

1 February 2019

Eyeopener

Zloty strongest vs the euro since August

Flash 2018 GDP implies weak investments and consumption in 4Q
Dovish Fed boosts zloty and its EM peers
Polish yields down after the FOMC meeting
Today, US monthly job report

On Thursday afternoon stock indexes resumed up move in response to good US companies earnings and discounting the change of rhetoric by Fed and ECB to more dovish. Bond yields went down, emerging market currencies strengthened and the dollar recovered from losses, helped by dovish remarks by ECB's Jens Weidmann. Polish GDP data were in line with expectations and German retail sales reading was worse than expected.

Poland 2018 GDP growth was 5.1% according to flash estimate, in line with our forecast, which means that in 4Q18 economy has slowed below 5% mark. Our estimate for the final quarter is 4.8% y/y. 2018 was the excellent year for Polish economy, as it refused to show any major slowdown despite growing evidence of deteriorating business climate across Europe. However, it is time to say goodbye to five-percent growth. Still, we remain moderately optimistic for the near-term outlook. GDP growth is going to slow in every consecutive quarter of 2019, in our view, but the average growth should remain quite decent, around 3.8%. Private consumption and fixed investments will remain the main motors of growth, in our view. Find more in our yesterday's [Economic comment](#).

Polish PMI rebounded in January to 48.2pt from 47.6pt, stronger than consensus, below our forecast and not enough to remove worries about looming slowdown in industry. The PMI report signals weak demand from Europe in particular, leading to the fastest rate of decline of output and new export orders since mid-2009. On the other hand, producers became more optimistic about future output and employment index improved in January, despite decreasing backlogs of work. The reading suit our view that the economy entered the slowdown phase, with the negative impulse coming from abroad, while the still strong domestic demand should mitigate the decline of GDP growth this year.

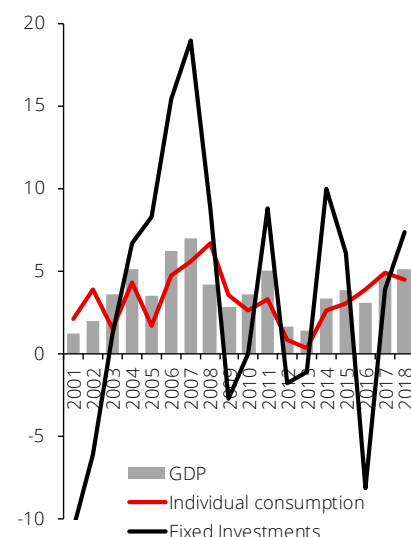
Minutes from Polish MPC January meeting stressed that the majority still believes inflation will stay close to the NBP target in the policy-relevant horizon, but its path may be lower than previously assumed. Limited risk of a lasting breach of the target leads the majority of the Council to a conclusion that holding rates stable remains the right choice. Hawkish members admitted in January, that the scenario that would motivate them to call for rate hikes is now less probable than in the previous months. What is more, they would need to see first that NBP projections go above the inflation target. In our view, MPC will not change rates this year, and only in 2020 it could deliver a rate hike.

EURUSD corrected a part of its Wednesday rise (after the FOMC conference) and retreated to 1.145 from 1.15. The euro was undermined by the afternoon comment of Jens Weidmann (ECB's hawk), who said that the monetary policy normalisation will take years. Final PMI for the euro zone and Germany are unlikely to deviate much from the flash estimates, so US labour market data could determine where EURUSD will end the week. The market is expecting a weaker reading after very strong December, likely due to shutdown effects, so upward surprise would be a stronger market driver than a downward one.

EURPLN plunged to 4.26 from 4.286 on Thursday, while USDPLN slid to 3.71 from 3.73. The zloty and the other EM currencies benefitted from the more dovish FOMC rhetoric. Thus, EURPLN was at the lowest level since early August 2018 and approached an important support at 4.24. We think that the looming weekend could encourage profit taking from the zloty recent appreciation.

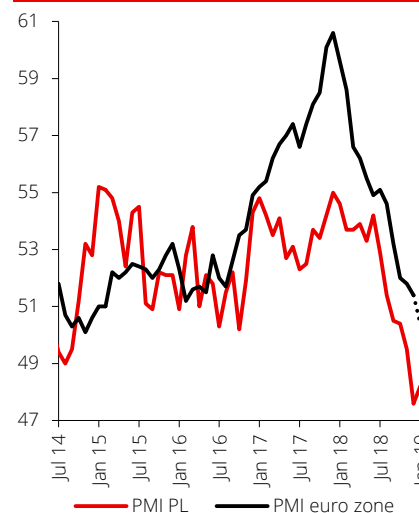
On the domestic fixed income market yields and IRS slid deeply, following the strengthening of core t-bonds markets (after the Wednesday's FOMC press conference). As a consequence the domestic yields curve decreased by 3-5bp in the 5-10Y segment, while 2Y yield stabilised. Today we expect yields to stay low as a reaction for the poor PMI reading. Ministry of Finance (MoF) said that plan to sell PLN3-6bn on the regular auction on 7 February. On the 21 February MoF plans to organised switch auction.

GDP growth, % y/y



Source: GUS, Santander

Manufacturing PMIs (pts)



Source: Markit, Santander

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FX market

Today's opening

EURPLN	4.2666	CZKPLN	0.1656
USDPLN	3.7288	HUFPLN*	1.3512
EURUSD	1.1442	RUBPLN	0.0568
CHFPLN	3.7470	NOKPLN	0.4413
GBPPLN	4.8875	DKKPLN	0.5714
USDCNY	6.7416	SEKPLN	0.4118

*for 100HUF

Last session in the FX market 31/01/2019

	min	max	open	close	fixing
EURPLN	4.259	4.290	4.289	4.262	4.2802
USDPLN	3.708	3.758	3.756	3.722	3.7271
EURUSD	1.141	1.151	1.142	1.145	-

Interest rate market 31/01/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
PS0421 (2L)	1.48	0	25 sty 19	OK0521	1.479
PS0424 (5L)	2.13	-3	25 sty 19	PS0424	2.160
WS0428 (10L)	2.72	-5	25 sty 19	WS0428	2.783

IRS on the interbank market**

Risks on the interbank market						
Term	PL			US		EZ
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.72	0	2.70	-7	-0.22	0
2L	1.76	-1	2.61	-11	-0.17	-1
3L	1.82	-2	2.55	-11	-0.09	-2
4L	1.90	-3	2.53	-11	0.01	-3
5L	2.00	-4	2.54	-11	0.12	-3
8L	2.21	-4	2.60	-10	0.46	-4
10L	2.34	-4	2.66	-10	0.66	-4

WIBOR rates

Term	%	Change (bps)
O/N	1.46	-2
T/N	1.52	2
SW	1.52	0
2W	1.57	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	1.71	0
3x6	1.72	0
6x9	1.71	1
9x12	1.69	-1
3x9	1.77	0
6x12	1.75	0

Measures of fiscal risk

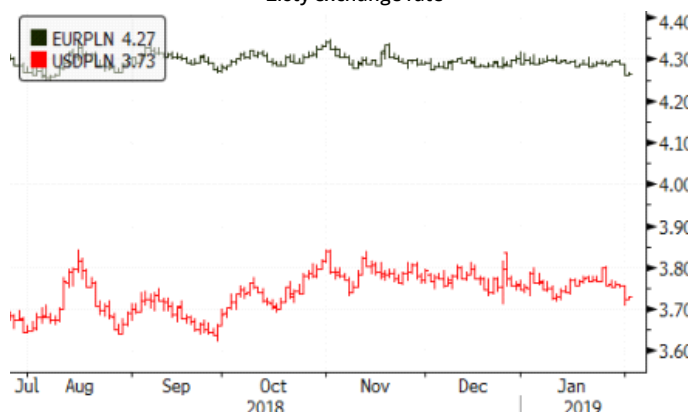
Measures of risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.57	-5
France	37	0	0.40	0
Hungary			2.58	-1
Spain	75	2	1.05	0
Italy	203	2	2.45	1
Portugal	87	0	1.47	0
Ireland	41	0	0.72	0
Germany	13	0	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

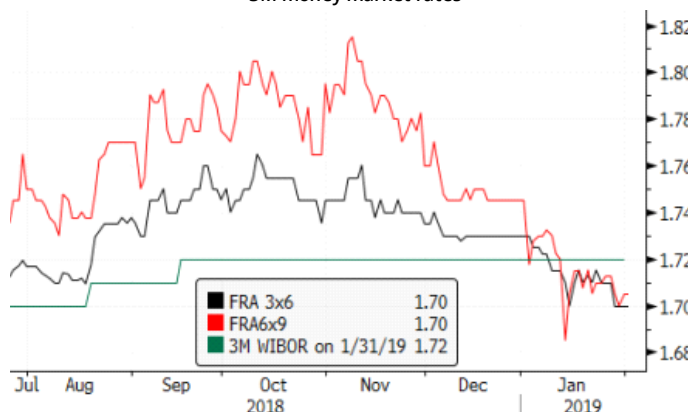
Zloty exchange rate



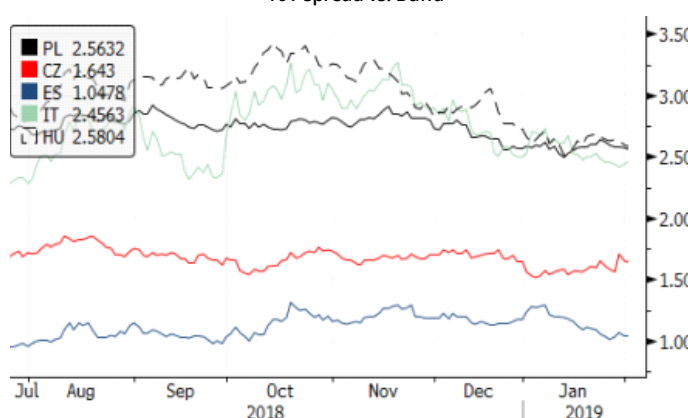
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST
				MARKET	SANTANDER	VALUE	VALUE*
FRIDAY (25 January)							
10:00	DE	IFO Business Climate	Jan	pts	100.7	99.1	101.0
11:30	PL	Bond Auction					
MONDAY (28 January)							
No important data releases							
TUESDAY (29 January)							
14:00	HU	Central Bank Rate Decision		%	0.90	-	0.90
16:00	US	Consumer Conference Board	Jan	pts	124.9	-	120.2
WEDNESDAY (30 January)							
11:00	EZ	ESI	Jan	pts	106.9	-	106.2
14:00	DE	HICP	Jan	% m/m	-0.9	-	-1.0
14:15	US	ADP report	Jan	k	170	-	213
16:00	US	Pending Home Sales	Dec	% m/m	0.5	-	-2.2
20:00	US	FOMC decision		%	2.5	-	2.5
THURSDAY (31 January)							
08:00	DE	Retail Sales	Dec	% m/m	-0.6	-	-4.3
10:00	PL	GDP	2018	% y/y	5.0	5.1	5.1
11:00	EZ	GDP SA	4Q	% y/y	1.2	-	1.2
11:00	EZ	Unemployment Rate	Dec	%	7.9	-	7.9
14:30	US	Initial Jobless Claims	week	k	218	-	253.0
FRIDAY (1 February)							
09:00	PL	Poland Manufacturing PMI	Jan	pts	47.5	49.0	48.2
09:55	DE	Germany Manufacturing PMI	Jan	pts	51.5	-	49.9
10:00	EZ	Eurozone Manufacturing PMI	Jan	pts	51.35	-	50.5
11:00	EZ	Flash HICP	Jan	% y/y	1.4	-	1.6
14:30	US	Change in Nonfarm Payrolls	Jan	k	162	-	312
14:30	US	Unemployment Rate	Jan	%	3.8	-	3.9
16:00	US	Michigan index	Jan	pts	0.0	-	90.7
16:00	US	ISM manufacturing	Jan	pts	54.25	-	54.1

Source: Santander Bank Polska, Bloomberg, Parkiet

* in case of the revision the data is updated

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