

8 October 2019

Eyeopener

Energy prices to be frozen for longer?

Government mulling energy price freeze for another year?

Zloty trimmed Friday's gains, EURUSD quite stable

Polish bonds largely unchanged

Today next data from the region

At the start of Monday session the market mood was moderately negative due to disappointing information prior to another round of Sino-US trade talks. Additionally, morning data on German industrial orders was below expectations. However, with every hour the pessimism was waning and eventually the European stock markets managed to post some gains. Still, the US session ended with some losses after uncertainty fuelled by different signals on trade talks. On the FX market, the start of the week was rather calm, while core bond yields fell slightly. Today's data on Germany industrial output were – contrary to orders – above expectations.

Michał Dworczyk, chief of staff of PM's Chancellery, said this morning on RMF FM radio that there will be **no major jump in electricity prices in 2020** – the government will do all it can to keep it at current levels. Yesterday the energy minister admitted in the parliament that various scenarios for the energy sector are mulled and implementation is possible new the year-end. No hike in electricity prices at the start of 2020 would deduct 0.5pp from our forecast of CPI in 2020 (currently at 3.4% on average).

The MPC's Łukasz Hardt said yesterday that effects of ECJ ruling on Polish banks will be distributed in time, they do not generate risk for the banking sector and thus should not affect the monetary policy. Meanwhile, **Eryk Łon** reiterated that the MPC should react to worsening business sentiment with interest rate cuts.

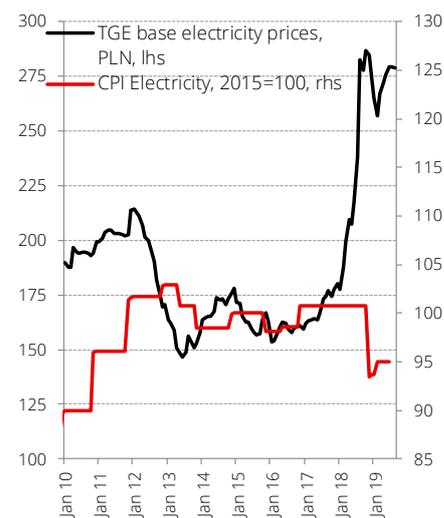
According to the Ministry of Labour, in September the **registered unemployment rate** decreased to 5.1% in line with our expectations. In our view September set this year's low for the indicator, the seasonal pattern should now be directing the unemployment rate slightly up, to 5.3% in December. We expect the final GUS reading for the unemployment rate to confirm the estimate of the Ministry.

Yesterday's volatility of **EURUSD** was not high and the pair remained within last Thursday's range. Another attempt to break 1.10 failed. The pair stabilized after it rebounded from this year's low at 1.089. The move higher is, as of now, lower than the biggest one so far this year from Apr/May 2019 hence it is too early to claim the reversal of the downward tendency we observe since the beginning of 2018. This week's biggest market movers are likely to be Wednesday's FOMC minutes and news regarding the progress of US-China talks.

EURPLN corrected higher yesterday after last Friday's decline and closed toward 4.33. As for USDPLN we saw a temporary uptick toward 3.95 and then a correction to 3.94. Yesterday, other CEE currencies also depreciated but the zloty was relative outperformer (had the smallest loss). Czech koruna lost and this despite the Moody's rating upgrade and the loss might be the result of worse than expected industrial output data. Also in Hungary the industrial production data was worse than expected. The EURPLN decline trend which started at the end of September drove the EURPLN towards the support at 4.31 and we think that at this level we might see some stability in the short term.

On the **domestic interest rate market** Monday saw no big changes of the IRS rates and bond yields. Both curves shifted marginally down but the scale of move did not exceed 2bp (with exception of the 5Y yield that fell by 4bp). On the core markets, volatility was limited as well, the 10Y Bund and Treasuries yield rose 2bp but remained within the trading ranges determined by the Thursday's high and low. The 10Y PL-DE bond yield spread fell pretty fast to slightly below 250bp from c265bp seen in mid-September. It is now at its lowest since August and not far away from an important support at c240bp. Today the market may remain calm since no important data are expected.

Wholesale energy prices vs CPI-electricity



Source: Refinitiv Datastream, Santander

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FX market

Today's opening

EURPLN	4.3272	CZKPLN	0.1679
USDPLN	3.9392	HUFPLN*	1.2978
EURUSD	1.0985	RUBPLN	0.0608
CHFPLN	3.9623	NOKPLN	0.4317
GBPPLN	4.8436	DKKPLN	0.5794
USDCNY	7.1251	SEKPLN	0.3973

*for 100HUF

Last session in the FX market 07/10/2019

	min	max	open	close	fixing
EURPLN	4.317	4.335	4.321	4.330	4.3304
USDPLN	3.930	3.954	3.934	3.943	3.9498
EURUSD	1.096	1.100	1.098	1.098	-

Interest rate market 07/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.48	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.63	0	21 mar 19	PS0424	2.209
DS1029 (10L)	1.88	-2	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	1.69	1	-0.44	0
2L	1.70	1	1.48	2	-0.47	0
3L	1.64	0	1.40	3	-0.47	1
4L	1.61	-1	1.37	2	-0.45	1
5L	1.61	-2	1.36	2	-0.42	1
8L	1.60	-1	1.41	2	-0.27	2
10L	1.60	-2	1.46	2	-0.15	2

WIBOR rates

Term	%	Change (bps)
O/N	1.59	2
T/N	1.59	2
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	-1
6x9	1.68	0
9x12	1.64	0
3x9	1.77	0
6x12	1.75	0

Measures of fiscal risk

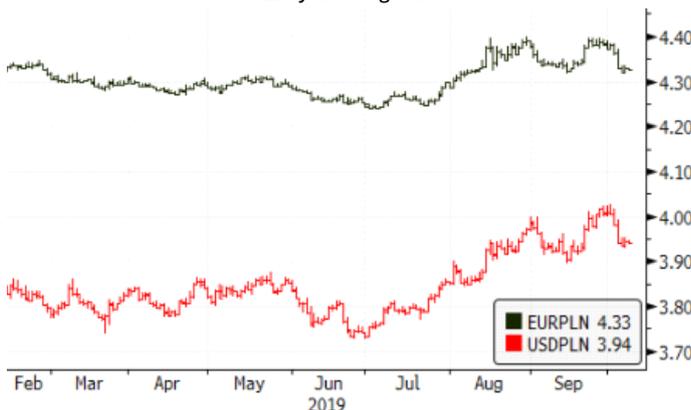
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.45	-3
France	20	0	0.30	0
Hungary			2.40	1
Spain	39	1	0.72	0
Italy	134	1	1.44	0
Portugal	40	1	0.73	1
Ireland	32	2	0.55	0
Germany	11	-1	-	-

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

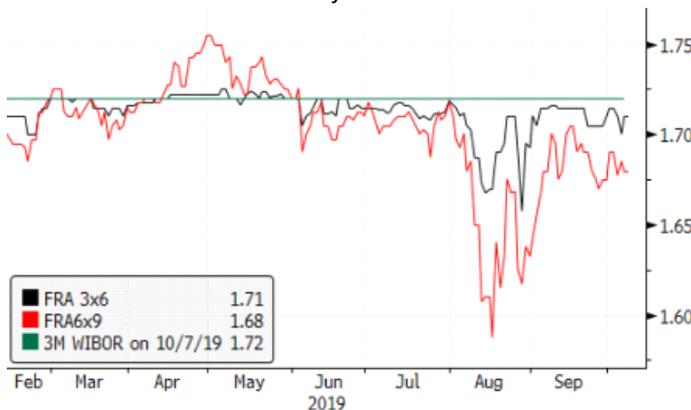
Zloty exchange rate



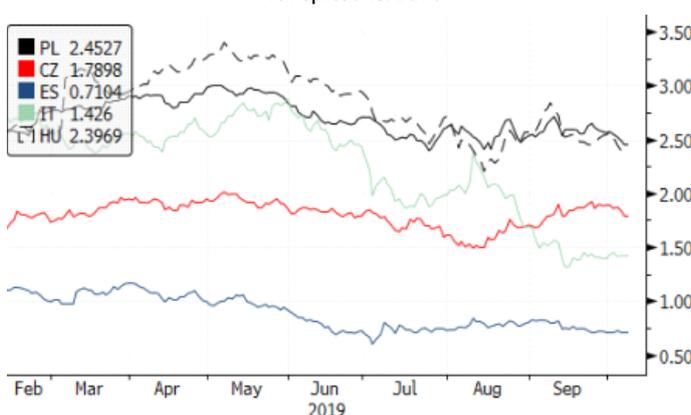
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
				MARKET	SANTANDER	VALUE	VALUE*	
CET								
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	-2.1
09:00	CZ	Industrial Production	Aug	% y/y	-3.3	-	-3.8	5.6
09:00	HU	Industrial Production SA	Aug	% y/y	4.9	-	2.7	8.7
TUESDAY (8 October)								
03:45	CN	Caixin China PMI Services	Sep	pts	52.0	-	51,3	52.1
08:00	DE	Industrial Production SA	Aug	% m/m	-0.3	-	0,3	-0.6
09:00	HU	CPI	Sep	% y/y	2.9	-		3.1
WEDNESDAY (9 October)								
20:00	US	FOMC Meeting Minutes						
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	week	k	215	-		213
FRIDAY (11 October)								
	PL	Rating review: S&P					A-	A-
	PL	Rating review: Moody's					A2	A2
08:00	DE	HICP	Sep	% m/m	-0.1	-		-0.1
16:00	US	Michigan index	Oct	pts	92.3	-		93.2

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

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