

7 October 2019

Eyeopener

German orders still in decline

Markets quite calm despite slightly weaker US payrolls data
Dollar stable against euro, zloty stronger
Bond yields a bit lower
Today, German factory orders, Czech and Hungarian production

The Friday session was quite calm ahead of the US labour market data after rise on volatility on Thursday. Developed markets' equities rose by 0.5-1.0% on average (and S&P500 added 1.4%), EM currencies gained slightly and yields were stable after a couple of days of a rally. The gold prices were oscillating around psychological level USD1500, while crude oil price went up by 1.5% to USD58.5 (Brent). **US non-farm payrolls** showed an increase by 136k as compared to expectations at 145k. Data for the previous month was revised up to 168k from 130k. Thus, both 3M and 6M averages were at strong 155k. As regards **Sino-US relations**, on Friday it seemed that everything is headed to a positive direction, as president Trump said that there is a high probability of making a deal with China. However, on Sunday Chinese diplomats suggested they were not eager to make a "broad deal", proposed by Trump. Such signals suggest that we could be expecting an elevated volatility in the second half of the week. Data from Germany, released this morning showed weaker industrial orders (-0.6% m/m versus consensus at -0.3% m/m), but it did not cause any significant market reaction yet.

MPC's Eugeniusz Gatnar said in an comment for PAP that costs of the ECJ ruling for the banking sector will amount to PLN20-30bn, but this will not have a major negative impact on the sector's stability. According to Gatnar, lack of involuntary conversion of FX loans and the fact that the process will be smeared in time and potentially long, are key. Cost estimates of market analysts cited by PAP oscillate in PLN42-87bn range.

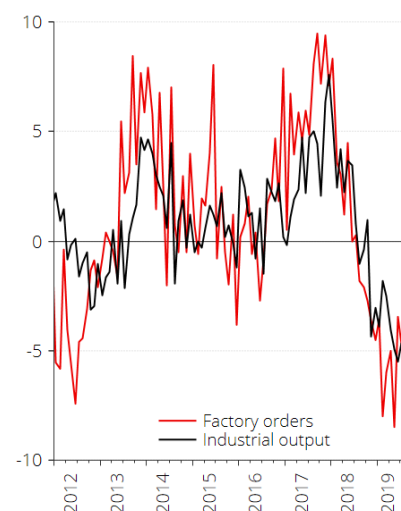
Dolar index and EURUSD remained stable, closing at 1.098. However before US labor market data the EURUSD tried to break 1.10 only to quickly fall to 1.095. We think it is likely that another attempt to break the 1.10 might prove successful and as a result EUR might rally to 1.106, important resistance point.

EURPLN after having declined significantly on Wednesday and Thursday, on Friday traded lower by another 0.3% closing near 4.32. USDPLN closed at 3.933, CHFPLN at 3.95 while GBPPLN at 4.85. The risk premium related to last week's ECJ ruling has disappeared from the option markets as well – 1mth EURPLN fell by 1pp to 4.6% and the curve has normalized (short term options trade below long term ones). We expect the zloty to consolidate in the days to come.

On the **Polish interest rate market** bond yields fell by 1-3bps (10Y paper to 1.91% by 3bps), while IRS rates remained stable. At the same time, the asset swap spread narrowed to 29bps. German bond yield curve did not change (10Y Bund at -0.58%) and US curve went down on the longer end (10Y UST by 1bps to 1.53% and 30Y UST by 2bps to 2.02%). 10Y PL-DE spread narrowed by 3bps to 249bps.

In this week's agenda there are not much significant events in Poland. On Friday, after the market close, two rating agencies Moody's and S&P will review the Polish sovereign rating. We expect no changes. We think markets may watch agencies' expectations regarding 2020 budget deficit (Moody's analysts already suggested that Polish government's zero deficit assumptions are overly optimistic) and how the ECJ ruling would affect the Polish economy. Abroad, there are important data from Germany (August factory orders, industrial production, exports). Recent Germany data were weak and currently the market expects this to continue which might support further easing of monetary policy conditions and – maybe – the fiscal one in Europe. In the US there will be inflation data and the publication of September FOMC meeting minutes. Moreover, Jerome Powell should speak this week so the market should have a lot of opportunities to ponder the shape of the US monetary policy. On Thursday and Friday the trade talks between the US and China should be continued. Moreover the Brexit should be back on the agenda – Friday is the deadline when UK PM Boris Johnson expects EU's reply to his last Wednesday's suggestions regarding Brexit deal (Northern Ireland remains in the common market but not within the customs union).

German factory orders and industrial production (% y/y)



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.3190	CZKPLN	0.1679
USDPLN	3.9346	HUFPLN*	1.2992
EURUSD	1.0977	RUBPLN	0.0608
CHFPLN	3.9499	NOKPLN	0.4324
GBPPLN	4.8454	DKKPLN	0.5784
USDCNY	7.1483	SEKPLN	0.3997

*for 100HUF

Last session in the FX market 04/10/2019

	min	max	open	close	fixing
EURPLN	4.318	4.334	4.329	4.321	4.3311
USDPLN	3.932	3.952	3.942	3.935	3.9469
EURUSD	1.096	1.100	1.098	1.098	-

Interest rate market 04/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	offer	Average yield
DS1021 (2L)	1.48	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.64	-3	21 mar 19	PS0424	2.209
DS1029 (10L)	1.90	-3	21 mar 19	DS1029	2.877

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.70	0	1.67	1	-0.44	-1
2L	1.70	0	1.46	2	-0.47	-1
3L	1.64	0	1.38	2	-0.48	-1
4L	1.62	0	1.35	2	-0.46	-2
5L	1.62	0	1.34	2	-0.43	-2
8L	1.62	0	1.39	1	-0.29	-3
10L	1.62	-1	1.45	1	-0.17	-3

WIBOR rates

Term	%	Change (bps)
O/N	1.57	0
T/N	1.57	0
SW	1.60	0
2W	1.60	0
1M	1.64	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	1.70	0
6x9	1.69	1
9x12	1.65	0
3x9	1.77	0
6x12	1.76	0

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.49 -4
France	20 0	0.31 0
Hungary		2.39 -6
Spain	40 -1	0.72 0
Italy	131 3	1.42 0
Portugal	41 -1	0.72 -1
Ireland	33 -1	0.55 0
Germany	10 1	- -

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

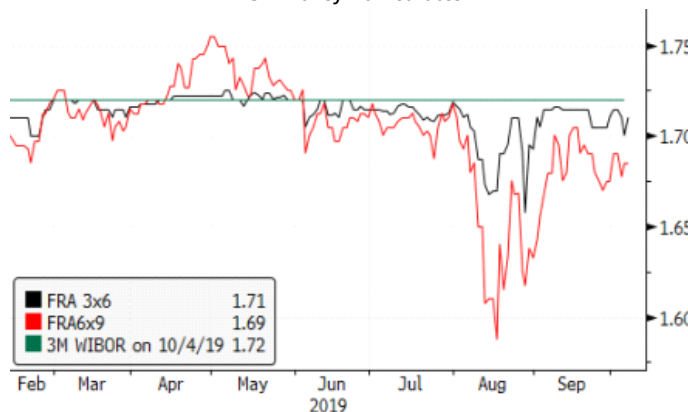
Zloty exchange rate



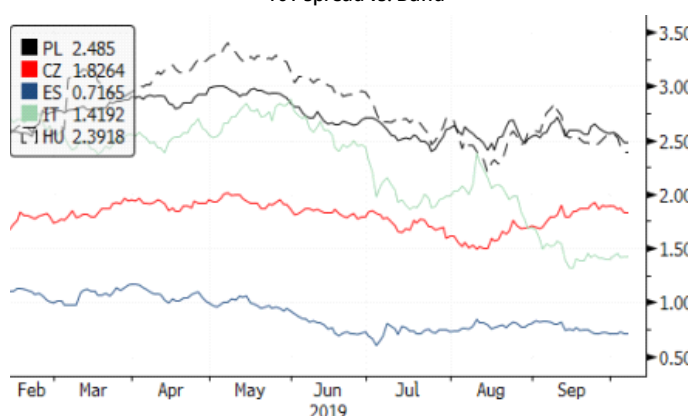
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar					FORECAST		ACTUAL	LAST
TIME	COUNTRY	INDICATOR	PERIOD				VALUE	VALUE*
CET					MARKET	SANTANDER		
FRIDAY (4 October)								
14:30	US	Change in Nonfarm Payrolls	Sep	k	145		136	168
14:30	US	Unemployment Rate	Sep	%	3.7		3.5	3.7
MONDAY (7 October)								
08:00	DE	Factory Orders	Aug	% m/m	-0.3		-0.6	-2.7
09:00	CZ	Industrial Production	Aug	% y/y	-2.7		-	5.6
09:00	HU	Industrial Production SA	Aug	% y/y	4.9		-	8.72
TUESDAY (8 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	52.0		-	52.1
08:00	DE	Industrial Production SA	Aug	% m/m	-0.3		-	-0.6
09:00	HU	CPI	Sep	% y/y	2.9		-	3.1
WEDNESDAY (9 October)								
20:00	US	FOMC Meeting Minutes	Sep/19		-		-	0.0
THURSDAY (10 October)								
08:00	DE	Exports SA	Aug	% m/m	0.0		-	0.8
09:00	CZ	CPI	Sep	% y/y	2.9		-	2.9
14:30	US	CPI	Sep	% m/m	0.1		-	0.1
14:30	US	Initial Jobless Claims		k	215.0		-	213.0
FRIDAY (11 October)								
08:00	DE	HICP	Sep	% m/m	-0.1		-	-0.1
16:00	US	Michigan index	Oct	pts	92.25		-	93.2
	PL	Rating review: S&P				A-		A-
	PL	Rating review: Moody's				A2		A2

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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