

23 September 2019

Eyeopener

PLN hit after ECJ set the date of CHF sentence

Retail sales below expectations, business climate indicators down
Zloty weaker after information on date of ECJ ruling
Bond yields slightly down
Today Poland's construction output, flash PMIs in Europe

The Friday session on fx, equity and bond markets was calm from the beginning. The pound gained somewhat vs the euro and the dollar thanks to a remark by European Commission president Jean-Claude Juncker. He mentioned a possibility of a deal with the UK if it proposes an alternative mechanism of border control in Northern Ireland. The zloty performed worse than other EM currencies (only ZAR weakened more) and its depreciation came at the time when the media signalled that the European Court of Justice will give a ruling on the CHF mortgage loans on 3 October (the information was confirmed later that day).

Retail sales slowed down in August to 4.4% y/y, in line with our expectations and versus 5.7% y/y in July. Sales were dragged lower by negative working day effect and by slower sales of cars (3.0% y/y, the weakest reading this year), which corresponds to weaker results of car output in August. We are expecting the retail sales to improve in the months to come, supported by strong wage growth, consumer confidence and new social benefits (500+, tax cuts). It is interesting to see retail trade sector perceiving the situation far worse than consumers (expressing record high optimism) – we believe private consumption should reaccelerate further in 2H19 thanks to fiscal stimulus.

Business sentiment indicators for September showed a further decline of the main synthetic indicator to the lowest level since early 2017. The decline was caused by further reduction of expectations about future activity. Retail trade saw the largest m/m deterioration of all sectors, due to declining current sales index and rising pessimism when it comes to future sales. In industry, the current order book index declined a bit more (it is now the lowest in two years), the expectations about future production rose marginally, but remains around the weakest levels since 2013. The Friday data do not change our view on further gradual slowdown of Polish economy.

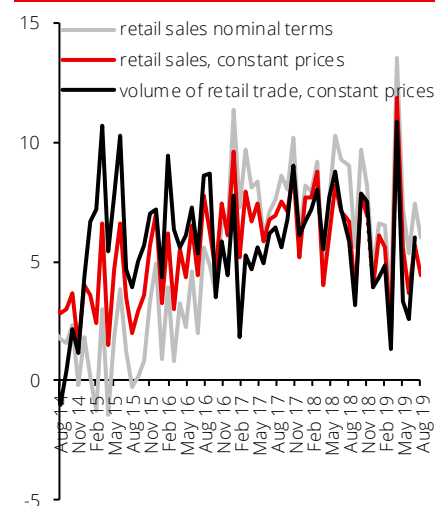
On Friday **EURUSD** more than offset the Thursday's rise and at end of the day the pair was close to 1.10. However, the exchange rate remained within a range set last Monday and the last week was the calmest since the end of summer holidays. The stability might end today already at 10:00am CET when flash manufacturing and services PMIs for Germany and for the whole Eurozone are due for release. August PMIs showed a slight rebound so if September flashes also print higher, the euro could gain vs the dollar.

In the second half of Friday **EURPLN** rose abruptly above 4.38 and USDPLN above 3.97 as a result of news that the ECJ might rule on the CHF-denominated mortgages issue already on 3 October (next Thursday). Earlier this year the premium related to the uncertainty about the ECJ ruling was almost non-existent. That is why now, as the decision is imminent, the zloty might trade weaker, EURPLN may rise in the days to come. First level to watch is 4.40.

On the Polish fixed income market, the swap curve moved lower by 2-5bp mainly in the belly and at the long-end, while bonds moved significantly only on the long-end: 10Y yields moved lower by 5bp.

This week the most interesting may be releases of new business confidence indicators in Europe (flash PMIs, Ifo, ESI) and a large set of US macro data, which will be important hints about pace of economic expansion in the third quarter. Meanwhile in Poland the new data releases – construction output already due today – should be consistent with our forecast of further deceleration of GDP growth in Q3. The week will end with a review of Polish credit rating by Fitch – the decision is due on Friday after local trading hours. We do not expect any changes. We expect the upward move of EURPLN to continue, possibly to 4.40. Polish fixed income market should closely track core markets. We do not expect significant changes in neither spreads to German bonds (10Y at 255bp) nor asset swaps (10Y at 30bp). Technical picture for the core markets implies yield increases (up to 2.00% in case of UST, or 25bp from current level) which, by a rough measure, implies 10Y Polish government bonds going up to 2.20% or 2.30%.

Polish retail sales (% y/y)



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Łuziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

FX market

Today's opening

EURPLN	4.3715	CZKPLN	0.1691
USDPLN	3.9655	HUFPLN*	1.3107
EURUSD	1.1024	RUBPLN	0.0621
CHFPLN	4.0006	NOKPLN	0.4383
GBPPLN	4.9456	DKKPLN	0.5854
USDCNY	7.1118	SEKPLN	0.4089

*for 100HUF

Last session in the FX market 20/09/2019

	min	max	open	close	fixing
EURPLN	4.337	4.382	4.343	4.374	4.3438
USDPLN	3.922	3.980	3.932	3.971	3.9319
EURUSD	1.100	1.107	1.105	1.102	-

Interest rate market 20/09/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.46	-1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.80	1	21 mar 19	PS0424	2.209
DS1029 (10L)	2.04	-2	21 mar 19	DS1029	2.877

IRS on the interbank market**

Risks on the interbank market						
Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.71	0	1.91	3	-0.40	1
2L	1.73	-1	1.68	-2	-0.43	1
3L	1.72	-2	1.62	3	-0.41	1
4L	1.70	-3	1.59	3	-0.41	1
5L	1.71	-3	1.54	-4	-0.37	1
8L	1.71	-4	1.57	-4	-0.23	0
10L	1.72	-4	1.61	-4	-0.11	-1

WIBOR rates

Term	%	Change (bps)
O/N	1.63	0
T/N	1.63	0
SW	1.60	0
2W	1.60	0
1M	1.63	0
3M	1.72	0
6M	1.79	0
9M	1.80	0
1Y	1.84	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.72	0
3x6	1.71	0
6x9	1.69	0
9x12	1.66	-1
3x9	1.78	0
6x12	1.76	-1

Measures of fiscal risk

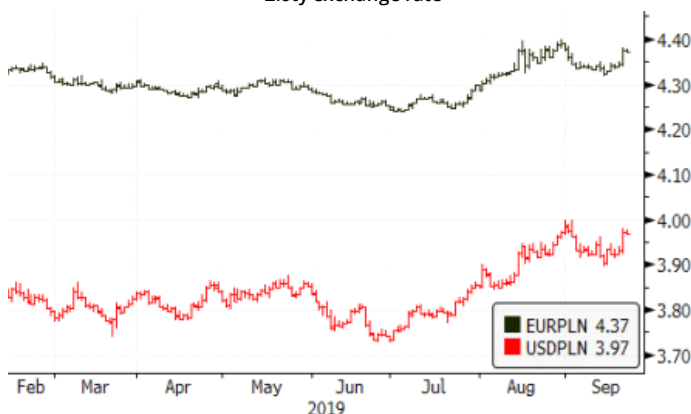
Measures of risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.56	0
France	20	1	0.30	1
Hungary			2.48	-1
Spain	39	3	0.76	0
Italy	124	11	1.44	5
Portugal	39	4	0.77	0
Ireland	32	4	0.54	-1
Germany	11	1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

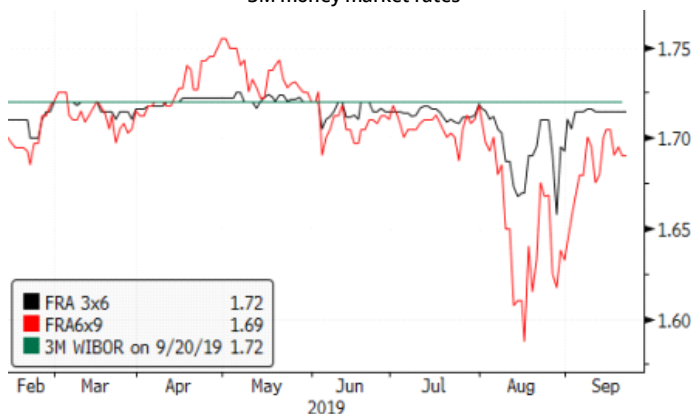
Zloty exchange rate



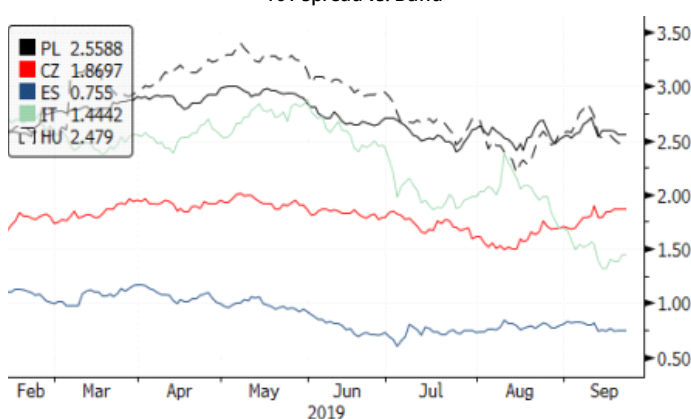
T-bonds yields



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 (20 September)								
10:00	PL	Retail Sales Real	Aug	% y/y	5.25	4.4	4.4	5.7
MONDAY (23 September)								
09:30	DE	Flash Germany Manufacturing PMI	Sep	pts	44.3	-		43.5
09:30	DE	Flash Markit Germany Services PMI	Sep	pts	54.3	-		54.8
10:00	EZ	Flash Eurozone Manufacturing PMI	Sep	pts	47.3	-		47.0
10:00	EZ	Flash Eurozone Services PMI	Sep	pts	53.3	-		53.5
10:00	PL	Construction Output	Aug	% y/y	1.9	3.9		6.6
14:00	PL	Money Supply M3	Aug	% y/y	10.0	10.1		9.9
TUESDAY (24 September)								
10:00	DE	IFO Business Climate	Sep	pts	94.6	-		94.3
10:00	PL	Unemployment Rate	Aug	%	5.2	5.2		5.2
14:00	HU	Central Bank Rate Decision		%	0.9	-		0.9
16:00	US	Consumer confidence index	Sep	pts	134.0	-		135.1
WEDNESDAY (25 September)								
13:00	CZ	Central Bank Rate Decision		%	2.0	-		2.0
16:00	US	New Home Sales	Aug	% m/m	2.84	-		-12.8
THURSDAY (26 September)								
14:00	PL	MPC minutes						
14:30	US	GDP Annualized	2Q	% q/q	2.0	-		2.0
14:30	US	Initial Jobless Claims	week	k	213	-		208
16:00	US	Pending Home Sales	Aug	% m/m	0.95	-		-2.5
FRIDAY (27 September)								
11:00	EZ	ESI	Sep	pct.	103.0	-		103.1
14:30	US	Durable Goods Orders	Aug	% m/m	-1.15	-		2.0
14:30	US	Personal Spending	Aug	% m/m	0.3	-		0.6
14:30	US	Personal Income	Aug	% m/m	0.4	-		0.1
14:30	US	PCE Deflator SA	Aug	% m/m	0.1	-		0.2
16:00	US	Michigan index	Sep	pts	92.1	-		92.0

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

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.