

11 October 2019

# Eyeopener

## Last session before elections

Improvement of moods and higher volatility on the FX market  
 Zloty resumed appreciation, dollar weakened, pound strengthened  
 Polish bonds lost, but less than core markets  
 Today Poland's rating review, US Michigan index, on Sunday general elections

On Thursday there has been at last some volatility on the currency markets – dollar lost vs other developed markets currencies but gained versus the Japanese yen, as the euro did as well. Swedish and Norwegian kroner gained a bit after having significantly depreciated in the last days. Most of the emerging market currencies gained vs the dollar and lost vs euro and zloty has been the second (after Hungarian forint) best performing currency in the region. Global sentiment was upbeat due to expectations of progress during US-China trade talks going on in Washington. Today president Trump will meet Chinese vice premier Liu He, during which market moving announcements might be released. In our view, even a limited deal (the so-called „small deal”) would positively impact markets. In the transcript from the ECB last meeting during which it has decided to cut interest rates and restart the QE programme (from November 2019) there was information that 1/3 of bank's board was against increasing the balance sheet. The news might be read as hawkish and as a result euro significantly gained vs dollar and the core yields started to increase. Even the weaker than expected inflation data from the US did not help stop the yield increase yesterday. British pound gained after the meeting of UK PM Johnson and Ireland PM Varadkar after which the leaders concluded that they could see “a pathway to a deal”.

**EURUSD** climbed visibly after five days of stabilisation and has set a new October peak at almost 1.104. The yesterday upward move has been the biggest one day jump since mid-September. The euro has a chance to strengthen against the dollar for the second week in a row. Today's Michigan is likely to affect the exchange rate in the afternoon.

Yesterday **EURPLN** slid to 4.312 and broke the local low from September, reaching the lowest level since the first decade of August. USDPLN fell to almost 3.91, the lowest since mid-September. As regards the CEE region, the forint and the ruble also gained, while the Czech koruna stayed under pressure of lower-than-expected inflation. In our view, there will be no marked changes at the end of the week and EURPLN will stay in 4.30-4.31 range. A further appreciation of the zloty later in the year would be possible provided that positive information on trade wars and Brexit appear.

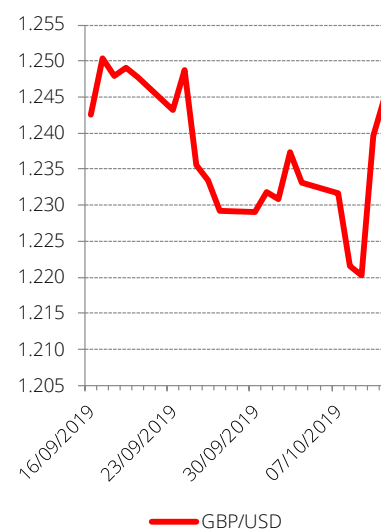
On the **Polish interest rate market**, bond yields and IRS rates climbed by 2-5bps. The IRS recorded a bit more pronounced changes, so the asset swap spread narrowed. The Polish debt was outperforming its German and US peers (which saw a rise in 10Y benchmark yields by 4-6bps), so 10Y spread to Bund halted at an important support 240bps.

**MPC's Grażyna Ancyparowicz** said this morning there were neither reasons to hike nor to cut interest rates. She thinks rate cuts could be read as a sign that NBP is worried about recession, which is “absolutely out of question”. She is aware inflation could go above 3.5% y/y but in her view 2020 average should be closer to 2.5% than 3%. She also thinks the ECJ ruling is not a threat to the banking sector stability.

Today after the session **Moody's and S&P** may present their revisions of Polish rating. We do not expect any changes. In our view the most interesting part will be their views on 2020 fiscal deficit (Moody's have already suggested that the government plan to deliver zero deficit are too optimistic) and on the impact of ECJ ruling on the economy.

On Sunday there will be **parliamentary elections in Poland**. According to the latest polls PiS may count on keep more than half of all the seats in both chambers. In our view such a result would be market neutral. After PiS won 2015 elections the market was afraid that introduction of the pre-election promises of PiS would have had a negative effect on budget and that the MPC selected by PiS would be radically dovish, but these risk factors did not materialise. We think that two scenarios could be negative for the zloty and domestic bonds: (1) if PiS gets a majority large enough to change the constitution (at least 307 mandates in Sejm) or (2) if it gets significantly less than 50% of mandates in Sejm which would prevent it to rule on its own. Both alternative scenarios seem however unlikely.

GBP/USD exchange rate, daily



Source: Bloomberg, Santander

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## FX market

### Today's opening

EURPLN	4.3119	CZKPLN	0.1669
USDPLN	3.9136	HUFPLN*	1.2989
EURUSD	1.1018	RUBPLN	0.0609
CHFPLN	3.9260	NOKPLN	0.4300
GBPPLN	4.8727	DKKPLN	0.5773
USDCNY	7.1066	SEKPLN	0.3983

\*for 100HUF

### Last session in the FX market 10/10/2019

	min	max	open	close	fixing
EURPLN	4.309	4.327	4.320	4.314	4.3217
USDPLN	3.912	3.941	3.937	3.916	3.9226
EURUSD	1.097	1.103	1.097	1.102	-

## Interest rate market 10/10/2019

### 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)	1.70	5	21 mar 19	PS0424	2.209
DS1029 (10L)	1.93	4	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	1.73	4	-0.41	2
2L	1.72	2	1.56	6	-0.43	3
3L	1.68	4	1.49	7	-0.42	3
4L	1.66	5	1.47	7	-0.39	4
5L	1.66	6	1.46	7	-0.35	4
8L	1.64	5	1.52	8	-0.18	5
10L	1.65	5	1.58	8	-0.06	6

### WIBOR rates

Term	%	Change (bps)
O/N	1.59	-1
T/N	1.60	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	1.70	0
6x9	1.68	0
9x12	1.66	3
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			2.40	4
France	20	1	0.32	0
Hungary			2.43	1
Spain	41	0	0.69	-1
Italy	134	-2	1.42	-1
Portugal	41	-1	0.66	-1
Ireland	33	0	0.55	8
Germany	11	0	-	-

\* 10Y treasury bonds over 10Y Bunds

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

Source: Bloomberg

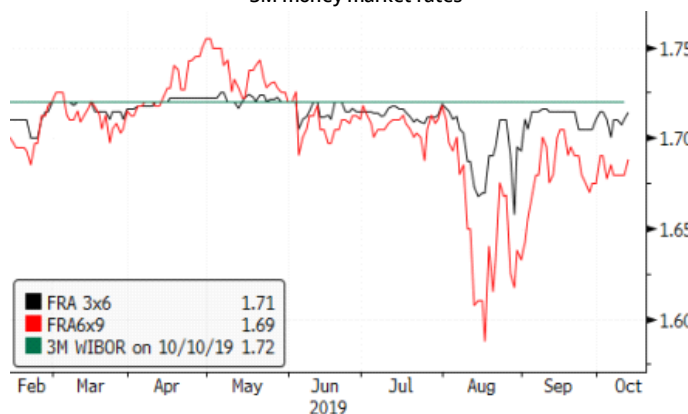
## Zloty exchange rate



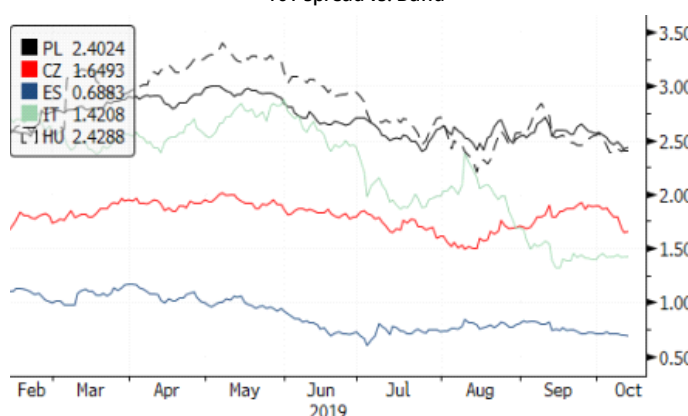
## T-bonds yields



## 3M money market rates



## 10Y spread vs. Bund



## Economic Calendar

TIME	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL	LAST	
CET				MARKET	SANTANDER	VALUE	VALUE*	
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	-	2.8	3.1
WEDNESDAY (9 October)								
20:00	US	FOMC Meeting Minutes						
THURSDAY (10 October)								
08:00	DE	Exports SA	Aug	% m/m	-1.0	-	-1.8	0.7
09:00	CZ	CPI	Sep	% y/y	2.9	-	2.7	2.9
14:30	US	CPI	Sep	% m/m	0.1	-	0.0	0.1
14:30	US	Initial Jobless Claims	week	k	220	-	210	220
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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