

14 October 2019

Eyeopener

PiS on the lead

According to flash results, PiS may keep majority in Sejm
Improvement of global moods before the weekend
Zloty stronger, bond yields higher
Today Polish current account data

Friday session passed in positive moods, supported by hopes for Sino-US trade talks and Brexit deal. Stock markets in both developed and emerging markets rose by about 1%. The dollar has finally weakened, while EM currencies gained, especially the so-called high-yielders (South African rand, Mexican peso). In general, yields were moving upwards both on the core and emerging markets. Oil prices went slightly up (1%), while precious metals prices went down (gold to \$1485).

According to **partial results of elections** from 72% of voting precincts, PiS (the ruling party) won 45.81% of votes, KO (centrist coalition) – 25.46%, Lewica (left-wing coalition) – 11.90%, PSL (farmers' party) – 8.96%, Konfederacja (right-wing coalition) – 6.71%. Exit polls prepared by IPSOS suggested that PiS could have won 239 mandates (out of 460), KO – 131, SLD – 46, PSL – 30, Konfederacja – 13. Voter turnout hit 61.1%. So far, it seems that PiS can count for an outright majority, yet it probably did not increase its share in the parliament. Still, the ruling party could lose its majority in the upper chamber (Senat) – official data from 72% of voting precincts show 46.19% of votes for PiS. If final results do not bring surprising changes, such results should be market-neutral or even slightly positive, suggesting a continuation of current policies.

On Friday, **Moody's and S&P** agencies left Polish ratings and rating outlooks unchanged as expected. Moody's did not release a report. S&P wrote that stable outlook reflects the balance between risks coming from external environment and the pre-election fiscal pressure, and further income convergence with the EU countries. Despite the fiscal easing (S&P assumes GG fiscal deficit of 2.5% of GDP in 2020 and 2021), fiscal policy remains according to the agency a strong point in the credit score.

MPC's Eugeniusz Gatnar considers it a problem that real interest rates have been negative for already two years. In his view negative rates are "toxic" as they discourage from saving while encouraging to increase indebtedness. He also expressed concern about the dynamic growth of credit. Gatnar signalled earlier that he might file a motion to hike rates at November MPC meeting, which would be in line with his Friday remarks.

As the **Brexit talks** progressed the pound gained for another day. After GBPUSD rose 2% on Thursday to 1.246 from 1.220 as positive talks between UK PM Johnson and Ireland PM Varadkar concluded, on Friday it gained another 2% closing at 1.263. The reason for the Friday's move was that Michel Barnier (Chief EU Brexit negotiator) got the EU-27 agreement on creation of a fast paced negotiation process. The aim of the negotiations would be an agreement before the summit which starts on, Thursday 17 October. On Sunday, however Michel Barnier briefed the bloc's government envoys that the UK proposals are not sufficient. As a result the pound weakened a bit on Monday open.

After **EURUSD** tested again the 1.10 level on Thursday, it finally broke the level on Friday and traded as high as 1.106, only to close at 1.105. Prices of FX options with tenors up to 1yr imply that the move higher is more probable than the move lower from current levels.

EURPLN continued the decline amid improvement of the global market sentiment and the exchange rate fell to 4.306 from 4.314. On Friday, USDPLN gained 0.6% and closed below 3.90, CHFPLN c0.80% to 3.90, while GBPPLN jumped to 4.927 from 4.78 seen day earlier (+3.2% - amid pound strengthening thanks to hopes for soft Brexit). The other CEE currencies held stable.

On the **domestic interest rate market** bond yields were on the rise again amid improving global market mood and higher yields on the core markets. The Polish bond curve shifted 1-4bp up and the 10Y benchmark closed at 1.97%. The IRS curve moved more – by c2-10bp with the 10Y rate ending the day at 1.72%. Thus, the asset swap spread narrowed to 25bp. Bund yields were on the rise (+ 1bp) but not that much like in the previous days. Bigger changes were recorded in the USA – by c5bp along the UST curve.

Flash / partial results of parliamentary elections

	Partial results, 72% voting precincts	IPSOS late poll	Division of seats in Sejm according to late poll
PiS	45,81%	43,6%	239
KO	25,46%	27,4%	131
Lewica	11,90%	12,4%	46
PSL	8,96%	9,1%	30
Konfederacja	6,71%	6,4%	13
Others			1

Source: PKW, IPSOS, Santander

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FX market

Today's opening

EURPLN	4.3028	CZKPLN	0.1667
USDPLN	3.9012	HUFPLN*	1.2947
EURUSD	1.1030	RUBPLN	0.0608
CHFPLN	3.9165	NOKPLN	0.4293
GBPPLN	4.9116	DKKPLN	0.5761
USDCNY	7.0604	SEKPLN	0.3972

*for 100HUF

Last session in the FX market 11/10/2019

	min	max	open	close	fixing
EURPLN	4.299	4.314	4.314	4.304	4.3097
USDPLN	3.889	3.919	3.916	3.900	3.9145
EURUSD	1.100	1.106	1.102	1.104	-

Interest rate market

11/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.49	1	21 mar 19	OK0521	1.633
PS1024 (5L)	1.75	5	21 mar 19	PS0424	2.209
DS1029 (10L)	1.99	7	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	1	1.73	4	-0.41	2
2L	1.74	2	1.64	8	-0.43	3
3L	1.71	3	1.58	9	-0.41	1
4L	1.71	5	1.55	9	-0.39	4
5L	1.72	6	1.55	9	-0.35	4
8L	1.72	8	1.60	8	-0.18	5
10L	1.73	8	1.65	7	-0.06	6

WIBOR rates

Term	%	Change (bps)
O/N	1.61	2
T/N	1.61	1
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	1.72	2
6x9	1.69	1
9x12	1.66	0
3x9	1.78	1
6x12	1.77	2

Measures of fiscal risk

Country	CDS 5Y USD	10Y spread*
	Level Change (bps)	Level Change (bps)
Poland		2.44 4
France	20 0	0.29 -6
Hungary		2.45 3
Spain	41 -4	0.68 -3
Italy	132 -10	1.38 -4
Portugal	41 -3	0.63 -5
Ireland	33 -2	0.48 -7
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

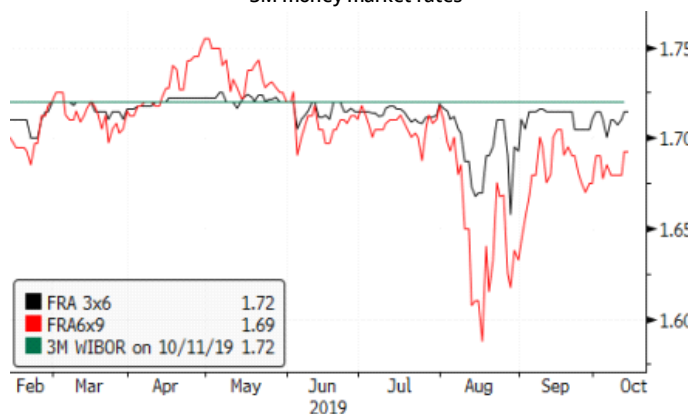
Zloty exchange rate



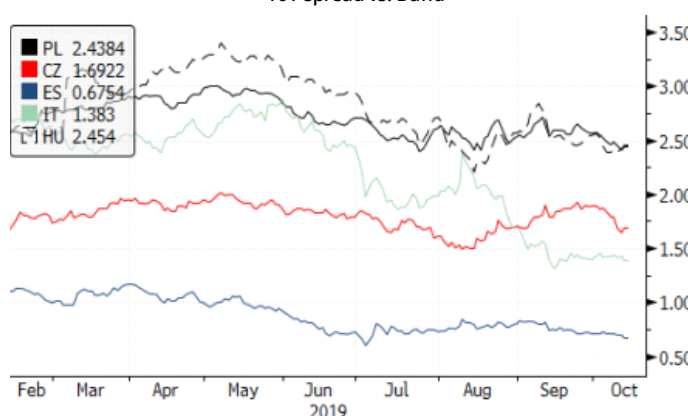
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST VALUE*
			MARKET	SANTANDER				
FRIDAY (11 October)								
08:00	DE	HICP	Sep	% m/m	-0.1		-0.1	-0.1
16:00	US	Michigan index	Oct	pts	92.0		96.0	93.2
MONDAY (14 October)								
11:00	EZ	Industrial Production SA	Aug	% m/m	0.3		-	-0.4
14:00	PL	Current Account Balance	Aug	€mn	-567.5	-702.58	-	-814.0
14:00	PL	Trade Balance	Aug	€mn	-440.0	-360.0	-	-376.0
14:00	PL	Exports	Aug	€mn	17650.0	17240.0	-	19239.0
14:00	PL	Imports	Aug	€mn	18108.0	17600.0	-	19615.0
TUESDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	-	2.62	-	2.6
11:00	DE	ZEW Survey Current Situation	Oct	pts	-25.0		-	-19.9
WEDNESDAY (16 October)								
11:00	EZ	HICP	Sep	% y/y	0.9		-	0.9
14:00	PL	CPI Core	Sep	% y/y	2.3	2.39	-	2.2
14:30	US	Retail Sales Advance	Sep	% m/m	0.3		-	0.4
THURSDAY (17 October)								
10:00	PL	Employment in corporate sector	Sep	% y/y	2.6	2.58	-	2.6
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	7.52	-	6.8
14:30	US	Initial Jobless Claims	Oct.19	k	220.0		-	210.0
14:30	US	Housing Starts	Sep	% m/m	-3.23		-	12.3
14:30	US	Index Philly Fed	Oct		7.1		-	12.0
15:15	US	Industrial Production	Sep	% m/m	-0.1		-	0.65
FRIDAY (18 October)								
10:00	PL	Sold Industrial Output	Sep	% y/y	5.0	5.03	-	-1.3
10:00	PL	PPI	Sep	% y/y	0.5	0.42	-	0.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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