

4 October 2019

Eyeopener

Zloty stronger after the verdict

Next disappointing data from Europe and USA
Dollar weaker after lower than expected services index
Zloty and bonds stronger after ECJ verdict

In contrast to manufacturing PMI, the final September indexes for services proved even worse than flash estimates. Until recently, services PMIs were resilient against the declines of manufacturing indexes, but in the last three months they also fell significantly. As a result, in September the German services PMI index was the lowest in three years, and the euro zone index was the lowest since January. The reading supported core market and euro zone periphery bonds. EURUSD remained stable for long and only in the afternoon – after the US services ISM also disappointed (the lowest reading since August 2018) – the dollar started to depreciate. The US reading also made the bonds extend their earlier gains.

Yesterday the **European Court of Justice** issued a verdict on Polish fx mortgage loans, which was received by the market as not as negative for Polish banks as it might have turned out. As a result, the zloty gained vs the euro, the dollar and the Swiss franc, while domestic bond yields fell (the poor data from abroad also supported such move). After the ECJ ruling two MPC members issued comments. Rafał Sura said the ruling removes uncertainty regarding the stability of the banking system, which is not threatened. Jerzy Kropiwnicki expressed an opinion, that Polish banks are well prepared for the outcomes of ongoing lawsuits. According to the Finance Ministry, Polish banking system is stable, well capitalised and prepared for a situation that results from the ruling. The Financial Supervision Authority responded in a similar tone: the sector has enough capacity to absorb potential losses which allows for maintenance of trust for the financial system (including the banking sector).

On Thursday **EURUSD** initially traded around 1.095 and did not react to European data. Only weak US ISM services data made the markets move and the EURUSD closed at 1.10. If today's non-farm payrolls comes weak either, then EURUSD could rise for the 4th consecutive session (last time this happened in mid-June) and it would be the first weekly rise after two consecutive weeks of declines. Market expects that September non-farm payrolls were slightly larger than in August.

EURPLN and USDPLN were volatile on Thursday due to the ECJ ruling and the weaker USD – in the first trading hours zloty slightly lost but managed to gain in the following hours. As a result, at the end of the day, EURPLN was near 4.34 (after temporarily trading below 4.33) while USDPLN at 3.96 (vs 4.0 at the open). As regards other CEE currencies, Czech koruna gained vs euro while Hungarian forint and Russian ruble were stable. We think that the ECJ-ruling related uncertainty and the risk of significant losses for the Polish banking sector were weighing on PLN performance in the last weeks. Now, we think the local currency can temporarily gain. However, the truth is that the uncertainty regarding future of FX loans and the potential impact on the banks' financial results have not disappeared, which may continue putting a slightly negative pressure on PLN in the medium run. We think EURPLN might trade towards 4.31 in the coming days, however the strenght of the rally might be lessened by the Brexit uncertainty.

On the **Polish fixed income market** bond yields and swaps fell by 2-8bp after ECJ ruling, which the market read as not that negative for banks and also due to stronger fixed income markets abroad. As a result the 10Y POLGBs broke the suport at 2% and closed the day at 1.88%. Weak macroeconomic data abroad, cancellation of the latest Polish bond auction, as well as ECJ ruling, were all the main fixed income supportive factors. In the short term the 10Y POLGB yield could trade towards 1.80%

EURPLN



Source: Bloomberg, 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 | 4.3612 | CZKPLN | 0.1692 |
| USDPLN | 3.9820 | HUFPLN* | 1.3071 |
| EURUSD | 1.0952 | RUBPLN | 0.0611 |
| CHFPLN | 3.9819 | NOKPLN | 0.4359 |
| GBPPLN | 4.8956 | DKKPLN | 0.5842 |
| USDCNY | 7.1483 | SEKPLN | 0.4028 |

*for 100HUF

Last session in the FX market 02/10/2019

| | min | max | open | close | fixing |
|--------|-------|-------|-------|-------|--------|
| EURPLN | 4.356 | 4.386 | 4.382 | 4.363 | 4.3788 |
| USDPLN | 3.976 | 4.016 | 4.006 | 3.981 | 4.0152 |
| EURUSD | 1.090 | 1.096 | 1.094 | 1.096 | - |

Interest rate market 02/10/2019

T-bonds on the interbank market**

| Benchmark (term) | % | Change (bps) | Last auction | per offer | Average yield |
|------------------|------|--------------|--------------|-----------|---------------|
| DS1021 (2L) | 1.49 | 0 | 21 mar 19 | OK0521 | 1.633 |
| PS1024 (5L) | 1.75 | -3 | 21 mar 19 | PS0424 | 2.209 |
| DS1029 (10L) | 2.00 | 0 | 21 mar 19 | DS1029 | 2.877 |

IRS on the interbank market**

| Rates on the interbank market | | | | | | |
|-------------------------------|------|--------------|------|--------------|-------|--------------|
| Term | PL | | US | | EZ | |
| | % | Change (bps) | % | Change (bps) | % | Change (bps) |
| 1L | 1.71 | 0 | 1.72 | -7 | -0.43 | 0 |
| 2L | 1.72 | 0 | 1.51 | -7 | -0.46 | -1 |
| 3L | 1.68 | 0 | 1.43 | -7 | -0.46 | -1 |
| 4L | 1.68 | 1 | 1.40 | -7 | -0.44 | 0 |
| 5L | 1.68 | 1 | 1.39 | -7 | -0.41 | 0 |
| 8L | 1.68 | 0 | 1.44 | -6 | -0.26 | 0 |
| 10L | 1.69 | 0 | 1.49 | -5 | -0.15 | 0 |

WIBOR rates

| Term | % | Change (bps) |
|------|------|--------------|
| O/N | 1.56 | 1 |
| T/N | 1.56 | 0 |
| SW | 1.60 | 1 |
| 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 | 1.69 | 3 |
| 3x9 | 1.78 | 0 |
| 6x12 | 1.76 | 1 |

Measures of fiscal risk

| Measures of financial risk | | | | |
|----------------------------|------------|--------------|-------------|--------------|
| Country | CDS 5Y USD | | 10Y spread* | |
| | Level | Change (bps) | Level | Change (bps) |
| Poland | | | 2.57 | 2 |
| France | 20 | 1 | 0.30 | 0 |
| Hungary | | | 2.54 | 3 |
| Spain | 39 | 1 | 0.72 | 0 |
| Italy | 130 | 2 | 1.45 | 0 |
| Portugal | 40 | 1 | 0.73 | 0 |
| Ireland | 33 | 0 | 0.57 | 5 |
| Germany | 10 | 0 | - | - |

* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

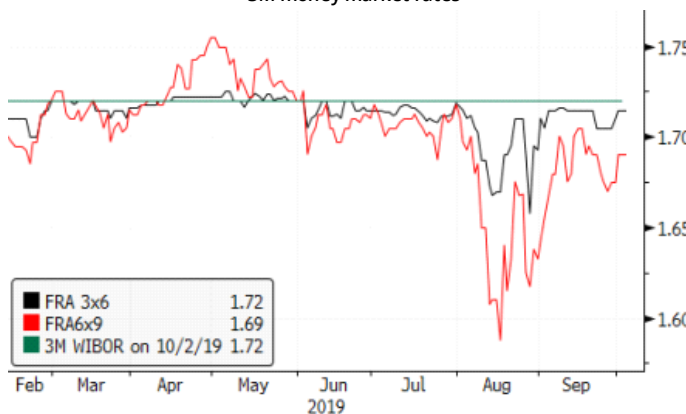
Zloty exchange rate



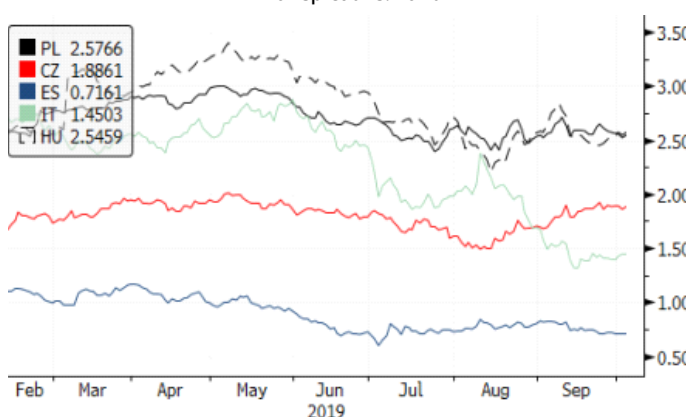
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

| TIME CET | COUNTRY | INDICATOR | PERIOD | FORECAST | | ACTUAL VALUE | LAST VALUE* | |
|-----------------------|---------|-----------------------------|--------|----------|-----------|-----------------|----------------|---------|
| | | | | MARKET | SANTANDER | | | |
| FRIDAY (27 September) | | | | | | | | |
| 10:13 | PL | Central Budget Cumul. | Aug | mn PLN | - | - | -1981.0 | -4783.0 |
| 11:00 | EZ | ESI | Sep | pct. | 103.0 | - | 101.7 | 103.1 |
| 14:30 | US | Durable Goods Orders | Aug | % m/m | -1.0 | - | 0.2 | 2.0 |
| 14:30 | US | Personal Spending | Aug | % m/m | 0.3 | - | 0.1 | 0.5 |
| 14:30 | US | Personal Income | Aug | % m/m | 0.4 | - | 0.4 | 0.1 |
| 14:30 | US | PCE Deflator SA | Aug | % m/m | 0.1 | - | 0.0 | 0.2 |
| 16:00 | US | Michigan index | Sep | pts | 92.1 | - | 93.2 | 92.0 |
| MONDAY (30 September) | | | | | | | | |
| 11:00 | EZ | Unemployment Rate | Aug | % | 7.5 | - | 7.4 | 7.5 |
| 14:00 | DE | HICP | Sep | % m/m | 0.0 | - | -0.1 | -0.1 |
| TUESDAY (1 October) | | | | | | | | |
| 09:00 | CZ | GDP SA | 2Q | % y/y | 2.7 | - | 2.8 | 2.7 |
| 09:00 | PL | Poland Manufacturing PMI | Sep | pts | 47.3 | 48.0 | 47.8 | 48.8 |
| 09:55 | DE | Germany Manufacturing PMI | Sep | pts | 41.4 | - | 41.7 | 41.4 |
| 10:00 | EZ | Eurozone Manufacturing PMI | Sep | pts | 45.6 | - | 45.7 | 45.6 |
| 10:00 | PL | CPI | Sep | % y/y | 2.7 | 2.6 | 2.6 | 2.9 |
| 11:00 | EZ | Flash HICP | Sep | % y/y | 1.0 | - | 0.9 | 1.0 |
| 16:00 | US | ISM manufacturing | Sep | pts | 50.0 | - | 47.8 | 49.1 |
| WEDNESDAY (2 October) | | | | | | | | |
| | PL | MPC decision | | % | 1.50 | 1.50 | 1.50 | 1.50 |
| 14:15 | US | ADP report | Sep | k | 140 | - | 135 | 157 |
| THURSDAY (3 October) | | | | | | | | |
| 09:55 | DE | Markit Germany Services PMI | Sep | pts | 52.5 | - | 51.4 | 52.5 |
| 9:30 | PL | ECJ verdict | | | | | | |
| 10:00 | EZ | Eurozone Services PMI | Sep | pts | 52.0 | - | 51.6 | 52.0 |
| 11:00 | EZ | Retail Sales | Aug | % m/m | 0.35 | - | 0.3 | -0.6 |
| 14:30 | US | Initial Jobless Claims | week | k | 211 | - | 219 | 215 |
| 16:00 | US | ISM services | Sep | pts | 55.0 | - | 52.4 | 56.4 |
| 16:00 | US | Factory Orders | Aug | % m/m | -0.5 | - | -0.1 | 1.4 |
| FRIDAY (4 October) | | | | | | | | |
| 14:30 | US | Change in Nonfarm Payrolls | Sep | k | 140 | - | | 130 |
| 14:30 | US | Unemployment Rate | Sep | % | 3.7 | - | | 3.7 |

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>.