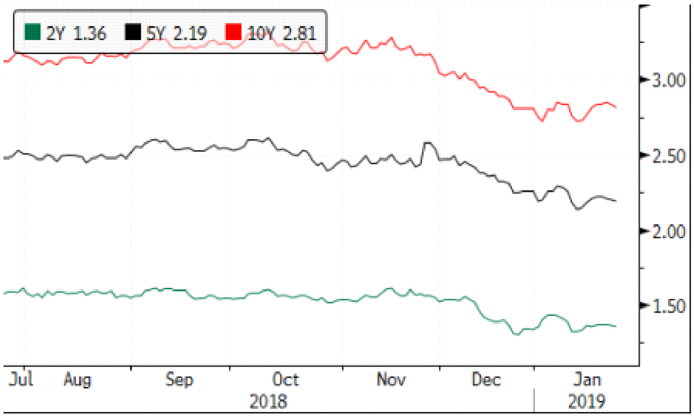
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

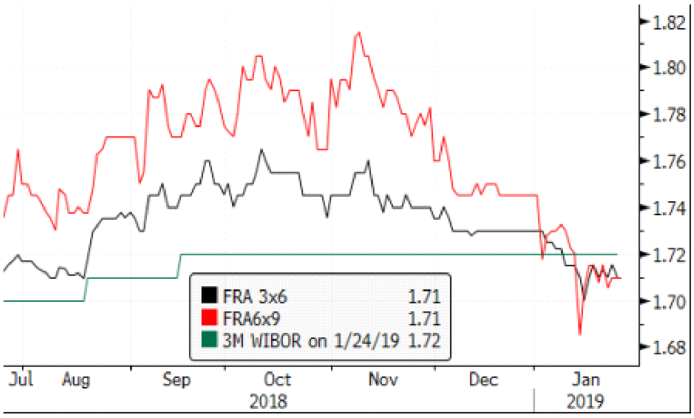
Zloty exchange rate



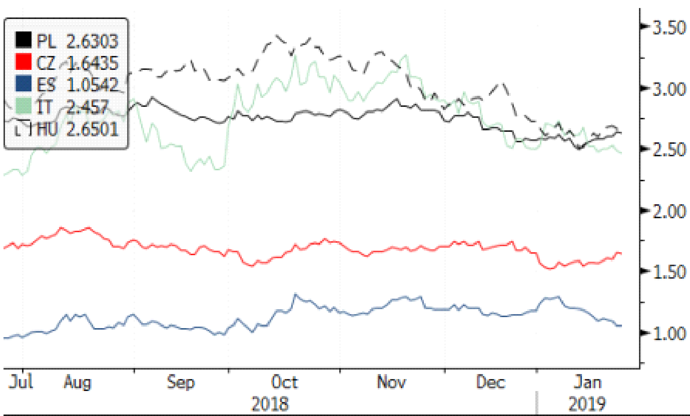
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST MARKET	FORECAST SANTANDER	ACTUAL VALUE	LAST VALUE*
			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	-	49.9	51.5
09:30	DE	Flash Markit Germany Services PMI	Jan	pts	52.1	-	53.1	51.8
10:00	EZ	Flash Eurozone Manufacturing PMI	Jan	pts	51.4	-	50.5	51.4
10:00	EZ	Flash Eurozone Services PMI	Jan	pts	51.5	-	50.8	51.2
10:00	**PL**	**Unemployment Rate**	**Dec**	**%**	**5.8**	**5.9**	**5.8**	**5.7**
13:45	EZ	ECB Main Refinancing Rate		%	0.0	-	0.0	0.0
14:30	US	Initial Jobless Claims	week	k	218	-	199	212
			FRIDAY (25 January)					
	PL	**Central Budget Cumul.**	**Dec**	**mn PLN**	**-**	**-**		**11 060.1**
10:00	DE	IFO Business Climate	Jan	pts	100.7	-		101.0
11:30	**PL**	**Bond Auction**	**PLN4-8bn**					

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

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.