

15 October 2019

Eyeopener

PiS lost majority in Senate

PiS won 235 seats in Sejm, 48 in Senate
Zloty slightly stronger, below 4.30 per euro
Bond market stable
Today CPI inflation data, German ZEW

Monday was a banking holiday in the USA, Canada and Japan, so external factors that could have affected the Polish session were scarce, as the dollar and US yield curve remained unchanged. Despite the lower-than-expected volatility, some EM currencies were gaining (e.g. the yuan after Sino-US trade talks, but also the zloty), some were losing (the Turkish lira, the Brazilian real). Oil price went down by 3%, while gold price went slightly up to \$1490 per ounce.

According to **official results of general elections**, PiS maintained a simple majority in the Sejm (235/460 mandates) and will be able to rule alone. At the same time, the ruling party has lost its majority in the Senate (48/100 seats). This will not paralyse the legislative process, as the Sejm can overturn the Senate's veto with an absolute majority, but can make it longer. The Senate has 30 days to work on a bill (20 days in case of budget bill and 14 days in case of an urgency procedure). Moreover, the Senate is independently filling some posts (e.g. 2 out of 25 members of the National Council of Judiciary or 3 out of 10 members of the MPC) or can block some nominations of the Sejm (e.g. ombudsman or chairman of the Supreme Audit Office). We still think that the results are neutral for the financial market. According to deputy PM Jacek Sasin, the government can change slightly after the elections, but Mateusz Morawiecki will be a candidate for PM post. We should get to know the new government composition in 2-3 weeks.

S&P analyst Karen Vartapetov said in the interview for Bloomberg that the outcome of the Poland general elections is neutral for the country rating. He added, that the next year's budget is unlikely to be realized in line with the draft as the revenue assumptions look overly optimistic. In his view, when the inflow of the EU funds into Poland fades, the potential pace of the GDP growth will fall to c2% and in the next years we should observe a gradual deceleration towards this level.

In August, **Polish C/A balance** was -€606mn vs -€568mn expected, however trade balance at -€55mn was much less negative than the market expected (-€440mn). Imports surprised negatively, falling 2.5% y/y (market median pointed to c0% y/y), while exports was in line with market expectations at +0.2% y/y. No decline in exports at the time when Germany's economy activity data remain depressed is a positive result. This shows that Polish exporters are doing fine despite poor economic performance in the euro zone (that receives 60% of the total Polish exports). In our view the economy will continue to slow down with fiscal efforts to boost consumption mitigating the pace of deterioration. The 12M moving sum of C/A relative to GDP most likely moved from -0.4% to -0.3% in August.

EURUSD was trading in a narrow range as the US market was closed – the exchange rate opened and closed around 1.103 with the daily high-low spread at c0.25%.

EURPLN broke 4.30 and decreased by 0.3% to 4.293. Monday was a fifth consecutive day of zloty appreciation, and if we omit the one-day correction on 7th October then the strengthening trend has been there since the beginning of the current month. As a result the conditional probability of further appreciation decreased and likelihood of correction increased. The zloty behaviour partially results from the local factors like the lack of big surprises during the Sunday parliamentary elections and partially from the global market sentiment. **Other currencies** in the CEE region behaved differently – Hungarian forint also gained around 0.3% to 331.4, Czech koruna barely moved (EURCZK at 25.85), Russian ruble also remained stable vs the USD (USDRUB at 64.3) despite the drop in oil price. USDPLN closed at 3.89, CHFPLN at 3.91 (both unchanged), while GBPPLN was more volatile (from 4.90 to 4.92, with intraday high and low at 4.87 and 4.92 – amplitude of 1%) tracking closely the volatility of GBPUSD.

On the **Polish fixed income market** yields barely changed – only 2Y yields decreased a bit to 1.49% from 1.51%. Yields of 10Y Polish bonds remained unchanged at 1.98%. On the core markets there was some volatility on the German bonds yield curve where 10Y Bund opened 3bp below the Friday's close (at -0.44% vs -0.47%) and then marched slowly upwards during the day and closed at -0.46%. As a result the 10Y spread PL-DE widened by 2bp to 243bp. Polish 10Y asset swap slightly widened to 0.26% (by 1bp). We expect Polish bond yields to increase slightly in the coming days, along the core markets.

Official results of parliamentary elections

	SEJM: Percent of votes	SEJM: Number of seats	SENATE: Number of seats
PiS	43,59%	235	48
KO	27,40%	134	43
Lewica	12,56%	49	2
PSL	8,55%	30	3
Konfederacja	6,81%	11	0
Others		1	4

Source: PKW

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FX market

Today's opening

EURPLN	4.2969	CZKPLN	0.1662
USDPLN	3.8958	HUFPLN*	1.2946
EURUSD	1.1043	RUBPLN	0.0604
CHFPLN	3.8983	NOKPLN	0.4268
GBPPLN	4.9265	DKKPLN	0.5746
USDCNY	7.0725	SEKPLN	0.3963

*for 100HUF

Last session in the FX market 14/10/2019

	min	max	open	close	fixing
EURPLN	4.291	4.311	4.303	4.294	4.2969
USDPLN	3.889	3.910	3.897	3.893	3.8958
EURUSD	1.101	1.105	1.104	1.103	-

Interest rate market 14/10/2019

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	per offer	Average yield
DS1021 (2L)	1.50	0	21 mar 19	OK0521	1.633
PS1024 (5L)	1.73	-2	21 mar 19	PS0424	2.209
DS1029 (10L)	1.98	-2	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	1.70	-1	1.78	6	-0.39	1
2L	1.74	-1	1.64	8	-0.41	1
3L	1.71	0	1.58	0	-0.40	1
4L	1.71	0	1.55	0	-0.37	0
5L	1.72	-1	1.55	0	-0.33	0
8L	1.71	-1	1.60	0	-0.17	-1
10L	1.72	-1	1.65	0	-0.04	-2

WIBOR rates

Term	%	Change (bps)
O/N	1.58	-3
T/N	1.58	-3
SW	1.59	-1
2W	1.60	0
1M	1.63	0
3M	1.71	-1
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	-1
9x12	1.65	-1
3x9	1.78	0
6x12	1.76	-1

Measures of fiscal risk

Measures of risk				
Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.43	-2
France	20	0	0.31	0
Hungary			2.42	0
Spain	38	-1	0.66	-1
Italy	124	-4	1.36	-1
Portugal	39	0	0.62	-1
Ireland	32	1	0.48	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

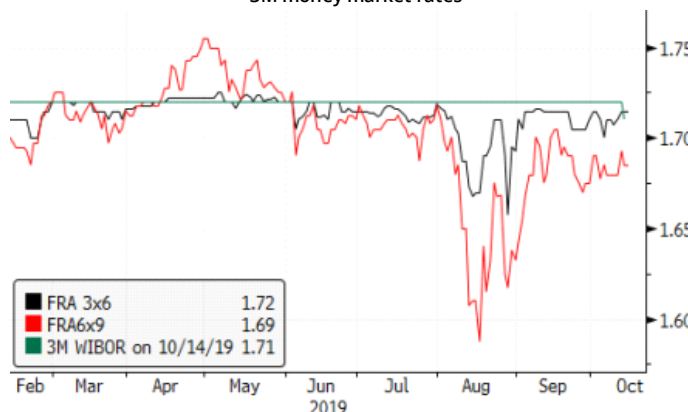
Zloty exchange rate



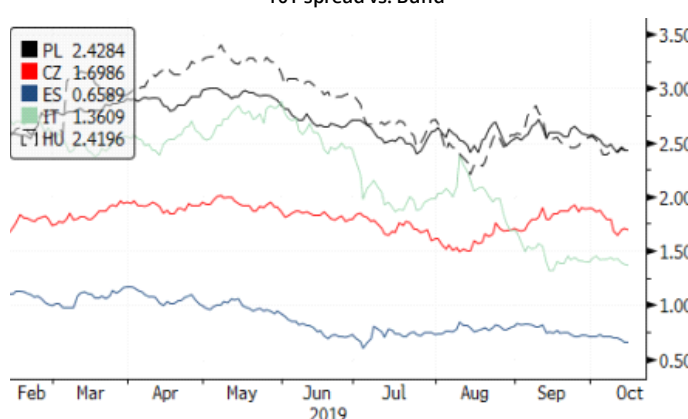
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic Calendar

Economic calendar								
TIME CET	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL	LAST
					MARKET	SANTANDER	VALUE	VALUE*
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	-0.4
14:00	PL	Current Account Balance	Aug	€mn	-568	-703	-606	-797
14:00	PL	Trade Balance	Aug	€mn	-440	-360	-55	-345
14:00	PL	Exports	Aug	€mn	17650	17240	17646	19286
14:00	PL	Imports	Aug	€mn	18108	17600	17001	19631
TUESDAY (15 October)								
10:00	PL	CPI	Sep	% y/y	2.6	2.6	-	2.9
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	2.4	-	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	2.6	-	2.6
10:00	PL	Average Gross Wages	Sep	% y/y	7.1	7.5	-	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	5.0	-	-1.3
10:00	PL	PPI	Sep	% y/y	0.5	0.4	-	0.7

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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